

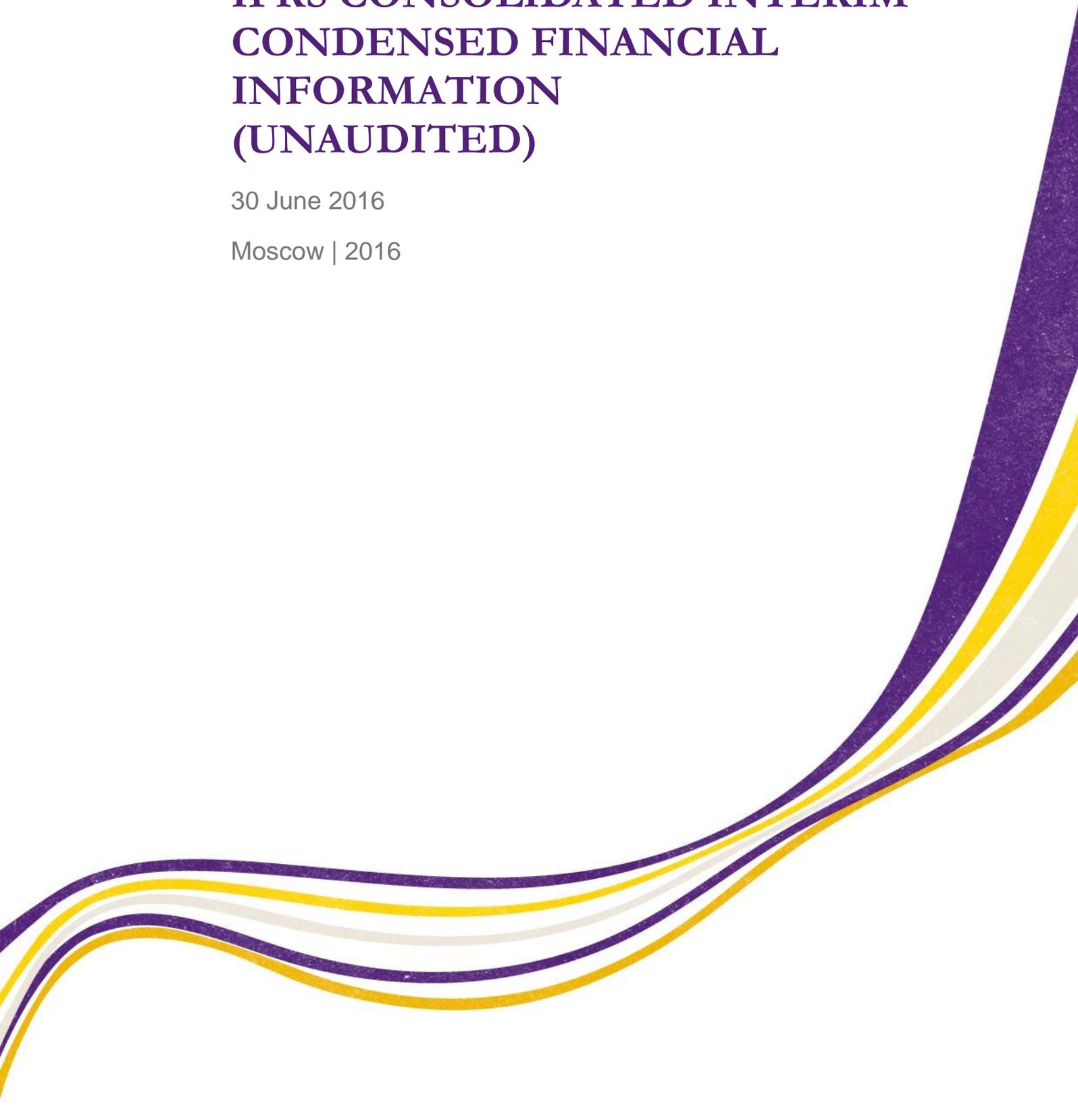
ФБК

PJSC GAZPROM

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

30 June 2016

Moscow | 2016



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Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors of PJSC Gazprom

Introduction

We have reviewed the accompanying consolidated interim condensed balance sheet of PJSC Gazprom as of 30 June 2016 and the related consolidated interim condensed statements of comprehensive income for the three-month and six-month periods then ended, the related consolidated interim condensed statements of cash flows and changes in equity for the six-month period then ended and notes to the consolidated interim condensed financial information. Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Accounting Standard 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting.

President of FBK, LLC



S.M. Shapiguzov

(on the ground of the Charter)

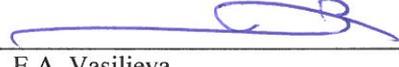
August 29, 2016
Moscow, Russian Federation



PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED BALANCE SHEET (UNAUDITED)
AS OF 30 JUNE 2016
(in millions of Russian Rubles)

Notes	30 June 2016	31 December 2015
Assets		
Current assets		
6	1,321,632	1,359,095
	Restricted cash	3,728
	Short-term financial assets	13,207
21	920,677	1,114,207
7	Accounts receivable and prepayments	755,780
8	Inventories	210,557
	VAT recoverable	330,584
	Other current assets	472,045
	3,556,165	3,993,722
Non-current assets		
9	11,141,372	11,003,881
	Property, plant and equipment	106,681
	Goodwill	758,794
10	Investments in associates and joint ventures	808,246
11	Long-term accounts receivable and prepayments	647,404
21	Available-for-sale long-term financial assets	254,855
12	Other non-current assets	437,730
	13,346,836	13,058,318
	16,903,001	17,052,040
Liabilities and equity		
Current liabilities		
	1,156,514	1,298,006
	Accounts payable, accruals and provisions for liabilities and charges	7,673
	Current profit tax payable	185,847
	Other taxes payable	564,050
	Short-term borrowings, promissory notes and current portion of long-term borrowings	646,372
	1,914,084	2,124,701
Non-current liabilities		
13	2,520,709	2,795,843
20	Long-term borrowings, promissory notes	534,556
14	Provisions for liabilities and charges	668,679
	Deferred tax liabilities	118,558
	Other non-current liabilities	163,032
	3,842,502	4,012,717
	5,756,586	6,137,418
Equity		
15	325,194	325,194
15	Share capital	(103,919)
	Treasury shares	10,592,760
	Retained earnings and other reserves	10,368,311
	10,814,035	10,589,586
	Non-controlling interest	332,380
	11,146,415	10,914,622
	16,903,001	17,052,040


A.B. Miller
Chairman of the Management Committee
29 August 2016


E.A. Vasilieva
Chief Accountant
29 August 2016

The accompanying notes on pages 8 to 37 are an integral part of this consolidated interim condensed financial information.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2016
(in millions of Russian Rubles)

Notes		Three months ended		Six months ended	
		30 June		30 June	
		2016	2015	2016	2015
16	Sales	1,327,008	1,265,199	3,064,372	2,913,452
	Net gain (loss) from trading activity	11,021	10,060	29,529	(7,953)
17	Operating expenses	<u>(1,226,833)</u>	<u>(1,052,630)</u>	<u>(2,680,732)</u>	<u>(2,224,215)</u>
	Operating profit	111,196	222,629	413,169	681,284
18	Finance income	296,929	379,628	700,268	1,063,303
18	Finance expense	(130,835)	(265,834)	(367,387)	(949,422)
10	Share of net income of associates and joint ventures	20,921	24,101	33,766	61,415
	Gains on disposal of available-for-sale financial assets	666	392	1,021	430
	Profit before profit tax	298,877	360,916	780,837	857,010
	Current profit tax expense	(34,271)	(47,954)	(105,785)	(122,538)
	Deferred profit tax expense	<u>(12,542)</u>	<u>(11,324)</u>	<u>(49,647)</u>	<u>(43,216)</u>
	Profit tax expense	(46,813)	(59,278)	(155,432)	(165,754)
	Profit for the period	252,064	301,638	625,405	691,256
	Other comprehensive income (loss):				
	Items that will not be reclassified to profit or loss:				
20	Remeasurements of post-employment benefit obligations	<u>(47,844)</u>	<u>(64,080)</u>	<u>(78,625)</u>	<u>(118,428)</u>
	Total items that will not be reclassified to profit or loss	(47,844)	(64,080)	(78,625)	(118,428)
	Items that may be reclassified subsequently to profit or loss:				
	Gains arising from change in fair value of available-for-sale financial assets, net of tax	16,415	38,185	20,806	38,783
	Share of other comprehensive (loss) income of associates and joint ventures	(961)	7,502	(4,518)	11,619
	Translation differences	(88,542)	(58,119)	(186,490)	(68,945)
	Gains from cash flow hedges, net of tax	<u>12,760</u>	<u>10,708</u>	<u>39,535</u>	<u>13,478</u>
	Total items that may be reclassified subsequently to profit or loss	(60,328)	(1,724)	(130,667)	(5,065)
	Other comprehensive loss for the period, net of tax	(108,172)	(65,804)	(209,292)	(123,493)
	Total comprehensive income for the period	143,892	235,834	416,113	567,763
	Profit for the period attributable to:				
	Owners of PJSC Gazprom	244,851	293,792	607,160	675,904
	Non-controlling interest	<u>7,213</u>	<u>7,846</u>	<u>18,245</u>	<u>15,352</u>
		252,064	301,638	625,405	691,256
	Total comprehensive income for the period attributable to:				
	Owners of PJSC Gazprom	140,355	228,803	405,536	557,002
	Non-controlling interest	<u>3,537</u>	<u>7,031</u>	<u>10,577</u>	<u>10,761</u>
		143,892	235,834	416,113	567,763
	Basic and diluted earnings per share for profit attributable to the owners of PJSC Gazprom (in Russian Rubles)				
19		10.67	12.80	26.45	29.45


A.B. Miller
Chairman of the Management Committee
29 August 2016


E.A. Vasilieva
Chief Accountant
29 August 2016

The accompanying notes on pages 8 to 37 are an integral part of this consolidated interim condensed financial information.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2016
(in millions of Russian Rubles)

Notes	Six months ended 30 June	
	2016	2015
	Cash flows from operating activities	
	780,837	857,010
	Profit before profit tax	
	Adjustments to profit before profit tax for:	
17	282,115	250,635
	Depreciation	
18	(332,881)	(113,881)
	Net finance income	
10	(33,766)	(61,415)
	Share of net income of associates and joint ventures	
	92,102	46,615
	Charge for provisions	
17	10,203	(16,046)
	Derivatives losses (gains)	
	(1,021)	(430)
	Gains on disposal of available-for-sale financial assets	
	<u>(27,821)</u>	<u>(6,252)</u>
	Other	
	<u>(11,069)</u>	<u>99,226</u>
	Total effect of adjustments	
	769,768	956,236
	Cash flows from operating activities before working capital changes	
	(7,310)	(5,219)
	Increase in non-current assets	
	(20,297)	(2,415)
	Decrease in non-current liabilities	
	272,200	131,053
	Changes in working capital	
	<u>(82,769)</u>	<u>(94,418)</u>
	Profit tax paid	
	931,592	985,237
	Net cash from operating activities	
	Cash flows from investing activities	
	(723,518)	(784,905)
	Capital expenditures	
18	(66,362)	(57,448)
	Interest paid and capitalised	
	(15,290)	(27,296)
	Net change in loans issued	
	(738)	303
	Acquisition of subsidiaries, net of cash acquired	
	(1,101)	(1,241)
	Investments in associates and joint ventures	
	86,171	28,610
	Interest received	
	4,843	(36,677)
	Change in available-for-sale long-term financial assets	
	21,326	21,845
	Proceeds from associates and joint ventures	
10	22,527	-
	Proceeds from sales of associates	
	(100,000)	-
	Placement of long-term bank deposits	
	70	20,050
	Repayment of long-term bank deposits	
	<u>(50,536)</u>	<u>(2,614)</u>
	Other	
	(822,608)	(839,373)
	Net cash used in investing activities	
	Cash flows from financing activities	
	308,464	122,387
	Proceeds from long-term borrowings	
	(338,857)	(172,725)
	Repayment of long-term borrowings (including current portion of long-term borrowings)	
	60,983	101,829
	Proceeds from short-term borrowings	
	(38,865)	(72,414)
	Repayment of short-term borrowings	
	(2,304)	(2,651)
	Dividends paid	
18	(31,965)	(29,956)
	Interest paid	
	(124)	(123)
	Acquisition of non-controlling interests in subsidiaries	
	450	-
	Issue of shares acquired non-controlling interest	
	<u>(1,913)</u>	<u>195</u>
	Change in restricted cash	
	(44,131)	(53,458)
	Net cash used in financing activities	
	(102,316)	(26,029)
	Effect of foreign exchange rate changes on cash and cash equivalents	
	(37,463)	66,377
	(Decrease) increase in cash and cash equivalents	
6	<u>1,359,095</u>	<u>1,038,191</u>
	Cash and cash equivalents at the beginning of reporting period	
6	1,321,632	1,104,568
	Cash and cash equivalents at the end of reporting period	


A.B. Miller
Chairman of the Management Committee
29 August 2016


E.A. Vasilieva
Chief Accountant
29 August 2016

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PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2016
(in millions of Russian Rubles)

Notes	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	
Six months ended 30 June 2015								
	Balance as of 31 December 2014	23.0	325,194	(103,919)	9,595,283	9,816,558	303,463	10,120,021
	Profit for the period	-	-	-	675,904	675,904	15,352	691,256
20	Other comprehensive income (loss):							
	Remeasurements of post-employment benefit obligations	-	-	-	(118,428)	(118,428)	-	(118,428)
	Gains (losses) arising from change in fair value of available-for-sale financial assets, net of tax	-	-	-	38,789	38,789	(6)	38,783
	Share of other comprehensive income of associates and joint ventures	-	-	-	11,619	11,619	-	11,619
	Translation differences	-	-	-	(63,970)	(63,970)	(4,975)	(68,945)
	Gains from cash flow hedges, net of tax	-	-	-	13,088	13,088	390	13,478
	Total comprehensive income for the six months ended 30 June 2015	-	-	-	557,002	557,002	10,761	567,763
	Changes in non-controlling interest in subsidiaries	-	-	-	-	-	62	62
	Return of social assets to governmental authorities	-	-	-	(15)	(15)	-	(15)
	Dividends declared	-	-	-	(165,247)	(165,247)	(5,145)	(170,392)
	Balance as of 30 June 2015	23.0	325,194	(103,919)	9,987,023	10,208,298	309,141	10,517,439
Six months ended 30 June 2016								
	Balance as of 31 December 2015	23.0	325,194	(103,919)	10,368,311	10,589,586	325,036	10,914,622
	Profit for the period	-	-	-	607,160	607,160	18,245	625,405
20	Other comprehensive income (loss):							
	Remeasurements of post-employment benefit obligations	-	-	-	(78,625)	(78,625)	-	(78,625)
	Gains arising from change in fair value of available-for-sale financial assets, net of tax	-	-	-	20,801	20,801	5	20,806
	Share of other comprehensive loss of associates and joint ventures	-	-	-	(4,518)	(4,518)	-	(4,518)
	Translation differences	-	-	-	(177,574)	(177,574)	(8,916)	(186,490)
	Gains from cash flow hedges, net of tax	-	-	-	38,292	38,292	1,243	39,535
	Total comprehensive income for the six months ended 30 June 2016	-	-	-	405,536	405,536	10,577	416,113
	Changes in non-controlling interest in subsidiaries	-	-	-	-	-	3,367	3,367
	Return of social assets to governmental authorities	-	-	-	(4)	(4)	-	(4)
	Dividends declared	-	-	-	(181,083)	(181,083)	(6,600)	(187,683)
	Balance as of 30 June 2016	23.0	325,194	(103,919)	10,592,760	10,814,035	332,380	11,146,415

A.B. Miller
Chairman of the Management Committee
29 August 2016

E.A. Vasilieva
Chief Accountant
29 August 2016

The accompanying notes on pages 8 to 37 are an integral part of this consolidated interim condensed financial information.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 2016
(in millions of Russian Rubles)

1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

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

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

The gas business is subject to seasonal fluctuations with peak demand in the first and fourth quarters of each year. Typically approximately 30 % of total annual gas volumes are shipped in the first calendar quarter and approximately 20 % in the second calendar quarter.

In 2016 and earlier, to ensure compliance with the provisions of Chapter 4 of the Civil Code of the Russian Federation, Russian companies registered in the territory of the Russian Federation as open and closed joint stock companies changed their legal structures. Names of the companies are given with regard to the announced changes as of the date of preparation of this consolidated interim condensed financial information.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

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

- as of 30 June 2016 – 64.2575 (as of 30 June 2015 – 55.5240);
- as of 31 December 2015 – 72.8827 (as of 31 December 2014 – 56.2584).

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

- as of 30 June 2016 – 71.2102 (as of 30 June 2015 – 61.5206);
- as of 31 December 2015 – 79.6972 (as of 31 December 2014 – 68.3427).

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

3 BASIS OF PRESENTATION

This consolidated interim condensed financial information is prepared in accordance with IAS 34 Interim Financial Reporting. The consolidated interim condensed financial information should be read in conjunction with the consolidated financial statements for the year ended 31 December 2015 prepared in accordance with International Financial Reporting Standards (“IFRS”).

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 2016
(in millions of Russian Rubles)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The significant accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2015.

Profit tax in the interim periods is accrued using a tax rate that would be applicable to expected total annual earnings.

Application of new IFRSs

A number of amendments to current IFRSs became effective for the periods beginning on or after 1 January 2016:

- The amendments to IFRS 11 Joint Arrangements (issued in May 2014) on accounting for acquisitions of interests in joint operations that constitutes a business.
- The amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (issued in May 2014) on clarification of acceptable methods of depreciation and amortization.
- The amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (issued in September 2014) eliminate inconsistencies between the requirements dealing with the sale or contribution of assets between an investor and its associate or joint venture.
- The amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (issued in August 2014) clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities.
- The amendments to IAS 1 Presentation of Financial Statements (issued in December 2014). The standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements.
- Annual Improvements to IFRS, the period 2012-2014.

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

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

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017. In particular, the Group has not early adopted the standards and amendments:

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. Earlier application of the standard is permitted simultaneously with earlier application IFRS 15 Revenue from Contracts with Customers.
- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Revenue from sales of any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognised as an asset and amortised over the period when the benefits of the contract are consumed.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 2016
(in millions of Russian Rubles)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

- The amendments to IFRS 9 Financial Instruments (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). IFRS 9 Financial Instruments replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification and measurement of financial assets. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 Financial Instruments or continuing to apply IAS 39 Financial Instruments: Recognition and Measurement to all hedging instruments because the standard currently does not address accounting for macro hedging.
- The amendments to IAS 7 Cash Flow Statements (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The revised standard requires disclosing a reconciliation of movements for obligations arising from financing activities.
- The amendments to IAS 12 Income Taxes in the recognition of deferred tax assets for unrealised losses (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).
- The amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.

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

5 SEGMENT INFORMATION

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

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

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

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

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

The inter-segment sales mainly consist of:

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

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 2016
(in millions of Russian Rubles)

5 SEGMENT INFORMATION (continued)

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

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

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Six months ended									
30 June 2016									
Total segment revenues	358,832	494,631	1,864,252	25,151	448,853	708,179	236,292	142,209	4,278,399
Inter-segment sales	346,489	398,859	121,324	22,845	282,304	4,711	-	-	1,176,532
External sales	12,343	95,772	1,742,928	2,306	166,549	703,468	236,292	142,209	3,101,867
Segment result	10,345	28,976	174,440	3,373	12,127	12,154	28,532	2,531	272,478
Depreciation	85,521	227,564	9,446	11,866	56,918	15,950	22,505	18,339	448,109
Share of net income of associates and joint ventures	3,433	12,591	1,733	13	9,861	2,813	66	3,256	33,766
Six months ended									
30 June 2015									
Total segment revenues	344,288	489,879	1,725,763	21,983	405,399	766,373	217,728	122,288	4,093,701
Inter-segment sales	335,487	399,258	115,802	21,188	274,747	4,770	-	-	1,151,252
External sales	8,801	90,621	1,609,961	795	130,652	761,603	217,728	122,288	2,942,449
Segment result	8,441	22,814	396,582	3,010	20,471	127,343	32,893	(14,187)	597,367
Depreciation	84,601	227,923	8,395	11,234	46,857	16,544	19,168	14,336	429,058
Share of net income (loss) of associates and joint ventures	3,986	10,551	11,265	(264)	44,467	2,378	(9)	(10,959)	61,415
Three months ended									
30 June 2016									
Total segment revenues	167,423	259,810	717,035	13,005	246,201	367,619	88,722	73,679	1,933,494
Inter-segment sales	161,809	211,634	40,232	11,984	155,181	2,091	-	-	582,931
External sales	5,614	48,176	676,803	1,021	91,020	365,528	88,722	73,679	1,350,563
Segment result	10,632	26,365	4,490	1,492	9,099	13,248	3,331	(3,154)	65,503
Depreciation	41,771	111,489	5,246	5,889	28,128	7,642	11,778	9,488	221,431
Share of net income (loss) of associates and joint ventures	1,750	5,389	40	(184)	12,153	1,505	(48)	316	20,921
Three months ended									
30 June 2015									
Total segment revenues	170,527	256,378	652,410	11,483	210,663	398,784	84,524	71,763	1,856,532
Inter-segment sales	166,354	210,264	39,430	11,073	139,522	1,862	-	-	568,505
External sales	4,173	46,114	612,980	410	71,141	396,922	84,524	71,763	1,288,027
Segment result	20,967	26,138	56,039	1,759	19,575	66,287	14,012	(7,009)	197,768
Depreciation	42,450	114,033	3,919	5,614	24,923	6,968	10,253	6,746	214,906
Share of net income (loss) of associates and joint ventures	1,716	4,770	8,078	(13)	15,049	1,579	(21)	(7,057)	24,101

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5 SEGMENT INFORMATION (continued)

A reconciliation of total reportable segments' results to total profit before profit tax in the consolidated interim condensed statement of comprehensive income is provided below.

Notes	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	68,657	204,777	269,947	611,554
Segment result for reportable segments	(3,154)	(7,009)	2,531	(14,187)
Other segments' result	65,503	197,768	272,478	597,367
Segment result	81,264	88,542	165,994	178,423
Difference in depreciation ¹	(5,116)	(1,792)	(9,103)	(3,720)
Expenses associated with pension obligations	166,094	113,794	332,881	113,881
18 Net finance income	666	392	1,021	430
Gains on disposal of available-for-sale financial assets	20,921	24,101	33,766	61,415
10 Share of net income of associates and joint ventures	(30,455)	(61,889)	(16,200)	(90,786)
Other	298,877	360,916	780,837	857,010
Profit before profit tax				

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

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

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
External sales for reportable segments	1,276,884	1,216,264	2,959,658	2,820,161
External sales for other segments	73,679	71,763	142,209	122,288
Total external segment sales	1,350,563	1,288,027	3,101,867	2,942,449
Differences in external sales ¹	(23,555)	(22,828)	(37,495)	(28,997)
Total sales per the consolidated interim condensed statement of comprehensive income	1,327,008	1,265,199	3,064,372	2,913,452

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

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

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
As of 30 June 2016									
Segment assets	2,300,348	5,977,034	1,409,887	364,570	2,205,617	1,233,841	848,660	950,538	15,290,495
Investments in associates and joint ventures	25,444	130,753	38,859	337	446,209	21,085	1,393	94,714	758,794
Capital additions ¹	64,445	162,619	6,653	15,228	143,650	51,212	28,011	22,141	493,959
As of 31 December 2015									
Segment assets	2,357,813	6,119,073	1,677,460	348,857	2,183,335	1,260,557	850,658	885,287	15,683,040
Investments in associates and joint ventures	19,434	152,954	45,580	1,958	467,626	20,124	1,453	99,117	808,246
Capital additions ²	220,214	420,874	25,962	48,486	324,330	136,299	98,963	69,701	1,344,829

¹ Capital additions for the six months ended 30 June 2016.

² Capital additions for the year ended 31 December 2015.

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5 SEGMENT INFORMATION (continued)

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

Notes	30 June 2016	31 December 2015
Segment assets for reportable segments	14,339,957	14,797,753
Other segments' assets	<u>950,538</u>	<u>885,287</u>
Total segment assets	15,290,495	15,683,040
Differences in property, plant and equipment, net ¹	(1,608,089)	(1,778,015)
Loan interest capitalised	693,996	645,109
Capitalised expenses, related to decommissioning costs	74,265	74,290
6 Cash and cash equivalents	1,321,632	1,359,095
Restricted cash	3,728	1,815
21 Short-term financial assets	13,207	12,570
VAT recoverable	210,557	229,626
Other current assets	330,584	472,045
21 Available-for-sale long-term financial assets	254,855	235,607
Goodwill	106,681	107,467
Other non-current assets	437,730	303,269
Inter-segment assets	(507,113)	(598,040)
Other	<u>280,473</u>	<u>304,162</u>
Total assets per the consolidated interim condensed balance sheet	16,903,001	17,052,040

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

Segment liabilities mainly comprise accounts payable arising in the course of operating activity. Profit tax payable, deferred tax liabilities, long-term provisions for liabilities and charges (excluding retroactive gas price adjustments), short-term and long-term borrowings, including current portion of long-term borrowings, short-term and long-term promissory notes payable and other non-current liabilities are managed on a central basis.

	30 June 2016	31 December 2015
Distribution of gas	559,192	703,268
Refining	285,046	255,370
Transportation	204,711	317,548
Production of crude oil and gas condensate	116,492	142,332
Production of gas	107,341	179,935
Electric and heat energy generation and sales	63,132	78,618
Gas storage	13,299	11,234
Other segments	<u>158,609</u>	<u>220,394</u>
Total segment liabilities	1,507,822	1,908,699

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

Notes	30 June 2016	31 December 2015
Segment liabilities for reportable segments	1,349,213	1,688,305
Other segments' liabilities	<u>158,609</u>	<u>220,394</u>
Total segment liabilities	1,507,822	1,908,699
Current profit tax payable	7,673	11,929
Short-term borrowings, promissory notes and current portion of long-term borrowings	564,050	646,372
13 Long-term borrowings and promissory notes	2,520,709	2,795,843
Long-term provisions for liabilities and charges (excluding retroactive gas price adjustments)	495,809	435,438
14 Deferred tax liabilities	668,679	618,404
Other non-current liabilities	118,558	163,032
Dividends	191,257	4,969
Inter-segment liabilities	(507,113)	(598,040)
Other	<u>189,142</u>	<u>150,772</u>
Total liabilities per the consolidated interim condensed balance sheet	5,756,586	6,137,418

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6 CASH AND CASH EQUIVALENTS

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

	30 June 2016	31 December 2015
Cash on hand and bank balances payable on demand	1,206,336	1,189,436
Term deposits with original maturity of three months or less	<u>115,296</u>	<u>169,659</u>
Total cash and cash equivalents	1,321,632	1,359,095

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2016	31 December 2015
Trade receivables	578,539	726,156
Short-term loans	112,100	93,409
Prepayments and advances	95,791	107,222
Other receivables	<u>134,247</u>	<u>187,420</u>
Total accounts receivable and prepayments	920,677	1,114,207

Accounts receivable and prepayments are presented net of impairment allowance of RUB 867,050 million and RUB 874,299 million as of 30 June 2016 and 31 December 2015, respectively.

Accounts receivable due from NJSC Naftogaz Ukraine in relation to gas sales are RUB nil million and RUB 5,528 million net of impairment allowance of RUB 186,214 million and RUB 187,228 million as of 30 June 2016 and 31 December 2015, respectively.

8 INVENTORIES

Inventories are presented net of allowance for obsolescence of RUB 4,553 million and RUB 7,177 million as of 30 June 2016 and 31 December 2015, respectively.

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9 PROPERTY, PLANT AND EQUIPMENT

	Total operating assets (including production licenses)	Social assets	Assets under construction	Total
As of 31 December 2014				
Cost	12,150,747	94,965	2,110,422	14,356,134
Accumulated depreciation	<u>(4,370,329)</u>	<u>(35,596)</u>	-	<u>(4,405,925)</u>
Net book value as of 31 December 2014	7,780,418	59,369	2,110,422	9,950,209
Six months ended 30 June 2015				
Net book value as of 31 December 2014	7,780,418	59,369	2,110,422	9,950,209
Depreciation	(250,338)	(1,314)	-	(251,652)
Additions	45,576	15	472,353	517,944
Translation differences	(26,959)	(14)	(10,798)	(37,771)
Transfers	181,521	-	(181,521)	-
Disposals	(17,192)	(176)	(17,929)	(35,297)
Charge for impairment allowance	<u>(4)</u>	<u>-</u>	<u>(347)</u>	<u>(351)</u>
Net book value as of 30 June 2015	7,713,022	57,880	2,372,180	10,143,082
Six months ended 31 December 2015				
Net book value as of 30 June 2015	7,713,022	57,880	2,372,180	10,143,082
Depreciation	(270,046)	(1,311)	-	(271,357)
Additions	102,813	242	993,750	1,096,805
Acquisition of subsidiaries	33,390	-	12,110	45,500
Translation differences	133,901	17	48,499	182,417
Transfers	813,720	1,972	(815,692)	-
Disposals	(40,385)	(698)	(22,352)	(63,435)
Charge for impairment allowance	<u>(57,255)</u>	<u>-</u>	<u>(71,876)</u>	<u>(129,131)</u>
Net book value as of 31 December 2015	8,429,160	58,102	2,516,619	11,003,881
As of 31 December 2015				
Cost	13,319,873	96,323	2,516,619	15,932,815
Accumulated depreciation	<u>(4,890,713)</u>	<u>(38,221)</u>	-	<u>(4,928,934)</u>
Net book value as of 31 December 2015	8,429,160	58,102	2,516,619	11,003,881
Six months ended 30 June 2016				
Net book value as of 31 December 2015	8,429,160	58,102	2,516,619	11,003,881
Depreciation	(276,402)	(903)	-	(277,305)
Additions	25,200	340	527,672	553,212
Translation differences	(79,544)	(53)	(22,792)	(102,389)
Transfers	286,203	312	(286,515)	-
Disposals	(13,532)	(1,105)	(21,516)	(36,153)
Release of impairment allowance	<u>-</u>	<u>-</u>	<u>126</u>	<u>126</u>
Net book value as of 30 June 2016	8,371,085	56,693	2,713,594	11,141,372
As of 30 June 2016				
Cost	13,538,200	95,817	2,713,594	16,347,611
Accumulated depreciation	<u>(5,167,115)</u>	<u>(39,124)</u>	-	<u>(5,206,239)</u>
Net book value as of 30 June 2016	8,371,085	56,693	2,713,594	11,141,372

Operating assets are shown net of allowance for impairment of RUB 186,738 million and RUB 186,738 million as of 30 June 2016 and 31 December 2015, respectively.

Assets under construction are presented net of allowance for impairment of RUB 109,499 million and RUB 115,175 million as of 30 June 2016 and 31 December 2015, respectively.

Social assets (rest houses, housing, schools and medical facilities) vested to the Group at privatisation are included in the property, plant and equipment with a net book value of RUB 256 million and RUB 260 million as of 30 June 2016 and 31 December 2015, respectively.

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10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Notes			Carrying value as of		Share of net income (loss) of associates and joint ventures for the six months ended 30 June	
			30 June 2016	31 December 2015	2016	2015
23	Sakhalin Energy Investment Company Ltd.	Associate	209,113	240,831	(3,452)	29,722
23	OJSC NGK Slavneft and its subsidiaries	Joint venture	125,445	118,704	6,810	5,548
23	Gazprombank (Joint-stock Company) and its subsidiaries	Associate	82,665	80,800	4,267	(11,252)
23	LLC Yamal razvitie and its subsidiaries	Joint venture	78,510	72,128	6,382	6,754
23	Nord Stream AG	Joint venture	64,327	69,617	9,915	6,546
23	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Associate	39,693	47,154	2,547	3,467
23	JSC Achimgaz	Joint venture	31,204	26,281	4,923	5,459
23, 24	SGT EuRoPol GAZ S.A.	Associate	28,737	33,410	134	223
23	KazRosGaz LLP	Joint venture	19,420	20,960	1,093	4,946
23	Wintershall AG	Associate	18,746	20,727	123	107
23	CJSC Northgas	Joint venture	9,517	8,726	791	1,800
23	JSC Latvijas Gaze	Associate	8,723	8,981	811	214
22, 23	Wintershall Noordzee B.V. ¹	Joint venture	8,696	9,994	(156)	-
23	Gasum OY and its subsidiaries ²		-	10,253	-	1,763
22, 23	W & G Beteiligungs-GmbH & Co. KG and its subsidiaries ³		-	-	-	3,964
	Other (net of allowance for impairment of RUB 7,445 million and RUB 7,373 million as of 30 June 2016 and 31 December 2015, respectively)		<u>33,998</u>	<u>39,680</u>	<u>(422)</u>	<u>2,154</u>
			758,794	808,246	33,766	61,415

¹ In September 2015 the Group acquired the 50 % interests in Wintershall Noordzee B.V. are accounted for using the equity method since the acquisition date (see Note 22).

² In January 2016 PJSC Gazprom has sold its equity interest of 25 % in Gasum OY to the Government of Finland for EUR 251 million.

³ In September 2015 W & G Beteiligungs-GmbH & Co. KG and its subsidiaries became the Group subsidiaries (see Note 22).

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

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

The differences between the carrying value of investments in associates and joint ventures and the calculated Group's share in their net assets are mostly attributable to translation differences.

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10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

	Percent of share capital held	Country of primary operations	As of 30 June 2016		Six months ended 30 June 2016	
			Assets	Liabilities	Revenues	Income (loss)
Gazprombank (Joint-stock Company) and its subsidiaries ¹	37 %	Russia	4,911,322	4,511,783	99,877	11,482
Sakhalin Energy Investment Company Ltd. ²	50 %	Russia	1,074,152	655,926	150,691	22,981
Nord Stream AG ³	51 %	Russia, Germany	477,183	349,032	42,571	17,453
OJSC NGK Slavneft and its subsidiaries	50 %	Russia	425,589	172,409	104,500	14,255
LLC Yamal razvitie and its subsidiaries	50 %	Russia	393,786	266,564	63,568	11,637
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	243,461	159,515	20,683	5,319
Wintershall AG ⁴	49 %	Libya	78,376	49,610	-	251
JSC Achimgaz	50 %	Russia	72,257	8,738	14,409	9,846
SGT EuRoPol GAZ S.A.	48 %	Poland	70,490	10,621	10,566	549
Wintershall Noordzee B.V.	50 %	Netherlands	59,958	44,741	5,844	(301)
CJSC Northgas	50 %	Russia	55,908	35,937	12,932	1,582
KazRosGaz LLP	50 %	Kazakhstan	45,183	6,345	24,003	2,184
JSC Latvijas Gaze	34 %	Latvia	44,095	9,974	17,220	2,379

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

² Country of incorporation is Bermuda Islands.

³ Country of incorporation is Switzerland.

⁴ Country of incorporation is Germany.

	Percent of share capital held	Country of primary operations	As of 30 June 2015		Six months ended 30 June 2015	
			Assets	Liabilities	Revenues	Income (loss)
Gazprombank (Joint-stock Company) and its subsidiaries ¹	37 %	Russia	4,472,731	4,177,753	85,399	(30,295)
Sakhalin Energy Investment Company Ltd. ²	50 %	Russia	1,074,567	746,525	188,541	59,444
Nord Stream AG ³	51 %	Russia, Germany	440,898	326,814	34,943	12,834
LLC Yamal razvitie and its subsidiaries	50 %	Russia	405,859	303,634	54,915	12,621
OJSC NGK Slavneft and its subsidiaries	50 %	Russia	404,837	172,873	119,682	11,681
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	213,220	146,165	22,133	6,936
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	169,464	136,747	481,863	8,189
Gasum OY	25 %	Finland	97,952	62,582	40,549	7,175
SGT EuRoPol GAZ S.A.	48 %	Poland	66,381	12,464	10,094	471
Wintershall AG ⁴	49 %	Libya	65,558	39,718	4,677	218
JSC Achimgaz	50 %	Russia	58,799	13,083	15,001	10,916
CJSC Northgas	50 %	Russia	54,282	41,180	14,618	1,994
KazRosGaz LLP	50 %	Kazakhstan	53,261	5,170	27,599	9,890
JSC Latvijas Gaze	34 %	Latvia	35,829	9,859	15,733	629

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

² Country of incorporation is Bermuda Islands.

³ Country of incorporation is Switzerland.

⁴ Country of incorporation is Germany.

The estimated fair values of the Group investments in associates and joint ventures for which there are published price quotations are provided below.

	30 June 2016	31 December 2015
JSC Latvijas Gaze	10,337	10,552

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11 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2016	31 December 2015
Long-term accounts receivable and prepayments	243,814	216,103
Advances for assets under construction	<u>403,590</u>	<u>383,745</u>
Total long-term accounts receivable and prepayments	647,404	599,848

Long-term accounts receivable and prepayments and advances for assets under construction are presented net of impairment allowance of RUB 15,314 million and RUB 14,621 million as of 30 June 2016 and 31 December 2015, respectively.

12 OTHER NON-CURRENT ASSETS

Included within other non-current assets are VAT recoverable related to assets under construction totalling RUB 37,876 million and RUB 50,494 million and long-term deposits totalling RUB 101,926 million and RUB 5,064 million as of 30 June 2016 and 31 December 2015, respectively.

13 LONG-TERM BORROWINGS, PROMISSORY NOTES

	Currency	Final Maturity	30 June 2016	31 December 2015
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009 ¹	US Dollar	2019	147,105	166,851
Bank of China Limited, London branch	Euro	2021	143,715	-
Mizuho Bank Ltd. ²	US Dollar	2019	118,510	156,821
Loan participation notes issued in July 2012 ¹	Euro	2017	100,802	114,928
China Construction Bank Corporation, Beijing branch ²	US Dollar	2020	97,973	111,077
Loan participation notes issued in September 2012 ³	US Dollar	2022	97,569	110,666
Loan participation notes issued in November 2013 ³	US Dollar	2023	96,916	109,925
Loan participation notes issued in October 2007 ¹	Euro	2018	87,586	101,209
Loan participation notes issued in November 2006 ¹	US Dollar	2016	87,331	99,054
Loan participation notes issued in March 2007 ¹	US Dollar	2022	85,257	96,701
Loan participation notes issued in August 2007 ¹	US Dollar	2037	82,517	93,593
Loan participation notes issued in April 2004 ¹	US Dollar	2034	78,272	88,779
Loan participation notes issued in October 2015 ¹	Euro	2018	73,538	80,475
Loan participation notes issued in April 2008 ¹	US Dollar	2018	71,963	81,622
Loan participation notes issued in March 2013 ¹	Euro	2020	71,891	81,821
Loan participation notes issued in July 2013 ¹	Euro	2018	66,305	72,891
Loan participation notes issued in July 2012 ¹	US Dollar	2022	65,689	74,506
Loan participation notes issued in February 2013 ¹	US Dollar	2028	58,985	66,902
Loan participation notes issued in February 2014 ¹	Euro	2021	54,066	61,595
Loan participation notes issued in April 2013 ³	Euro	2018	53,690	60,967
Loan participation notes issued in February 2013 ¹	US Dollar	2020	52,203	59,210
PJSC Sberbank	US Dollar	2018	49,602	56,231
	British Pound			
Loan participation notes issued in September 2013 ¹	Sterling	2020	43,068	48,201
Loan participation notes issued in November 2011 ¹	US Dollar	2021	39,570	44,881
Loan participation notes issued in March 2007 ¹	Euro	2017	36,884	40,205
Loan participation notes issued in November 2006 ¹	Euro	2017	36,111	41,447
Loan participation notes issued in March 2013 ¹	Euro	2025	36,039	41,211
Loan participation notes issued in October 2013 ¹	Swiss Franc	2019	33,402	36,957
Loan participation notes issued in March 2016 ¹	Swiss Franc	2018	33,044	-
Commerzbank International S.A.	US Dollar	2018	32,126	43,730
J.P. Morgan Europe Limited ²	US Dollar	2018	28,116	36,694
Alfa-Bank (Joint-stock Company)	US Dollar	2016	25,709	29,160
Gazprombank (Joint-stock Company)	US Dollar	2018	23,133	26,238
PJSC Promsvyazbank	US Dollar	2020	22,490	25,509
Gazprombank (Joint-stock Company)	US Dollar	2018	21,205	24,051
Sumitomo Mitsui Finance Dublin Limited	US Dollar	2016	20,633	23,392
JSC Rosselkhozbank	Russian Ruble	2019	20,013	30,029
Gazprombank (Joint-stock Company)	US Dollar	2017	19,920	22,594

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13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final Maturity	30 June 2016	31 December 2015
PJSC Sberbank	Russian Ruble	2017	19,797	19,802
UniCredit Bank Austria AG	Euro	2019	19,744	23,940
Banc of America Securities Limited	US Dollar	2018	19,447	22,041
Bank of America Merrill Lynch International Limited	US Dollar	2018	19,381	21,960
BNP Paribas S.A. ²	Euro	2022	18,915	22,802
PJSC Sberbank	Euro	2020	17,153	19,203
PJSC Sberbank	Euro	2017	16,055	17,971
Russian bonds issued in March 2016 ³	Russian Ruble	2046	15,292	-
Russian bonds issued in November 2013 ⁴	Russian Ruble	2043	15,123	15,246
Russian bonds issued in November 2013 ⁴	Russian Ruble	2043	15,123	15,246
Bank of America Securities Limited	Euro	2017	12,881	14,420
UniCredit Bank Austria AG	US Dollar	2018	12,855	14,581
PJSC Sberbank	Russian Ruble	2019	12,508	12,514
PJSC Sberbank	Russian Ruble	2019	12,508	12,514
HSBC Bank plc	Euro	2022	11,943	14,394
Citibank International plc ²	US Dollar	2021	11,814	14,734
Banc of America Securities Limited	US Dollar	2016	11,572	13,126
BNP Paribas S.A.	Euro	2023	11,330	13,559
Sumitomo Mitsui Banking Corporation Europ Limited ²	US Dollar	2016	11,270	25,537
PJSC Sberbank	US Dollar	2018	10,605	-
Russian bonds issued in March 2016 ³	Russian Ruble	2046	10,416	-
Russian bonds issued in February 2011 ³	Russian Ruble	2021	10,363	10,363
Russian bonds issued in February 2013 ⁵	Russian Ruble	2017	10,275	10,275
Russian bonds issued in April 2009 ³	Russian Ruble	2019	10,177	10,177
Russian bonds issued in December 2012 ³	Russian Ruble	2022	10,070	10,070
Russian bonds issued in June 2016 ³	Russian Ruble	2046	10,056	-
PJSC Sberbank	Russian Ruble	2019	10,006	10,011
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2017	10,000	10,000
PJSC Sberbank	US Dollar	2018	9,652	10,947
Banca Intesa a.d. Beograd	US Dollar	2019	9,652	10,947
Intesa Sanpaolo S.p.A.	Euro	2019	9,169	11,957
Gazprombank (Joint-stock Company)	Russian Ruble	2022	8,833	6,187
OJSC Bank ROSSIYA	Russian Ruble	2019	8,730	-
PJSC Sberbank	Russian Ruble	2018	8,300	-
PJSC VTB Bank	Russian Ruble	2018	8,250	8,250
PJSC VTB Bank	Euro	2020	7,545	8,449
GC Vnesheconombank	Russian Ruble	2025	7,507	7,852
PJSC Sberbank	Russian Ruble	2016	7,400	12,400
PJSC Sberbank	Russian Ruble	2025	7,219	7,220
UniCredit Bank AG ^{2, 6}	US Dollar	2018	7,180	14,377
BNP Paribas S.A. ²	Euro	2022	7,156	8,650
PJSC Credit Bank of Moscow	US Dollar	2018	7,068	5,831
UniCredit Bank	Euro	2021	6,765	-
Credit Agricole CIB	Euro	2024	6,755	8,018
Sberbank Serbia a.d.	US Dollar	2019	5,792	6,568
UniCredit Bank AG ^{2, 6}	Euro	2018	5,716	11,297
Banca Intesa a.d. Beograd	Euro	2018	5,150	5,754
PJSC VTB Bank	Russian Ruble	2021	5,150	-
Russian bonds issued in February 2013 ⁵	Russian Ruble	2018	5,137	5,137
Russian bonds issued in November 2015 ⁷	Russian Ruble	2020	5,058	5,058
Russian bonds issued in November 2015 ⁷	Russian Ruble	2020	5,058	5,058
Alfa-Bank (Joint-stock Company)	Russian Ruble	2019	5,005	5,011
Sberbank Serbia a.d.	US Dollar	2017	4,834	5,483
OJSC Bank ROSSIYA	Russian Ruble	2019	4,500	-
Gazprombank (Joint-stock Company)	Russian Ruble	2017	4,470	9,750
UniCredit Bank AG ^{2, 6}	Russian Ruble	2018	1,072	1,894

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	Currency	Final Maturity	30 June 2016	31 December 2015
OJSC Bank ROSSIYA	Russian Ruble	2017	1,000	5,000
Loan participation notes issued in November 2011 ¹	US Dollar	2016	-	73,264
Deutsche Bank AG	US Dollar	2016	-	29,690
Intesa Sanpaolo S.p.A.	Euro	2016	-	28,028
Bank of Tokyo-Mitsubishi UFJ Ltd.	US Dollar	2016	-	21,891
Russian bonds issued in February 2013 ⁵	Russian Ruble	2016	-	15,410
Bank of Tokyo-Mitsubishi UFJ Ltd. ²	US Dollar	2016	-	13,754
PJSC VTB Bank	US Dollar	2016	-	12,104
Russian bonds issued in February 2011 ³	Russian Ruble	2016	-	10,259
Russian bonds issued in February 2011 ³	Russian Ruble	2016	-	10,228
PJSC Sberbank	Russian Ruble	2016	-	8,300
Gazprombank (Joint-stock Company)	US Dollar	2016	-	8,017
Russian bonds issued in February 2012 ³	Russian Ruble	2016	-	452
Other long-term borrowings, promissory notes	Various	Various	<u>130,191</u>	<u>127,112</u>
Total long-term borrowings, promissory notes			3,014,941	3,390,213
Less: current portion of long-term borrowings			<u>(494,232)</u>	<u>(594,370)</u>
			2,520,709	2,795,843

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

² Loans received from consortiums of banks, named lender is the bank-agent.

³ Issuer of these bonds is PJSC Gazprom Neft.

⁴ Issuer of these bonds is PJSC Gazprom.

⁵ Issuer of these bonds is Gazprom capital LLC.

⁶ Loans were obtained for development of Yuzhno-Russkoye oil and gas field.

⁷ Issuer of these bonds is PJSC WGC-2.

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

Due for repayment:	30 June 2016	31 December 2015
between one and two years	529,235	472,657
between two and five years	1,307,462	1,452,110
after five years	<u>684,012</u>	<u>871,076</u>
	2,520,709	2,795,843

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,151,750 million and RUB 2,431,823 million and fair value of RUB 2,289,601 million and RUB 2,480,142 million as of 30 June 2016 and 31 December 2015, respectively.

All other long-term liabilities have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 863,191 million and RUB 958,390 million and fair value is RUB 910,366 million and RUB 948,744 million as of 30 June 2016 and 31 December 2015, respectively.

As of 30 June 2016 and 31 December 2015 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoe oil and gas field with the group of international financial institutions with UniCredit Bank AG acting as a facility agent, ordinary shares of OJSC Severneftegazprom with the pledge value of RUB 16,968 million and fixed assets with the pledge value of RUB 26,210 million were pledged to ING Bank N.V. (London branch) up to the date of full redemption of the liabilities on this agreement. As of 30 June 2016 and 31 December 2015 carrying amount of these fixed assets is RUB 21,149 million and RUB 21,654 million, respectively. Management of the Group does not expect any substantial consequences to occur which relate to respective pledge agreement.

Under the terms of the Russian bonds with the nominal value of RUB 10,000 million issued by PJSC Gazprom Neft in June 2016 due in 2046 bondholders can execute the right of early redemption in June 2019 at par, including interest accrued.

Under the terms of the Russian bonds with the nominal value of RUB 25,000 million issued by PJSC Gazprom Neft in March 2016 due in 2046 bondholders can execute the right of early redemption in March 2021 at par, including interest accrued.

Under the terms of the Russian bonds with the nominal value of RUB 10,000 million issued by PJSC Gazprom Neft in December 2012 due in 2022 bondholders can execute the right of early redemption in November 2017 at par, including interest accrued.

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

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

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

14 PROFIT TAX

Profit tax is recognised based on the estimated average annual effective profit tax rate applied to the profit before tax for the six months ended 30 June 2016. Differences between the recognition criteria in IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the applicable statutory rates, including the prevailing rate of 20 % in the Russian Federation.

	Differences recognition			Differences recognition		
	30 June 2016	and reversals	31 December 2015	30 June 2015	and reversals	31 December 2014
Tax effects of taxable temporary differences:						
Property, plant and equipment	(724,535)	(38,465)	(686,070)	(664,127)	(43,373)	(620,754)
Financial assets	-	-	-	1,115	8,443	(7,328)
Inventories	(12,213)	2,530	(14,743)	(11,542)	(3,165)	(8,377)
	(736,748)	(35,935)	(700,813)	(674,554)	(38,095)	(636,459)
Tax effects of deductible temporary differences:						
Financial assets	1,028	651	377	-	-	-
Tax losses carried forward	11,230	(7,126)	18,356	19,245	(876)	20,121
Retroactive gas price adjustments	19,711	(889)	20,600	12,180	509	11,671
Other deductible temporary differences	<u>36,100</u>	<u>(6,976)</u>	<u>43,076</u>	<u>6,558</u>	<u>(4,011)</u>	<u>10,569</u>
	68,069	(14,340)	82,409	37,983	(4,378)	42,361
Total net deferred tax liabilities	(668,679)	(50,275)	(618,404)	(636,571)	(42,473)	(594,098)

Taxable temporary differences recognised for the six months ended 30 June 2016 and 2015 include the effect of depreciation premium on certain property, plant and equipment. A deferred tax liability related to property, plant and equipment was recognised in the amount of RUB 23,632 million and RUB 30,466 million with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the six months ended 30 June 2016 and 2015, respectively.

15 EQUITY

Share capital

Share capital authorised, issued and paid totals RUB 325,194 million as of 30 June 2016 and 31 December 2015 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Russian Rubles.

Treasury shares

As of 30 June 2016 and 31 December 2015 subsidiaries of PJSC Gazprom held 723 million of the ordinary shares of PJSC Gazprom, which are accounted for as treasury shares. The management of the Group controls the voting rights of these shares.

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16 SALES

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
Gas sales gross of excise tax and customs duties to customers in:				
Russian Federation	128,545	138,731	420,395	425,284
Former Soviet Union (excluding Russian Federation)	54,205	80,890	182,139	254,698
Europe and other countries	<u>583,982</u>	<u>547,110</u>	<u>1,399,940</u>	<u>1,249,813</u>
	766,732	766,731	2,002,474	1,929,795
Customs duties	(115,679)	(133,654)	(266,707)	(283,322)
Excise tax	(7,727)	(16,719)	(20,480)	(44,931)
Retroactive gas price adjustments ¹	<u>39,091</u>	<u>795</u>	<u>39,984</u>	<u>17,220</u>
Sales of gas	682,417	617,153	1,755,271	1,618,762
Sales of refined products to customers in:				
Russian Federation	234,842	247,414	449,923	461,269
Former Soviet Union (excluding Russian Federation)	21,559	25,807	42,162	47,835
Europe and other countries	<u>109,127</u>	<u>123,701</u>	<u>211,383</u>	<u>252,499</u>
Total sales of refined products	365,528	396,922	703,468	761,603
Sales of crude oil and gas condensate to customers in:				
Russian Federation	18,079	20,021	35,980	39,577
Former Soviet Union (excluding Russian Federation)	9,031	8,510	14,131	16,838
Europe and other countries	<u>63,910</u>	<u>42,610</u>	<u>116,438</u>	<u>74,237</u>
Total sales of crude oil and gas condensate	91,020	71,141	166,549	130,652
Electric and heat energy sales	88,722	84,524	236,292	217,728
Gas transportation sales	48,176	46,114	95,772	90,621
Other revenues	<u>51,145</u>	<u>49,345</u>	<u>107,020</u>	<u>94,086</u>
Total sales	<u>1,327,008</u>	<u>1,265,199</u>	<u>3,064,372</u>	<u>2,913,452</u>

¹ Retroactive gas price adjustments relate to gas deliveries in 2013-2015 for which a discount has been agreed or is in the process of negotiations. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made. The effects of retroactive gas price adjustments on sales for the three and six months ended 30 June 2016 as an increase of sales by RUB 39,091 million and RUB 39,984 million, respectively. The effects are due to recognition of adjustments increasing gas prices for the past periods and due to a decrease in related accruals following agreements reached prior to the issuance of the respective consolidated interim condensed financial information. The effects of retroactive gas price adjustments on sales for the three and six months ended 30 June 2015 as an increase of sales by RUB 795 million and RUB 17,220 million, respectively, due to a decrease in related accruals following agreements reached prior to the issuance of the respective consolidated interim condensed financial information.

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17 OPERATING EXPENSES

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
Purchased gas and oil	281,318	184,715	627,258	391,851
Taxes other than on income	211,835	194,924	429,493	429,063
Staff costs	163,791	144,584	333,876	289,681
Transit of gas, oil and refined products	137,880	118,222	303,790	242,826
Depreciation	140,167	126,364	282,115	250,635
Materials	69,846	71,198	129,477	128,941
Cost of goods for resale, including refined products	44,674	50,434	76,089	92,273
Charge for impairment provisions	15,275	(140)	63,424	29,573
Foreign exchange rate differences on operating items	20,664	32,734	63,319	50,178
Repairs and maintenance	42,317	34,569	61,828	54,595
Electricity and heating expenses	21,375	19,784	44,954	45,295
Rental expenses	9,142	11,286	18,023	20,449
Transportation services	8,620	11,961	15,808	20,205
Insurance expenses	7,443	5,210	14,699	12,475
Social expenses	7,972	7,904	14,418	13,367
Research and development expenses	5,801	7,725	13,076	13,335
Derivatives losses (gains)	17,978	(1,756)	10,203	(16,046)
Processing services	3,496	4,370	7,821	9,073
Other	87,433	80,868	150,307	171,201
	<u>1,297,027</u>	<u>1,104,956</u>	<u>2,659,978</u>	<u>2,248,970</u>
Changes in inventories of finished goods, work in progress and other effects	<u>(70,194)</u>	<u>(52,326)</u>	<u>20,754</u>	<u>(24,755)</u>
Total operating expenses	<u>1,226,833</u>	<u>1,052,630</u>	<u>2,680,732</u>	<u>2,224,215</u>

Staff costs include RUB 11,269 million and RUB 22,480 million of expenses associated with post-employment benefit obligations for the three and six months ended 30 June 2016, respectively, and RUB 8,506 million and RUB 17,042 million of expenses associated with post-employment benefit obligations for the three and six months ended 30 June 2015, respectively (see Note 20).

18 FINANCE INCOME AND EXPENSES

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
Foreign exchange gains	268,073	352,746	645,632	1,007,461
Interest income	<u>28,856</u>	<u>26,882</u>	<u>54,636</u>	<u>55,842</u>
Total finance income	296,929	379,628	700,268	1,063,303
Foreign exchange losses	116,086	252,582	331,278	922,390
Interest expense	<u>14,749</u>	<u>13,252</u>	<u>36,109</u>	<u>27,032</u>
Total finance expenses	130,835	265,834	367,387	949,422

Total interest paid amounted to RUB 41,065 million and RUB 98,327 million for the three and six months ended 30 June 2016, respectively, and RUB 37,368 million and RUB 87,404 million for the three and six months ended 30 June 2015, respectively.

Foreign exchange gains and losses for the six months ended 30 June 2016 and 2015 were recognised as a result of changes in rates of Euro and US Dollar against the Russian Rouble. Gains and losses primarily relate to revaluation of borrowings denominated in foreign currencies.

19 BASIC AND DILUTED EARNINGS PER SHARE, ATTRIBUTABLE TO OWNERS OF PJSC GAZPROM

Earnings per share attributable to owners of PJSC Gazprom have been calculated by dividing the profit, attributable to owners of PJSC Gazprom by the weighted average number of shares outstanding during the period, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 15).

There were 23.0 billion weighted average shares outstanding for the three and six months ended 30 June 2016 and 2015, respectively.

There are no dilutive financial instruments outstanding in the Group.

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20 PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2016	31 December 2015
Provision for post-employment benefit obligations	322,002	233,077
Provision for decommissioning and site restoration costs	159,723	160,648
Other	<u>52,831</u>	<u>41,713</u>
Total provisions for liabilities and charges	534,556	435,438

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

The net pension liabilities related to benefits, provided by the pension plan NPF Gazfund in the amount of RUB 54,969 million and RUB 6,980 million as of 30 June 2016 and 31 December 2015, respectively, are presented within provisions for liabilities and charges in the consolidated interim condensed balance sheet.

In accordance with IAS 19 Employee benefits, pension assets are recorded at estimated fair value subject to certain limitations. As of 30 June 2016 and 31 December 2015 management estimated the fair value of these assets at RUB 364,363 million and RUB 349,585 million, respectively. The pension assets comprise shares of PJSC Gazprom, shares of Gazprombank (Joint-stock Company) and other assets held by NPF Gazfund.

Provision for post-employment benefit obligations recognised in the consolidated interim condensed balance sheet is provided below.

	30 June 2016		31 December 2015	
	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits
Present value of benefit obligations	(419,332)	(267,033)	(356,565)	(226,097)
Fair value of plan assets	<u>364,363</u>	<u>-</u>	<u>349,585</u>	<u>-</u>
Net balance liability	(54,969)	(267,033)	(6,980)	(226,097)

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

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
Current service cost	5,722	6,612	11,444	13,224
Net interest expense	<u>5,547</u>	<u>1,894</u>	<u>11,036</u>	<u>3,818</u>
Total expenses included in staff costs	11,269	8,506	22,480	17,042

The principal assumptions used for post-employment benefit obligations for the six months ended 30 June 2016 were the same as those applied for the year ended 31 December 2015 with exception of the discount rate based on interest rates of government securities. The decrease in the discount rate from 9.5 % to 8.3% resulted in recognition of an actuarial loss of RUB 74,579 million in other comprehensive income for the six months ended 30 June 2016.

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

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
Actuarial losses	(50,343)	(44,528)	(74,579)	(73,883)
Return on assets excluding amounts included in net interest income (expense)	2,289	(19,552)	(4,378)	(44,545)
Exchange differences	<u>210</u>	<u>-</u>	<u>332</u>	<u>-</u>
Total	(47,844)	(64,080)	(78,625)	(118,428)

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21 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market closing prices at the reporting date.

b) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using various valuation techniques, primarily based on market or income approach, such as discounted cash flows valuation method. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on Group specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

c) Financial instruments in Level 3

If one or more of the significant inputs in the valuation model used to fair value an instrument is not based on observable market data, the instrument is included in Level 3.

Long-term accounts receivables are fair valued at Level 3 (see Note 11), long-term borrowings – Level 2 (see Note 13).

As of 30 June 2016 and 31 December 2015 the Group had the following assets and liabilities that are measured at fair value:

	30 June 2016			Total
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non- observable inputs (Level 3)	
Financial assets held for trading:				
Equity securities	305	-	-	305
Bonds	11,306	-	-	11,306
Available-for-sale financial assets:				
Equity securities	1,162	-	-	1,162
Promissory notes	<u>-</u>	<u>434</u>	-	<u>434</u>
Total short-term financial assets	12,773	434	-	13,207
Available-for-sale financial assets:				
Equity securities	206,983	40,578	6,857	254,418
Promissory notes	<u>-</u>	<u>437</u>	<u>-</u>	<u>437</u>
Total available-for-sale long-term financial assets	206,983	41,015	6,857	254,855
Derivatives	<u>10,941</u>	<u>123,064</u>	<u>1,722</u>	<u>135,727</u>
Total assets	230,697	164,513	8,579	403,789
Derivatives	<u>16,691</u>	<u>179,375</u>	<u>654</u>	<u>196,720</u>
Total liabilities	16,691	179,375	654	196,720

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21 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	31 December 2015			Total
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non- observable inputs (Level 3)	
Financial assets held for trading:				
Equity securities	303	-	-	303
Bonds	9,673	-	-	9,673
Available-for-sale financial assets:				
Equity securities	2,032	-	-	2,032
Bonds	146	-	-	146
Promissory notes	-	416	-	416
Total short-term financial assets	12,154	416	-	12,570
Available-for-sale financial assets:				
Equity securities	188,142	40,584	6,710	235,436
Promissory notes	-	171	-	171
Total available-for-sale long-term financial assets	188,142	40,755	6,710	235,607
Derivatives	7,079	167,630	4,931	179,640
Total assets	207,375	208,801	11,641	427,817
Derivatives	16,135	259,391	3,782	279,308
Total liabilities	16,135	259,391	3,782	279,308

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the period. For the three and six months ended 30 June 2016 the Group has not reclassified losses arising from decrease in fair value of available-for-sale financial assets from other comprehensive income to profit or loss. For the three and six months ended 30 June 2015 the Group has not reclassified losses arising from decrease in fair value of available-for-sale financial assets from other comprehensive income to profit or loss.

Financial assets held for trading primarily comprise marketable equity and debt securities intended to generate short-term profits through trading.

Available-for-sale long-term financial assets in total amount of RUB 254,855 million and RUB 235,607 million are shown net of allowance for impairment of RUB 2,307 million and RUB 2,128 million as of 30 June 2016 and 31 December 2015, respectively.

As of 30 June 2016 and 31 December 2015 long-term available-for-sale financial assets include OJSC NOVATEK shares in the amount of RUB 198,809 million and RUB 181,611 million, respectively.

Carrying value of financial assets and liabilities not measured at fair value approximate their fair value.

22 ACQUISITION OF SUBSIDIARIES

Asset swap with Wintershall Holding GmbH

On 30 September 2015 PJSC Gazprom and Wintershall Holding GmbH completed the asset swap which was initially agreed in December 2013. The Swap Agreement has retroactive economic effect starting from 1 April 2013.

According to the Swap Agreement 25.01 % of interest in the capital of LLC Achim Development and 9 % of ordinary shares, one class A preference share and one class B preference share of JSC Achim Trading which were recognised under other non-current assets in the consolidated financial statements of the Group have been transferred to Wintershall Holding GmbH in return for the 100 % of the interest in WIBG GmbH and for 50 % of the interest in Wintershall Noordzee B.V. and Wintershall Services B.V. WIBG GmbH holds an equity interest of 50.02 % and 50 % in W & G Beteiligungs-GmbH & Co. KG and in WIEH GmbH & Co. KG, respectively.

The preliminary compensation payments from Wintershall Holding GmbH amounted to EUR 45 million (RUB 3,204 million – translated at the rate as of 30 June 2016).

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22 ACQUISITION OF SUBSIDIARIES (continued)

Prior to the swap transaction the Group held an equity interest of 49.98 % in W & G Beteiligungs-GmbH & Co. KG and of 50 % in WIEH GmbH & Co. KG. These subgroups were accounted for using the equity method. In addition at the acquisition date the Group held an equity interest of 33.33 % in WINGAS Storage UK Ltd., in which W & G Beteiligungs-GmbH & Co. KG held an equity interest of 50 %.

In substance, the Group acquired the remaining shares in the natural gas trading and storage companies W & G Beteiligungs-GmbH & Co. KG and WIEH GmbH & Co. KG and in their subsidiaries. Consequently as of 30 September 2015, the Group obtained control over these companies.

The acquired 50 % interests in Wintershall Noordzee B.V. and Wintershall Services B.V. are accounted for using the equity method since the acquisition date.

The following table summarizes the fair values of transferred assets at the acquisition date:

	<u>Fair value</u>
Fair value of transferred shares and investments accounted for using the equity method before the business combination	64,059
Pre-existing relationships	25,885
Preliminarily compensation payments	<u>(2,170)</u>
Total	<u>87,774</u>

In accordance with IFRS 3 Business combinations the Group measured shares of LLC Achim Development and JSC Achim Trading at fair value evaluated by an independent appraiser CJSC Deloitte & Touche CIS at the acquisition date.

Previously held by the Group investments in W & G Beteiligungs-GmbH & Co. KG, WIEH GmbH & Co. KG and WINGAS Storage UK Ltd. were measured at fair value at the acquisition date.

In accordance with IFRS 3 Business Combinations, the Group recognised the acquired assets and liabilities based upon their provisional fair values. Final fair value should be recognised in the consolidated financial statements within twelve months of the acquisition date. All changes in fair values will be recorded retrospectively from the acquisition date.

Provisional fair value of assets acquired and liabilities assumed is provided below.

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22 **ACQUISITION OF SUBSIDIARIES (continued)**

	<u>Fair value</u>
Current assets	
Cash and cash equivalents	24,247
Accounts receivable and prepayments	117,414
Inventories	<u>47,658</u>
	189,319
Non-current assets	
Property, plant and equipment	45,500
Investments in associates and joint ventures	956
Long-term accounts receivable and prepayments	40,175
Other non-current assets	<u>9,078</u>
	95,709
Total assets	285,028
Current liabilities	
Accounts payable, accruals and provisions for liabilities and charges	104,150
Short-term borrowings, promissory notes and current portion of long-term borrowings	<u>29,066</u>
	133,216
Non-current liabilities	
Long-term borrowings, promissory notes	179
Provisions for liabilities and charges	18,679
Deferred tax liabilities	4,865
Other non-current liabilities	<u>30,184</u>
	53,907
Total liabilities	187,123
Net assets at the acquisition date	97,905

Preliminary result of the asset swap is as follows:

	<u>Fair value</u>
Fair value of transferred assets including preliminarily compensation payments	87,774
Non-controlling interest measured at its proportionate share of the acquirees' net assets	262
Fair value of acquired assets	<u>97,905</u>
Gain from a bargain purchase	9,869

The gain from a bargain purchase identified as the excess of the fair value of assets acquired and liabilities assumed over the fair value of transferred assets is mainly related to the decrease of the energy market prices since the conception of the transaction.

Acquisition of Shtokman Development AG

In July 2015 the Group became an owner of the 100 % of shares of Shtokman Development AG. Before the acquisition date the Group held an equity interest of 75 % in the company and accounted the investment as a joint venture using the equity method. At the acquisition date the investment in Shtokman Development AG was fully impaired. The impairment allowance amounted to RUB 27,378 million.

The Group acquired remaining 25 % of the shares of Shtokman Development AG from Total Shtokman B.V. for 25 thousand Swiss Franc (RUB 2 million) according to the terms of the Shareholder Agreement. The payment was made by the cash.

According to IFRS 3 Business combinations the Group recognised the acquired assets and liabilities assumed based upon their provisional fair values. Final fair value should be recognised in the consolidated financial statements within twelve months of the acquisition date. All changes in fair values will be recorded retrospectively from the acquisition date.

In compliance with IFRS 3 Business combinations preliminary estimate of fair value of construction in progress is recognised as nil. As at the date of assessment decisions concerning the use of the assets of Shtokman Development AG under construction are not made.

Provisional fair value of acquired assets and liabilities assumed of Shtokman Development AG is provided below.

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22 ACQUISITION OF SUBSIDIARIES (continued)

	<u>Fair value</u>
Current assets	
Cash and cash equivalents	1,767
Accounts receivable and prepayments	38
Inventories	1
VAT recoverable	<u>216</u>
	2,022
Non-current assets	
Property, plant and equipment	252
Long-term accounts receivable and prepayments	32
Other non-current assets	<u>8</u>
	292
Total assets	2,314
Current liabilities	
Accounts payable, accruals and provisions for liabilities and charges	30
Other tax payable	<u>9</u>
	39
Non-current liabilities	
Provisions for liabilities and charges	321
Other non-current liabilities	<u>14</u>
	335
Total liabilities	374
Net assets at the acquisition date	1,940
Acquisition cost	<u>2</u>
Gain from a bargain purchase	1,938

23 RELATED PARTIES

For the purpose of this consolidated interim condensed financial information, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding is detailed below.

Government (the Russian Federation)

The Government of the Russian Federation is the ultimate controlling party of PJSC Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50 % in PJSC Gazprom.

The Government does not prepare consolidated financial statements for public use. The Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

As a condition of privatization in 1992, the Government of the Russian Federation imposed an obligation on the Group to provide an uninterrupted supply of gas to customers in the Russian Federation at government controlled prices.

Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities under the Government control.

As of 30 June 2016 prices of natural gas sales, gas transportation and electricity tariffs in the Russian Federation are regulated by the Federal Antimonopoly Service ("FAS"). Until 21 July 2015 these functions were performed by the Federal Tariffs Service.

Bank loans with related parties are provided on the basis of market rates. Taxes are accrued and settled in accordance with the applicable statutory rules.

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23 RELATED PARTIES (continued)

As of 30 June 2016 and 31 December 2015 and for the three and six months ended 30 June 2016 and 2015, the Group had the following significant transactions and balances with the Government and parties under control of the Government.

	As of 30 June 2016		Three months ended 30 June 2016		Six months ended 30 June 2016	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	43,434	1,743	-	33,964	-	99,253
Insurance contributions to non-budget funds	344	10,194	-	27,289	-	57,457
VAT recoverable / payable	353,811	64,847	-	-	-	-
Customs duties	23,620	-	-	-	-	-
Other taxes	2,124	94,892	-	209,636	-	425,941
Transactions and balances with other parties under control of the Government						
Gas sales	-	-	12,861	-	40,805	-
Electricity and heating sales	-	-	37,097	-	108,404	-
Gas transportation sales	-	-	10,712	-	22,433	-
Other services sales	-	-	721	-	1,449	-
Accounts receivable	46,535	-	-	-	-	-
Oil and refined products transportation expenses	-	-	-	25,565	-	57,427
Accounts payable	-	12,735	-	-	-	-
Loans	-	292,182	-	-	-	-
Interest expense	-	-	-	2,466	-	8,613
Short-term financial assets	11,415	-	-	-	-	-
Available-for-sale long-term financial assets	8,150	-	-	-	-	-
<hr/>						
	As of 31 December 2015		Three months ended 30 June 2015		Six months ended 30 June 2015	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	78,678	3,816	-	45,020	-	114,095
Insurance contributions to non-budget funds	688	7,369	-	28,287	-	59,839
VAT recoverable / payable	400,295	54,990	-	-	-	-
Customs duties	46,446	-	-	-	-	-
Other taxes	2,411	85,132	-	193,237	-	426,708
Transactions and balances with other parties under control of the Government						
Gas sales	-	-	12,013	-	36,888	-
Electricity and heating sales	-	-	36,867	-	97,969	-
Gas transportation sales	-	-	10,707	-	21,230	-
Other services sales	-	-	1,183	-	1,757	-
Accounts receivable	40,431	-	-	-	-	-
Oil and refined products transportation expenses	-	-	-	30,509	-	57,491
Accounts payable	-	14,062	-	-	-	-
Loans	-	300,003	-	-	-	-
Interest expense	-	-	-	3,801	-	6,925
Short-term financial assets	9,859	-	-	-	-	-
Available-for-sale long-term financial assets	6,485	-	-	-	-	-

Gas sales and respective accounts receivable, oil transportation expenses and respective accounts payable included in the table above are related to major state controlled companies.

In the normal course of business the Group incurs electricity and heating expenses (see Note 17). A part of these expenses relates to purchases from the entities under Government control. Due to the specifics of the electricity market in the Russian Federation, these purchases can not be accurately separated from the purchases from private companies.

See the consolidated interim condensed statement of changes in equity for returns of social assets to governmental authorities during the six months ended 30 June 2016 and 2015. See Note 9 for net book values as of 30 June 2016 and 31 December 2015 of social assets vested to the Group at privatisation.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on

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23 RELATED PARTIES (continued)

the management bodies of various Group companies. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company.

Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel.

Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and a one-time retirement payment from the Group.

Employees of the majority of Group companies are eligible for such benefits.

The Group provided medical insurance and liability insurance for key management personnel.

Associates and joint ventures

For the three and six months ended 30 June 2016 and 2015 and as of 30 June 2016 and 31 December 2015 the Group had the following significant transactions and balances with associates and joint ventures.

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	Revenues		Revenues	
Gas sales				
Panrusgaz Gas Trading Plc	9,075	13,382	18,253	30,029
JSV Moldovagaz	3,821	4,727	14,502	18,791
VEMEX s.r.o. and its subsidiaries	3,687	711	9,370	1,787
Bosphorus Gaz Corporation A.S.	1,075	2,718	8,554	8,198
KazRosGaz LLP	1,137	-	6,149	-
JSC Latvijas Gaze	1,830	2,001	4,133	3,936
CJSC Gazprom YRGM Trading ¹	1,722	3,380	3,632	7,068
JSC Gazprom YRGM Development ¹	1,552	2,414	3,274	5,048
PremiumGas S.p.A	1,731	-	2,634	-
SGT EuRoPol GAZ S.A.	1,143	1,336	2,390	2,757
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries ²	-	36,982	-	75,529
WIEH GmbH & Co. KG ²	-	28,618	-	69,175
Gasum OY ³	-	4,285	-	14,422
Overgaz Inc. AD	-	662	-	2,809
WIEE AG ²	-	-	-	1,344
Gas transportation sales				
CJSC Gazprom YRGM Trading ¹	2,747	5,287	5,794	11,058
JSC Gazprom YRGM Development ¹	2,476	3,776	5,222	7,898
KazRosGaz LLP	593	477	1,395	1,098
Gas condensate, crude oil and refined products sales				
OJSC NGK Slavneft and its subsidiaries	12,314	13,154	21,500	25,769
JSC SOVEKS	789	1,251	1,379	2,084
Sakhalin Energy Investment Company Ltd.	332	112	1,260	1,139
LLC NPP Neftekhimia	411	707	1,149	1,301
LLC Poliom	252	656	770	1,246
Operator services sales and other services sales				
JSC Messoyakhanefegas	1,120	8,826	2,821	13,223
Gas refining services sales				
KazRosGaz LLP	1,837	1,384	4,098	2,969

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	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	Expenses		Expenses	
Purchased gas				
LLC SeverEnergiya and its subsidiaries	13,567	11,552	25,679	20,057
KazRosGaz LLP	8,560	10,809	16,516	23,306
CJSC Gazprom YRGM Trading ¹	5,666	13,764	12,883	31,542
JSC Gazprom YRGM Development ¹	5,120	9,838	11,631	22,546
Sakhalin Energy Investment Company Ltd.	2,520	3,418	4,868	9,126
CJSC Northgas	2,163	2,150	4,383	4,298
VEMEX s.r.o. and its subsidiaries	377	3	2,676	20
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries ²	-	14,430	-	36,772
Purchased transit of gas				
Nord Stream AG	19,653	15,887	41,416	34,822
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	7,990	6,102	16,024	13,356
SGT EuRoPol GAZ S.A.	3,845	3,689	8,130	7,953
JSV Moldovagaz	797	414	1,818	1,248
Purchased crude oil and refined products				
OJSC NGK Slavneft and its subsidiaries	25,309	26,846	44,136	51,887
Sakhalin Energy Investment Company Ltd.	6,178	29	8,431	2,387
Purchased services of gas and gas condensate extraction				
JSC Achimgaz	5,121	6,155	14,409	15,001
Purchased processing services				
OJSC NGK Slavneft and its subsidiaries	2,957	3,149	6,331	6,720

¹ CJSC Gazprom YRGM Trading and JSC Gazprom YRGM Development are not associates and joint ventures.

² In September 2015 W & G Beteiligungs-GmbH & Co. KG and its subsidiaries, WIEH GmbH & Co. KG (formerly Wintershall Erdgas Handelshaus GmbH & Co. KG), WIEE AG (formerly Wintershall Erdgas Handelshaus Zug AG) became subsidiaries of the Group (see Note 22).

³ In January 2016 PJSC Gazprom has sold its equity interest of 25 % in Gasum OY to the Government of Finland for EUR 251 million.

Gas is sold to and purchased from associates in the Russian Federation mainly at the rates established by the FAS. Gas is sold and purchased outside the Russian Federation mainly under long-term contracts at prices indexed mainly to world oil product prices. The Group sells to and purchases oil from related parties in the ordinary course of business at prices close to average market prices.

	As of 30 June 2016		As of 31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
JSC Messoyakhaneftegaz	23,445	-	19,742	-
OJSC NGK Slavneft and its subsidiaries	8,903	-	8,415	-
Overgaz Inc. AD	6,759	-	8,813	-
Panrusgas Gas Trading Plc	5,062	-	7,434	-
Gazprombank (Joint-stock Company) and its subsidiaries	2,482	-	35,831	-
Wintershall AG	2,309	-	3,064	-
CJSC Gazprom YRGM Trading	1,573	-	2,756	-
JSC Gazprom YRGM Development	1,418	-	1,968	-
VEMEX s.r.o.	1,557	-	1,790	-
KazRosGaz LLP	1,025	-	842	-
Sakhalin Energy Investment Company Ltd.	679	-	1,149	-
JSV Moldovagaz ¹	273	-	4,435	-
Gasum OY	-	-	2,579	-

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23 RELATED PARTIES (continued)

	As of 30 June 2016		As of 31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Cash balances				
Gazprombank (Joint-stock Company) and its subsidiaries	718,529	-	883,194	-
Long-term accounts receivable and prepayments				
JSC Messoyakhaneftegaz	30,379	-	15,172	-
LLC Yamal razvitie	12,339	-	1,460	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	14,236	-	15,933	-
Wintershall Noordzee B.V.	5,350	-	3,742	-
Etzel Kavernenbetriebsgesellschaft mbH & Co. KG	4,307	-	4,695	-
Gazprombank (Joint-stock Company) and its subsidiaries	3,643	-	255	-
Short-term accounts payable				
Nord Stream AG	-	6,419	-	7,170
LLC SeverEnergia and its subsidiaries	-	5,411	-	5,755
KazRosGaz LLP	-	3,545	-	3,370
OJSC NGK Slavneft and its subsidiaries	-	3,472	-	1,510
CJSC Gazprom YRGM Trading	-	2,321	-	7,739
JSC Gazprom YRGM Development	-	2,113	-	5,690
JSC Achimgaz	-	1,980	-	4,506
Sakhalin Energy Investment Company Ltd.	-	1,343	-	854
SGT EuRoPol GAZ S.A.	-	1,426	-	2,710
JSC Latvijas Gaze	-	163	-	1,806
Gasum OY	-	-	-	2,260
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint-stock Company) and its subsidiaries	-	28,021	-	15,635
Long-term borrowings				
Gazprombank (Joint-stock Company) and its subsidiaries	-	83,281	-	114,793

¹ Net of impairment allowance on accounts receivable in the amount of RUB 352,282 million and RUB 380,942 million as of 30 June 2016 and 31 December 2015, respectively.

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

Financial guarantees issued by the Group for the associates and joint ventures are disclosed in Note 24.

24 COMMITMENTS AND CONTINGENCIES

Taxation

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 30 June 2016 is appropriate and all of the Group's material tax, currency and customs positions will be sustainable.

Legal proceedings

On 16 June 2014 PJSC Gazprom submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against NJSC Naftogaz Ukraine to recover unpaid debt for gas supplied under the Contract No. KP dated 19 January 2009 regarding sale and purchase of natural gas in the years 2009-2019 (the "Contract No. KP"), and related interest charged. On 12 June 2015 PJSC Gazprom submitted to arbitration a review on the claim from NJSC Naftogaz Ukraine and new counter-claim, in which clarified its claims totalling to USD 29,200 million. On 9 October 2015 NJSC Naftogaz Ukraine sent a response on the claim from PJSC Gazprom. On 14 March 2016 PJSC Gazprom sent an answer on the response of NJSC Naftogaz Ukraine and increased the claim amount to USD 31,750 million.

At the same time on 16 June 2014 NJSC Naftogaz Ukraine submitted a request for arbitration to the Arbitration

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24 COMMITMENTS AND CONTINGENCIES (continued)

Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom seeking a retroactive revision of the price, compensation of all overpaid amounts starting from 20 May 2011 and cancellation of the Contract No. KP prohibition on reexport of natural gas out of Ukraine. The clarified claims of NJSC Naftogaz Ukraine to PJSC Gazprom amounted to over USD 14,230 million.

On 21 July 2014 both cases were consolidated. Oral hearing of the case is expected in September – October 2016. Decision of the arbitration panel is scheduled to the end of March 2017.

On 13 October 2014 NJSC Naftogaz 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 Ukraine under Contract dated 19 January 2009 No. TCGU (the “Contract No. TCGU”) on volumes and terms of gas transportation through Ukraine in the years 2009-2019 should be transferred to PJSC Ukrtransgaz;

(2) to acknowledge that certain provisions of the Contract No. TCGU, 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 (“EU”);

(3) to oblige PJSC Gazprom to pay a compensation of USD 3,200 million and related interest to NJSC Naftogaz Ukraine for the failure to provide gas for transit;

(4) to acknowledge that the transit tariff stipulated in the Contract No. TCGU should be revised in such a way as provided in further written statements of NJSC Naftogaz Ukraine in line with key principles of the Swedish contractual law.

On 28 November 2014 PJSC Gazprom filed its response to the request of arbitration. On 11 December 2014 the arbitration panel was formed. On 28 January 2015 the arbitration court made a decision not to combine the case with the above ones. On 30 April 2015 NJSC Naftogaz Ukraine filed a claim, significantly increasing the amount of the claims, according to various estimates, up to USD 11,000-16,000 million. Oral hearing of the case is expected late November-early December 2016 and decision of the arbitration panel is expected by the end of March 2017.

On 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders’ agreement with AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5,000 million compensation (as of 30 June 2016 – RUB 103,119 million). PJSC Gazprom did not agree to the claims and on 9 November 2012, filed with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, response to the request for arbitration. Arbitration panel was formed and hearing on the merits took place from 1 to 9 July 2015. On 30 September 2015 the parties submitted additional written opinions based on the analysis of the hearing materials including witness statement and expert statement. On 22 June 2016 the arbitration court made a final decision which rejects all claims raised by the Ministry of Energy of the Republic of Lithuania, including claims on unfair pricing of gas which PJSC Gazprom supplied to Lithuania in 2006-2015.

In August 2012 the European Commission launched a formal stage of investigation into a potential breach of the EU antimonopoly law by PJSC Gazprom. In April 2015 the European Commission adopted a Statement of Objections in the course of the ongoing antitrust investigation of PJSC Gazprom activity in the EU. The European Commission extended the deadline for providing a formal response to the Statement of objections until September 2015. In September 2015 PJSC Gazprom filed its proposal of antitrust investigation settlement to the European Commission. In December 2015 PJSC Gazprom’s representatives and the European Commission took part in closed-door oral hearings where PJSC Gazprom provided arguments which rendered the raised claims groundless. An oral hearing is just one of the stages of the ongoing antitrust investigation. Currently the parties continue discussing ways of reaching mutually satisfactory solution. PJSC Gazprom considers the claims brought by the European Commission to be unsubstantiated and expects the situation to be resolved in accordance with the agreement reached earlier between the Government of the Russian Federation and the European Commission. Currently it’s impossible to assess a potential negative impact of this ongoing investigation on activity of PJSC Gazprom in Europe and on financial position of PJSC Gazprom.

On 16 December 2015 South Stream Transport B.V., the subsidiary of the Group, was served with an official notification by the Secretariat of the Arbitration Court of the International Chamber of Commerce stating that Saipem S.p.A. submitted a request for arbitration against South Stream Transport B.V. in view of unilateral termination by the latter of the agreement dated 14 March 2014 for the construction of the “South Stream”

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pipeline. In its request Saipem S.p.A. claimed to receive as a compensation for the work performed reimbursements for the expenses incurred and for the termination of the agreement in the amount of about EUR 760 million plus interest (as of 30 June 2016 – RUB 54,120 million). On 16 February 2016 South Stream Transport B.V. sent a response to the request of Saipem S.p.A. for arbitration, where it rejected all the claims raised by Saipem S.p.A. and declared its intention to file a counterclaim. Saipem S.p.A. in its response as of 8 April 2016 to the counter-claim of South Stream Transport B.V. declared the groundlessness of the accusations. Currently the Arbitral Tribunal has been formed, parties and the Tribunal have agreed on the schedule of the arbitration. Saipem S.p.A. is to submit its claim in its entirety with all attachments before 30 September 2016.

On 25 January 2016 the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of Ukrainian hryvnia 85,966 million (as of 30 June 2016 – RUB 222,247 million) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed an action with the Kiev Economic Court against the decision of the Antimonopoly Committee of Ukraine. On 13 April 2016 the action was returned unconsidered on formal grounds. On 4 May 2016 PJSC Gazprom filed an appeal with the Kiev Economic Court of Appeal which left the primary court's award unchanged based on the decision of 18 May 2016. On 7 June 2016 PJSC Gazprom filed a cassation appeal with the Ukraine's Higher Economic Court. The proceedings have not been scheduled. On 13 July 2016 the Ukraine's Higher Economic Court dismissed the appeal of PJSC Gazprom and affirmed the ruling of the court of first appearance and the decision of appeals instance. At present PJSC Gazprom is exploring legal options for further protection of its rights.

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

The Group is also a party to certain other legal proceedings arising in the ordinary course of business and subject to various environmental laws regarding handling, storage, and disposal of certain products, regulation by various governmental authorities. Management believes, there are no such current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group.

Sanctions

In 2014 and 2015 the EU, the United States ("U.S.") and some other countries introduced a series of sanctions against the Russian Federation and some Russian entities. Some of these sanctions are aimed directly against PJSC Gazprom, PJSC Gazprom Neft and other companies, including Gazprombank (Joint-stock Company), and some of them include general restrictions of economic activity in certain sectors of the Russian economy.

The U.S. sanctions prohibit any U.S. person, and U.S. incorporated entities (including their foreign branches) or any person or entity in the U.S. or related with the territory of U.S. from:

- 1) transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity or newly issued share capital, property or rights to property in respect of a number of Russian energy companies, including PJSC Gazprom Neft;
- 2) to carry out operations, to provide funding or otherwise make transactions related to new borrowings with maturity of longer than 30 days or newly issued share capital, property or rights to property of a number of Russian companies of the banking sector, including Gazprombank (Joint-stock Company) (PJSC Gazprom is not on the list of restricted entities in this respect);
- 3) providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of potential exploration and production of oil in deep water, Arctic offshore, or shale formations in the Russian Federation, or in territorial waters claimed by the Russian Federation with participation of Russian companies, including PJSC Gazprom and PJSC Gazprom Neft. Since 7 August 2015 restriction includes the Yuzhno-Kirinskoye field located in the Sea of Okhotsk.

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U.S. sanctions apply to any entity, in the capital of which the companies from the sanctions list directly or indirectly, individually or in the aggregate, own 50 or more percent interest in capital.

PJSC Gazprom is not expressly stated in the number of entities against whom the EU sanctions are imposed. However, PJSC Gazprom Neft and Gazprombank (Joint-stock Company), as well as their subsidiaries in which they own more than 50 percent interest in capital are subject to certain financial restrictions imposed by the EU.

The sanctions imposed by the EU prohibit all citizens of countries-EU members, as well as to all legal entities and bodies established or created under the laws of the country-a member of the EU (both within the EU and abroad), as well as all legal entities, bodies in connection with any economic activities carried out in whole or in part within the EU:

1) provision of drilling, well testing, logging and completion and services and supply of specialised floating vessels necessary for deep water oil exploration and production, and (or) Arctic oil exploration and production, and shale oil projects in Russia, as well as the direct or indirect financing, financial assistance, technical and brokerage services in relation to these activities;

2) purchasing, selling, providing investment services for or assistance in the issuance of, or other dealings with transferable securities and money market instruments with a maturity of more than 90 days issued from 1 August 2014 to 12 September 2014 or more than 30 days, issued after 12 September 2014 by certain Russian companies in banking sector, including Gazprombank (Joint-stock Company), excluding PJSC Gazprom;

3) purchase, sale, provision of investment services for or assisting in the issuance of, or other dealings with transferable securities and money market instruments issued by some Russian energy companies, including PJSC Gazprom Neft but excluding PJSC Gazprom, after 12 September 2014 with maturity of more than 30 days;

4) providing after 12 September 2014 directly or indirectly or being part of any arrangement to make new loans or credit with a maturity of more than 30 days to a number of Russian companies (including PJSC Gazprom Neft and Gazprombank (Joint-stock Company) but excluding PJSC Gazprom), except for loans or credit that have a specific and documented objective to provide financing for non-prohibited imports or exports of goods and non-financial services between the EU and the Russian Federation or for loans that have a specific and documented objective to provide emergency funding to meet solvency and liquidity criteria for legal entities established in the EU, whose proprietary rights are owned for more than 50 percent by any entity referred to above.

These EU sanctions also apply to any entity if 50 percent or more of its capital is owned, directly or indirectly, separately or in the aggregate, by sanctioned entities.

Canada and a number of other states also imposed sanctions against some Russian individuals and entities, including PJSC Gazprom, PJSC Gazprom Neft and other oil and gas companies of the Russian Federation. Sanctions imposed by Canada prohibit any person in Canada and any Canadian citizen to transact in, provide financing for, or otherwise deal in new debt with maturity of more than 90 days for a number of Russian energy companies, including PJSC Gazprom and PJSC Gazprom Neft. In addition, there is the ongoing restriction on the export, sale and delivery by persons in Canada, Canadians and located outside the territory of Canada of certain goods to Russia or any person in Russia, if such goods are used for deep-water oil exploration (at a depth of more than 500 meters), for the exploration and production of oil in the Arctic, as well as the exploration and production of shale oil.

The Group is currently assessing an influence of adopted economic measures on its financial position and results of activity.

Financial guarantees

	30 June 2016	31 December 2015
Outstanding guarantees issued for:		
Ostchem Holding Limited	54,712	61,404
Blackrock Capital Investments Limited	7,303	9,946
Other	<u>37,452</u>	<u>36,001</u>
Total financial guarantees	<u>99,467</u>	<u>107,351</u>

For the six months ended 30 June 2016 and in 2015 counterparties fulfilled their obligations.

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Included in financial guarantees are amounts denominated in US Dollars of USD 163 million and USD 1,018 million as of 30 June 2016 and 31 December 2015, respectively, as well as amounts denominated in Euros of EUR 72 million and EUR 72 million as of 30 June 2016 and 31 December 2015, respectively.

In December 2014 the Group provided a guarantee to Gazprombank (Joint-stock Company) related to debts from Ostchem Holding Limited under the credit facility for financing of operating activities. As of 30 June 2016 and 31 December 2015 the above guarantee amounted to RUB 54,712 million (USD 851 million) and RUB 61,404 million (USD 843 million), respectively, and was fully provided. Change in the value of guarantee is mainly attributed to the exchange difference between US Dollar and Russian Ruble. In June 2016 the Group signed an amendment agreement with Gazprombank (Joint-stock Company) according to which the amount of the guarantee was converted into Russian Rubles at the conversion rate agreed between the parties.

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) in respect of bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by SGT EuRoPol GAZ S.A. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. In December 2015 loans issued by EM Interfinance Limited were redeemed. As a result as of 30 June 2016 and 31 December 2015 the guarantees issued for Blackrock Capital Investments Limited and EM Interfinance Limited amounted to RUB 7,303 million (USD 114 million) and RUB 9,946 million (USD 136 million), respectively.

Capital commitments

The total investment program related to gas, oil and power assets for 2016 is RUB 1,544,789 million.

25 POST BALANCE SHEET EVENTS

Borrowings and loans

In July 2016 the Group signed agreement to obtain long-term loan from Gazprombank (Joint-stock Company) in the total amount of RUB 10,000 million at an interest rate of 10.4 % due in 2019. In July and August 2016 under that agreement the Group obtained RUB 3,000 million.

In August 2016 the Group issued Russian bonds in the amount of RUB 15,000 million at an interest rate of 9.4 % due in 2046. Under the terms of the bonds bondholders can execute the right of early redemption in 2021.

Other

On 15 July 2016 the Group signed an agreement with GC Vnesheconombank on acquisition of PJSC Gazprom's ordinary shares and American depositary receipts representing PJSC Gazprom's ordinary shares. This transaction would have led to a decrease in the number of PJSC Gazprom's ordinary shares, outstanding as of 30 June 2016, excluding treasury shares, by 3.7 %. The acquisition of the securities under the agreement would have led to a decrease in the consolidated balance sheet total of the Group by 0.8 % as of 30 June 2016.

PJSC GAZPROM
INVESTORS RELATIONS

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