

# The Power Within









**PJSC Gazprom  
Statutory Financial Statements  
for 2016**

4

PJSC Gazprom Statutory Financial Statements for 2016

**PJSC Gazprom  
IFRS Consolidated Financial Statements  
31 December 2016**

78

PJSC Gazprom IFRS consolidated financial statements

# **I PJSC Gazprom Statutory Financial Statements for 2016**

<b>Auditor's Report on Financial Statements</b>	<b>6</b>
<b>Balance Sheet as at 31 December 2016</b>	<b>9</b>
<b>Statement of Financial Results for 2016</b>	<b>13</b>
<b>Statement of Changes in Equity for 2016</b>	<b>15</b>
<b>Cash Flow Statement for 2016</b>	<b>19</b>
<b>Explanatory Notes to the Balance Sheet and the Statement of Financial Results</b>	<b>22</b>
<b>Explanatory Notes to the Balance Sheet and the Statement of Financial Results in the Statutory Financial Statements for 2016</b>	<b>38</b>

To the Shareholders of PJSC Gazprom

**Audited entity**

Name:

PJSC Gazprom

Officially registered at:

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

State registration certificate:

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

**Auditor**

Name:

FBK, LLC

Officially registered at:

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

State registration certificate:

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

Membership in the Self-regulatory organization of auditors:

Self-regulatory organization of auditors Association "Sodruzhestvo".

Certificate of membership in the Self-regulatory organization of auditors:

Self-regulatory organization of auditors Association "Sodruzhestvo" No. 7198, major registration record number (ORNZ) – 11506030481.

**TRANSLATION NOTE:** Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version.



We have audited the accompanying financial statements of PJSC Gazprom which comprise the balance sheet as at 31 December 2016 and the statement of financial results, supplements to the balance sheet and the statement of financial results, including statement of changes in equity and statement of cash flows for 2016, explanatory notes to the balance sheet and the statement of financial results.

### **PJSC Gazprom's responsibility for the financial statements**

PJSC Gazprom's management is responsible for the preparation and fair presentation of these financial statements in accordance with the reporting rules established in the Russian Federation and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **The auditor's responsibility**

Our responsibility is to express an opinion on the fair presentation of the financial statements based on our audit. We conducted our audit in accordance with the Federal Auditing Standards. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of PJSC Gazprom, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

**TRANSLATION NOTE:** Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PJSC Gazprom as at 31 December 2016, and the results of its financial performance and its cash flows for 2016 in accordance with the reporting rules established in the Russian Federation.

President of FBK, LLC

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

Audit engagement leader

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

28 March 2017

**TRANSLATION NOTE:** Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version.

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

	Codes
Form on OKUD	0710001
Date (day, month, year)	31 / 12 / 2016
OKPO	00040778
INN	7736050003
OKVED	46.71
OKOPF/OKFS	1.22.47/31
OKEI	384

Notes	Narrative	Line code	As at 31.12.2016	As at 31.12.2015	As at 31.12.2014
	<b>Assets</b>				
	<b>I. Non-current assets</b>				
1	Intangible assets, including:	1110	14,943,622	11,928,912	7,664,168
	intellectual property rights	1111	10,380,086	11,384,863	7,571,638
	other	1119	4,563,536	544,049	92,530
1	Results of research and development	1120	2,592,483	3,485,123	3,466,656
9	Intangible exploration assets	1130	118,447,844	111,637,226	112,010,828
9	Tangible exploration assets	1140	51,031,638	41,453,750	31,147,477
2	Fixed assets, including:	1150	7,882,970,562	6,853,878,774	6,722,373,558
	Fixed assets items, including:	1151	7,074,753,340	6,365,470,264	6,434,475,251
	land plots and natural resources	1152	1,636,604	1,216,137	1,130,192
	buildings, facilities, machinery and equipment	1153	6,964,137,222	6,288,764,815	6,356,206,635
	Capital investments in progress	1154	808,217,222	488,408,510	287,898,307
3	Financial investments, including:	1170	2,627,861,799	2,190,246,138	2,012,614,153
	investments in subsidiaries	1171	2,213,259,543	1,821,054,810	1,649,835,127
	investments in associates	1172	79,335,522	83,717,503	99,909,279
	investments in other entities	1173	245,711	261,708	713,080
	loans provided to companies for a period over 12 months	1174	105,566,573	145,516,964	194,595,652
	Deferred tax assets	1180	76,713,188	66,975,644	32,927,070
	Other non-current assets	1190	28,019,533	11,701,269	8,872,650
	<b>Total Section I</b>	1100	10,802,580,669	9,291,306,836	8,931,076,560

Form on OKUD 0710001 p.2

Notes	Narrative	Line code	As at 31.12.2016	As at 31.12.2015	As at 31.12.2014
	<b>Assets</b>				
	<b>II. Current assets</b>				
4	Inventories, including:	1210	488,887,199	539,864,750	491,437,777
	raw materials and other inventories	1211	4,986,831	4,607,980	3,541,526
	work in progress	1213	303,450,137	332,284,836	298,764,068
	finished goods and goods for resale	1214	176,336,296	199,359,939	186,050,803
	goods dispatched	1215	4,113,842	3,611,902	3,081,347
	Value-added tax on goods purchased	1220	70,158,352	67,036,633	69,933,019
5	Accounts receivable, including:	1230	1,760,887,954	2,515,375,547	1,959,540,653
	Accounts receivable (payments expected beyond 12 months after the reporting date), including:	1231	376,478,314	479,999,297	496,606,800
	buyers and customers	1232	13,181,622	2,061,484	3,837,690
	advances issued	1233	54,183	54,183	–
	other debtors	1234	363,242,509	477,883,630	492,769,110
	Accounts receivable (payments expected within 12 months after the reporting date), including:	1235	1,384,409,640	2,035,376,250	1,462,933,853
	buyers and customers	1236	686,122,308	827,675,095	567,356,737
	advances issued	1238	93,276,639	50,890,997	42,191,697
	other debtors	1239	605,010,693	1,156,810,158	853,385,419
3	Financial investments (except for cash equivalents), including:	1240	275,335,693	58,053,162	70,045,548
	loans provided to companies for a period less than 12 months	1241	175,249,890	57,884,402	48,486,396
	Cash and cash equivalents, including:	1250	451,992,484	506,973,421	725,100,916
	cash on hand	1251	25,184	27,062	16,993
	settlement accounts	1252	214,232,806	278,070,685	471,860,061
	foreign currency accounts	1253	235,975,248	227,226,726	253,136,708
	other cash and cash equivalents	1259	1,759,246	1,648,948	87,154
	Other current assets	1260	3,103,408	2,637,608	2,600,651
	<b>Total Section II</b>	1200	3,050,365,090	3,689,941,121	3,318,658,564
	<b>BALANCE</b>	1600	13,852,945,759	12,981,247,957	12,249,735,124

Form on OKUD 0710001 p.3

Notes	Narrative	Line code	As at 31.12.2016	As at 31.12.2015	As at 31.12.2014
	<b>Equity and liabilities</b>				
	<b>III. Equity and reserves</b>				
	Charter capital	1310	118,367,564	118,367,564	118,367,564
	Own shares buy-back	1320	–	–	–
	Revaluation of non-current assets	1340	5,885,950,326	5,022,862,838	5,025,377,538
	Additional paid-in capital (without revaluation)	1350	–	–	–
	Reserve capital	1360	8,636,001	8,636,001	8,636,001
	Retained earnings (loss)	1370	4,401,046,356	4,172,472,437	3,936,832,017
	Social government fund	1380	–	–	–
	<b>Total Section III</b>	1300	10,414,000,247	9,322,338,840	9,089,213,120
	<b>IV. Non-current liabilities</b>				
	Borrowings and bank loans, including:	1410	1,443,879,533	1,698,237,066	1,368,217,117
	bank loans due for repayment beyond 12 months	1411	245,528,212	193,196,529	43,313,605
	other borrowings due for repayment beyond 12 months	1412	1,198,351,321	1,505,040,537	1,324,903,512
	Deferred tax liabilities	1420	476,146,936	386,301,729	334,312,526
7	Estimated liabilities	1430	7,829,183	–	–
5	Other liabilities	1450	2,411,398	2,494,107	2,602,174
	<b>Total Section IV</b>	1400	1,930,267,050	2,087,032,902	1,705,131,817

Form on OKUD 0710001 p.3

Notes	Narrative	Line code	As at 31.12.2016	As at 31.12.2015	As at 31.12.2014
	<b>V. Current liabilities</b>				
	Borrowings and bank loans, including:	1510	662,360,662	793,301,130	756,735,637
	bank loans due for repayment within 12 months	1511	–	–	26,695,588
	other borrowings due for repayment within 12 months	1512	80,308,249	38,906,644	33,037,483
	current portion of long-term borrowings and bank loans	1513	582,052,413	754,394,486	697,002,566
5	Accounts payable, including:	1520	755,889,069	672,170,249	639,986,936
	suppliers and contractors	1521	588,032,679	540,330,045	489,778,400
	salaries payable	1522	373,397	334,264	264,874
	payable to state non-budget funds	1523	202,493	151,780	90,525
	taxes payable	1524	76,234,645	24,314,332	14,679,988
	other creditors, including:	1525	90,144,808	106,103,114	134,521,188
	advances from customers	1527	57,782,735	67,734,771	106,110,006
	other settlements	1528	32,362,073	38,368,343	28,411,182
	dividends payable to participants (shareholders)	1529	901,047	936,714	651,961
	Future periods income	1530	–	–	–
7	Estimated liabilities	1540	90,428,731	106,404,836	58,667,614
	Other liabilities	1550	–	–	–
	<b>Total Section V</b>	1500	1,508,678,462	1,571,876,215	1,455,390,187
	<b>BALANCE</b>	1700	13,852,945,759	12,981,247,957	12,249,735,124

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

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

28 March 2017

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

	Codes
Form on OKUD	0710002
Date (day, month, year)	31 / 12 / 2016
OKPO	00040778
INN	7736050003
OKVED	46.71
OKOPF/OKFS	1.22.47/31
OKEI	384

Notes	Narrative	Line code	For 2016	For 2015
	<b>Sales (less VAT, excise tax and similar mandatory payments)</b>	2110	3,934,488,441	4,334,293,477
	including:			
	gas	2111	2,659,749,091	3,054,378,800
	leased assets	2112	730,571,086	728,068,425
	gas transportation services	2113	238,779,014	247,468,705
	oil and gas refinery products	2114	210,129,340	212,161,740
	gas condensate	2115	71,457,134	73,606,812
	other goods, products, works and services	2116	20,866,275	15,952,002
	gas storage services	2117	2,936,501	2,656,993
6	<b>Cost of sales</b>	2120	(2,230,262,682)	(2,265,357,118)
	including:			
	gas	2121	(982,142,299)	(1,052,429,220)
	leased assets	2122	(726,367,167)	(717,876,095)
	gas transportation services	2123	(250,709,084)	(265,592,456)
	oil and gas refinery products	2124	(172,322,696)	(145,063,161)
	gas condensate	2125	(68,559,323)	(61,131,205)
	other goods, products, works and services	2126	(28,894,376)	(22,031,664)
	gas storage services	2127	(1,267,737)	(1,233,317)
	<b>Gross profit (loss)</b>	2100	1,704,225,759	2,068,936,359
6	Selling expenses	2210	(1,277,777,675)	(1,168,530,262)
6	Administrative expenses	2220	(93,774,165)	(88,466,076)
	<b>Profit (loss) from sales</b>	2200	332,673,919	811,940,021
	Income from participation in other entities	2310	139,211,136	271,096,308
	Interest receivable	2320	67,912,187	76,266,778
	Interest payable	2330	(119,740,422)	(117,347,453)

Form on OKUD 0710002 p.2

Notes	Narrative	Line code	For 2016	For 2015
	Other income	2340	4,495,250,616	4,133,324,118
	Other expenses	2350	(4,283,878,698)	(4,740,790,461)
	<b>Profit (loss) before taxation</b>	2300	631,428,738	434,489,311
	<b>Income tax, including:</b>	2405	(142,476,890)	(14,074,835)
	current income tax	2410	(142,454,223)	(14,074,273)
	prior year income tax	2411	(22,667)	(562)
	<i>including permanent tax liabilities (assets) from line 2405</i>	2421	126,002,972	(1,131,436)
	Changes in deferred tax liabilities	2430	(87,845,118)	(52,227,130)
	Changes in deferred tax assets	2450	4,963,281	34,335,376
	Other	2460	1,978,606	(209,957)
	Reallocation of income tax within the CGT	2465	3,375,980	1,210,041
	<b>Net profit (loss)</b>	2400	411,424,597	403,522,806

Form on OKUD 0710002 p.3

Notes	Narrative	Line code	For 2016	For 2015
	Result of revaluation of non-current assets not included to the net profit (loss) for the period	2510	866,958,142	–
	Results of other transactions not included to the net profit (loss) for the period	2520	62,685	52,207
	Cumulative financial result for the period	2500	1,278,445,424	403,575,013
	REFERENCE:			
	Basic earnings (loss) per share (RUB)	2900	17.38	17.05
	Basic diluted earnings (loss) per share	2910	–	–

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

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

28 March 2017



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

	Codes
Form on OKUD	0710003
Date (day, month, year)	31 / 12 / 2016
OKPO	00040778
INN	7736050003
OKVED	46.71
OKOPF/OKFS	1.22.47/31
OKEI	384

## 1. Changes in equity

Narrative	Line code	Charter capital	Own shares buy-back	Additional capital	Reserve capital	Retained earnings (loss)	Social government fund	Total
<b>Equity as at 31 December 2014</b>	3100	118,367,564	–	5,025,377,538	8,636,001	3,936,832,017	–	9,089,213,120
<b>For 2015</b>								
<b>Increase in equity – total, including:</b>	3210	–	–	–	–	403,575,013	–	403,575,013
net profit	3211	X	X	X	X	403,522,806	X	403,522,806
revaluation of assets	3212	X	X	–	X	–	–	–
income directly attributable to equity	3213	X	X	–	X	52,207	X	52,207
additional shares issue	3214	–	X	–	X	X	X	–
increase in share par value	3215	–	X	–	X	–	X	–
reorganisation of legal entity	3216	–	–	–	–	–	–	–
placement of buy-backed shares	3217	X	–	X	X	X	X	–
other	3219	–	–	–	–	–	X	–
<b>Decrease in equity – total, including:</b>	3220	–	–	–	–	(170,449,293)	–	(170,449,293)
loss	3221	X	X	X	X	–	X	–
revaluation of assets	3222	X	X	–	X	–	–	–
expenses directly attributable to equity	3223	X	X	X	X	–	–	–
decrease in share par value	3224	–	X	X	X	–	X	–
decrease in number of shares	3225	–	–	X	X	X	X	–
reorganisation of legal entity	3226	–	–	–	–	–	–	–
dividends	3227	X	X	X	X	(170,449,293)	X	(170,449,293)
other	3229	–	–	–	–	–	X	–

Form on OKUD 0710003 p.2

Narrative	Line code	Charter capital	Own shares buy-back	Additional capital	Reserve capital	Retained earnings (loss)	Social government fund	Total
Additional capital change	3230	X	X	(2,514,700)	X	2,514,700	X	–
Reserve capital change	3240	X	X	X	–	–	X	–
<b>Equity as at 31 December 2015</b>	3200	118,367,564	–	5,022,862,838	8,636,001	4,172,472,437	–	9,322,338,840
<b>For 2016</b>								
<b>Increase in equity – total, including:</b>	3310	–	–	870,845,670	–	411,487,282	–	1,282,332,952
net profit	3311	X	X	X	X	411,424,597	X	411,424,597
revaluation of assets	3312	X	X	870,845,670	X	X	–	870,845,670
income directly attributable to equity	3313	X	X	–	X	62,685	X	62,685
additional shares issue	3314	–	X	–	X	X	X	–
increase in share par value	3315	–	X	–	X	–	X	–
reorganisation of legal entity	3316	–	–	–	–	–	–	–
placement of buy-backed shares	3317	X	–	X	X	X	X	–
other	3319	–	–	–	–	–	X	–
<b>Decrease in equity – total, including:</b>	3320	–	–	(3,887,528)	–	(186,784,017)	–	(190,671,545)
loss	3321	X	X	X	X	–	X	–
revaluation of assets	3322	X	X	(3,887,528)	X	X	–	(3,887,528)
expenses directly attributable to equity	3323	X	X	X	X	–	–	–
decrease in share par value	3324	–	X	X	X	–	X	–
decrease in number of shares	3325	–	–	X	X	X	X	–
reorganisation of legal entity	3326	–	–	–	–	–	–	–
dividends	3327	X	X	X	X	(186,784,017)	X	(186,784,017)
other	3329	–	–	–	–	–	X	–
Additional capital change	3330	X	X	(3,870,654)	X	3,870,654	X	–
Reserve capital change	3340	X	X	X	–	–	X	–
<b>Equity as at 31 December 2016</b>	3300	118,367,564	–	5,885,950,326	8,636,001	4,401,046,356	–	10,414,000,247

Form on OKUD 0710003 p.3

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

Narrative	Line code	As at 31 December 2014	Change in equity for 2015		As at 31 December 2015
			From net profit (loss)	Due to other factors	
<b>Equity – total before restatement</b>	3400	9,089,213,120	403,522,806	(170,397,086)	9,322,338,840
restatement due to:					
changes in accounting policies	3410	–	–	–	–
correction of accounting errors	3420	–	–	–	–
after restatement	3500	9,089,213,120	403,522,806	(170,397,086)	9,322,338,840
including:					
<b>Retained earnings (loss) before restatement</b>	3401	3,936,832,017	403,522,806	(167,882,386)	4,172,472,437
restatement due to:					
changes in accounting policies	3411	–	–	–	–
correction of accounting errors	3421	–	–	–	–
after restatement	3501	3,936,832,017	403,522,806	(167,882,386)	4,172,472,437
<b>Additional capital before restatement</b>	3402	5,025,377,538	–	(2,514,700)	5,022,862,838
restatement due to:					
changes in accounting policies	3412	–	–	–	–
correction of accounting errors	3422	–	–	–	–
after restatement	3502	5,025,377,538	–	(2,514,700)	5,022,862,838
<b>Reserve capital before restatement</b>	3403	8,636,001	–	–	8,636,001
restatement due to:					
changes in accounting policies	3413	–	–	–	–
correction of accounting errors	3423	–	–	–	–
after restatement	3503	8,636,001	–	–	8,636,001
<b>Own shares buy-back before restatement</b>	3404	–	–	–	–
restatement due to:					
changes in accounting policies	3414	–	–	–	–
correction of accounting errors	3424	–	–	–	–
after restatement	3504	–	–	–	–
<b>Social government fund before restatement</b>	3405	–	–	–	–
restatement due to:					
changes in accounting policies	3415	–	–	–	–
correction of accounting errors	3425	–	–	–	–
after restatement	3505	–	–	–	–

Form on OKUD 0710003 p.4

**3. Net assets**

Narrative	Line code	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Net assets	3600	10,414,000,247	9,322,338,840	9,089,213,120

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

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

28 March 2017

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

	Codes
Form on OKUD	0710004
Date (day, month, year)	31 / 12 / 2016
OKPO	00040778
INN	7736050003
OKVED	46.71
OKOPF/OKFS	1.22.47/31
OKEI	384

Narrative	Line code	For reporting period	For the same period of the prior year
<b>Cash flows from operating activities</b>			
<b>Receipts – total, including:</b>	4110	5,188,167,787	4,728,851,572
sales of products, goods, work and services	4111	4,706,944,240	4,440,537,307
rent payments, license payments, royalties, commissions and other payments	4112	–	–
resale of financial investments	4113	–	–
other receipts	4119	481,223,547	288,314,265
<b>Payments – total, including:</b>	4120	(4,183,927,855)	(4,049,555,002)
to suppliers for raw materials, works, services	4121	(2,782,542,330)	(2,793,760,058)
wages and salaries	4122	(40,124,474)	(36,603,750)
interests on borrowings	4123	(113,223,285)	(111,994,733)
income tax	4124	(56,588,662)	(56,064,328)
other payments	4129	(1,191,449,104)	(1,051,132,133)
<b>Net cash flows from operating activities</b>	4100	1,004,239,932	679,296,570

Form on OKUD 0710004 p.2

Narrative	Line code	For reporting period	For the same period of the prior year
<b>Cash flows from investing activities</b>			
<b>Receipts – total, including:</b>	4210	307,407,138	358,534,202
from sales of non-current assets (except for financial investments)	4211	943,715	879,118
from sales of shares of other entities (ownership interest)	4212	44,925,071	6,131,833
from return of loans issued, sales of debt securities (rights of claiming cash from third parties)	4213	63,309,482	101,911,904
dividends, interest from long-term financial investments and receipts from participation in other entities	4214	193,321,323	247,855,122
from sales of exploration assets	4215	–	–
other receipts	4219	4,907,547	1,756,225
<b>Payments – total, including:</b>	4220	(1,132,734,763)	(1,037,076,175)
acquisition, construction, modernisation, reconstruction and preparation for the use of non-current assets	4221	(63,458,573)	(37,784,249)
acquisition of other entities shares (ownership interest)	4222	(29,872,861)	(203,697,781)
acquisition of debt securities (rights of claiming cash from third parties), issue of loans to third parties	4223	(344,000,603)	(82,888,712)
borrowing costs included in the cost of the investment asset	4224	–	–
construction/acquisition of exploration assets	4225	(51,884,160)	(27,688,910)
other payments	4229	(643,518,566)	(685,016,523)
<b>Net cash flows from investing activities</b>	4200	(825,327,625)	(678,541,973)
<b>Cash flows from financing activities</b>			
<b>Receipts – total, including:</b>	4310	370,856,555	309,758,112
borrowings and bank loans	4311	370,814,825	309,745,273
contributions of owners (participants)	4312	–	–
issue of shares, increase in ownership interest	4313	–	–
issue of bonds, promissory notes and other debt securities, etc.	4314	–	1,284
other receipts	4319	41,730	11,555

Form on OKUD 0710004 p.3

Narrative	Line code	For reporting period	For the same period of the prior year
<b>Payments – total, including:</b>	4320	(516,691,526)	(573,542,349)
to owners (participants) due to the fact of share buy-back or cessation of membership	4321	–	–
dividends payments or other distribution of profit to owners (participants)	4322	(183,250,569)	(167,340,747)
redemption (buy-back) of promissory notes and other debt securities, loan repayment	4323	(333,440,957)	(406,150,047)
other payments	4329	–	(51,555)
<b>Net cash flows from financing activities</b>	4300	(145,834,971)	(263,784,237)
<b>Net cash flows for the reporting period</b>	4400	33,077,336	(263,029,640)
<b>Cash and cash equivalents at the beginning of the reporting period</b>	4450	506,973,421	725,100,916
<b>Cash and cash equivalents at the end of the reporting period</b>	4500	451,992,484	506,973,421
<b>Effect of changes in the Russian rouble exchange rate</b>	4490	(88,058,273)	44,902,145

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

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

28 March 2017

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

### 1.1 The presence and movement of intangible assets

Narrative	Line code	Period	At the beginning of the year		Changes for the period					At the end of the period		
			Initial cost	Accumulated amortisation and impairment losses	Additions	Disposals		Amortisation charge	Impairment loss	Revaluation		
						Initial cost	Accumulated amortisation and impairment losses			Initial cost	Accumulated amortisation and impairment losses	
Intangible assets – total	5100	for 2016	13,799,978	(2,415,115)	436,253	(1,887)	1,887	(1,441,030)	–	–	14,234,344	(3,854,258)
	5110	for 2015	9,026,991	(1,455,353)	4,772,987	–	–	(959,762)	–	–	13,799,978	(2,415,115)
	including:											
Intellectual property (exclusive rights to intellectual property)	5101	for 2016	13,799,978	(2,415,115)	436,253	(1,887)	1,887	(1,441,030)	–	–	14,234,344	(3,854,258)
	5111	for 2015	9,026,991	(1,455,353)	4,772,987	–	–	(959,762)	–	–	13,799,978	(2,415,115)
Goodwill	5102	for 2016	–	–	–	–	–	–	–	–	–	–
	5112	for 2015	–	–	–	–	–	–	–	–	–	–
Other	5104	for 2016	–	–	–	–	–	–	–	–	–	–
	5114	for 2015	–	–	–	–	–	–	–	–	–	–

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

Narrative	Line code	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Total	5120	14,221,235	13,785,604	9,013,499
including:				
Intellectual property (exclusive rights to intellectual property)	5121	14,221,235	13,785,604	9,013,499
Other	5129	–	–	–



Form on OKUD 0710005 p. 2

### 1.3 Intangible assets fully amortised

Narrative	Line code	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Total	5130	1,658,213	1,435,409	1,315,477
including:				
Intellectual property (exclusive rights to intellectual property)	5131	1,658,213	1,435,409	1,315,477
Goodwill	5138	–	–	–
Other	5139	–	–	–

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

Narrative	Line code	Period	At the beginning of the year		Changes for the period		At the end of the period	
			Initial cost	Part of the cost recognised in expenses	Additions	Disposals	Part of the cost recognised in expenses	Initial cost
Research and Development – total	5140	for 2016	31,989,482	(28,523,049)	3,736,232	(5,224,221)	5,224,221	30,501,493
	5150	for 2015	27,690,461	(24,245,881)	4,792,019	(492,998)	492,998	31,989,482
								(28,523,049)

Form on OKUD 0710005 p. 3

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

Narrative	Line code	Period	At the beginning of the year	Costs for the period		Changes for the period		At the end of the period
				Costs for the period	Written off to expenses (without positive results)	Recognised as intangible assets or R&D		
Costs of R&D in progress – total	5160	for 2016	18,690	3,729,641	(7,929)	(3,736,232)		4,170
	5170	for 2015	22,076	4,794,255	(5,622)	(4,792,019)		18,690
Acquisitions of intangible assets in progress – total	5180	for 2016	544,049	4,455,740	–	(436,253)		4,563,536
	5190	for 2015	92,530	5,224,604	(98)	(4,772,987)		544,049

## 2. Fixed assets

### 2.1 The presence and movement of fixed assets

Narrative	Line code	Period	At the beginning of the year		Changes for the period						At the end of the period	
			Initial cost	Accumulated depreciation	Additions	Disposals		Depreciation	Reclassification <sup>1</sup>		Initial cost	Accumulated depreciation
						Initial cost	Accumulated depreciation		Initial cost	Accumulated depreciation		
Fixed assets (less income – bearing investments in tangible asset) – total	5200	for 2016	18,981,151,204	(12,615,680,940)	483,677,772	(22,328,409)	18,449,336	(633,448,851)	78,971	(32,514)	2,856,240,981	(1,993,354,210)
	5210	for 2015	18,439,700,859	(12,005,225,608)	558,675,187	(17,538,130)	15,109,902	(625,251,946)	313,288	(313,288)	–	–
including:												
Trunk pipelines	5201	for 2016	11,581,231,656	(8,249,917,641)	112,578,750	(4,773,354)	4,051,672	(303,747,272)	(15,961)	13,393	1,717,575,277	(1,249,048,677)
	5211	for 2015	11,401,959,910	(7,945,389,434)	180,510,442	(2,779,357)	2,577,018	(306,666,107)	1,540,661	(439,118)	–	–
Wells	5202	for 2016	1,473,147,174	(1,165,141,438)	31,124,708	(5,899,657)	5,857,145	(45,214,647)	5,047	(918)	176,406,982	(145,434,011)
	5212	for 2015	1,461,651,716	(1,122,057,135)	18,433,434	(5,276,367)	5,064,478	(48,705,238)	(1,661,609)	556,457	–	–
Machinery and equipment	5203	for 2016	2,748,045,071	(1,957,965,100)	139,935,288	(6,476,285)	5,778,066	(146,635,628)	571	(32)	471,170,389	(378,363,208)
	5213	for 2015	2,573,826,844	(1,822,015,599)	179,380,081	(5,169,412)	4,815,787	(140,761,824)	7,558	(3,464)	–	–
Buildings, roads and other production facilities	5204	for 2016	3,086,035,991	(1,226,670,898)	164,497,695	(3,183,875)	2,156,080	(133,812,652)	89,885	(44,989)	484,396,900	(217,614,275)
	5214	for 2015	2,910,591,949	(1,102,361,616)	179,174,402	(4,164,596)	2,522,216	(126,400,871)	434,236	(430,627)	–	–
Other fixed assets	5205	for 2016	92,691,312	(15,985,863)	35,541,331	(1,995,238)	606,373	(4,038,652)	(571)	32	6,691,433	(2,894,039)
	5215	for 2015	91,670,440	(13,401,824)	1,176,828	(148,398)	130,403	(2,717,906)	(7,558)	3,464	–	–
including land		for 2016	1,216,137	–	193,711	–	–	–	–	–	226,756	–
		for 2015	1,130,192	–	91,656	(5,711)	–	–	–	–	–	–
Included within income-bearing investments in tangible assets – total	5220	for 2016	–	–	–	–	–	–	–	–	–	–
	5230	for 2015	–	–	–	–	–	–	–	–	–	–
including:												
Trunk pipelines	5221	for 2016	–	–	–	–	–	–	–	–	–	–
	5231	for 2015	–	–	–	–	–	–	–	–	–	–
Wells	5222	for 2016	–	–	–	–	–	–	–	–	–	–
	5232	for 2015	–	–	–	–	–	–	–	–	–	–
Machinery and equipment	5223	for 2016	–	–	–	–	–	–	–	–	–	–
	5233	for 2015	–	–	–	–	–	–	–	–	–	–
Buildings, roads and other production facilities	5224	for 2016	–	–	–	–	–	–	–	–	–	–
	5234	for 2015	–	–	–	–	–	–	–	–	–	–
Other fixed assets	5225	for 2016	–	–	–	–	–	–	–	–	–	–
	5235	for 2015	–	–	–	–	–	–	–	–	–	–

<sup>1</sup> including property received under the financial lease agreement

## 2.2 Capital investments in progress

Narrative	Line code	Period	At the beginning of the year	Changes for the period			At the end of the period
				Costs for the period	Written off	Recognised as fixed assets or increased costs	
Construction and activity in progress on acquisition, modernisation etc. of fixed assets – total	5240	for 2016	488,408,510	868,284,068	(37,813,802)	(483,668,959)	808,217,222
including:							
construction in progress	5241	for 2016	387,122,669	763,382,036	(37,796,400)	(483,668,959)	628,872,279
	5251	for 2015	235,366,433	729,661,713	(19,120,834)	(558,675,187)	387,122,669
equipment for installation	5242	for 2016	101,285,841	104,902,032	(17,402)	–	179,344,943
	5252	for 2015	52,531,874	72,991,489	–	–	101,285,841

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

Narrative	Line code	For 2016	For 2015
Increase in the cost of fixed assets as a result of completion, equipping, reconstruction – total	5260	3,623,169	11,274,332
including:			
Trunk pipelines	5261	125,761	814,381
Wells	5262	2,094,917	6,129,172
Machinery and equipment	5263	741,854	3,756,948
Buildings and roads	5264	69,909	164,138
Other fixed assets	5265	590,728	409,693
Reducing the cost of fixed assets as a result of partial liquidation – total	5270	(464,737)	(382,450)
including:			
Trunk pipelines	5271	(268,974)	(188,123)
Wells	5272	(25,678)	(158,651)
Machinery and equipment	5273	(9,092)	(15,894)
Buildings and roads	5274	(96,726)	(5,972)
Other fixed assets	5275	(64,267)	(13,810)

### 3. Financial investments

Form on OKUD 0710005 p. 7

## investments, including:

Form on OKUD 0710005 p. 7

Form on OKUD 0710005 p. 7

Narrative	Line code	Period	At the beginning of the year		Changes for the period			At the end of the period	
			Initial cost	Accrued adjustment	Additions	Disposals	Other	The current market value (impairment loss)	Initial cost
third party promissory notes	53033	for 2016	-	-	-	-	-	-	-
	53183	for 2015	-	-	-	-	-	-	-
long-term deposits	53034	for 2016	83,957	-	142,374,150	(85,092)	(142,100)	-	142,230,915
	53134	for 2015	20,124,717	-	-	(20,065,408)	24,648	-	83,957
bonds	53035	for 2016	-	-	-	-	-	-	-
	53185	for 2015	-	-	-	-	-	-	-
other	53036	for 2016	107,853,486	-	41,675,914	-	-	-	149,529,400
	53136	for 2015	43,723,379	-	65,547,195	(1,417,088)	-	-	107,853,486
Short-term financial investments – total	5305	for 2016	4,383,012	-	163,113,251	(18,471,012)	-	-	149,025,251
	5315	for 2015	18,093,252	-	11,141,472	(24,851,712)	-	-	4,383,012
including:									
loans provided to companies for a period less than 12 months	5306	for 2016	4,360,517	-	160,497,296	(15,855,057)	-	-	149,002,756
	5316	for 2015	18,070,757	-	8,729,547	(22,439,787)	-	-	4,360,517
Other short-term financial investments, including:	5307	for 2016	22,495	-	2,615,955	(2,615,955)	-	-	22,495
	5317	for 2015	22,495	-	2,411,925	(2,411,925)	-	-	22,495
short-term deposits	53071	for 2016	-	-	-	-	-	-	-
	53171	for 2015	-	-	-	-	-	-	-
third party promissory notes	53072	for 2016	-	-	-	-	-	-	-
	53172	for 2015	-	-	-	-	-	-	-
bonds	53073	for 2016	-	-	-	-	-	-	-
	53173	for 2015	-	-	-	-	-	-	-
other	53074	for 2016	22,495	-	2,615,955	(2,615,955)	-	-	22,495
	53174	for 2015	22,495	-	2,411,925	(2,411,925)	-	-	22,495
<b>Financial investments – total</b>	5300	for 2016	2,157,209,579	91,089,721	683,919,197	(292,932,466)	350,508	283,026,405	2,528,730,858
	5310	for 2015	2,044,659,275	38,000,426	226,212,425	(143,887,818)	30,225,697	45,335,920	2,157,209,579
									91,089,721

Form on OKUD 0710005 p. 8

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

Narrative	Line code	Period	At the beginning of the year			At the end of the period		
			Initial cost	Including current portion	Accrued adjustment	Including current portion	Accrued adjustment	Including current portion
Long-term financial investments – total	5301	for 2016	2,152,826,567	59,046,902	91,089,721	(5,376,752)	2,379,705,607	131,687,194
	5311	for 2015	2,026,566,023	51,952,296	38,000,426	–	2,152,826,567	59,046,902
Investments, including:	5302	for 2016	1,807,891,130	–	97,142,891	–	1,912,489,714	–
	5312	for 2015	1,704,568,032	–	45,889,454	–	1,807,891,130	–
investments in subsidiaries	53021	for 2016	1,718,017,017	–	103,037,793	–	1,827,059,297	–
	53121	for 2015	1,603,570,853	–	46,264,274	–	1,718,017,017	–
investments in associates	53022	for 2016	89,612,244	–	(5,894,741)	–	85,184,553	–
	53122	for 2015	100,283,938	–	(374,659)	–	89,612,244	–
investments in other entities	53023	for 2016	261,869	–	(161)	–	245,864	–
	53123	for 2015	713,241	–	(161)	–	261,869	–
Other long-term financial investments, including:	5303	for 2016	344,935,437	59,046,902	(6,053,170)	(5,376,752)	467,215,893	131,687,194
	5313	for 2015	321,997,991	51,952,296	(7,889,028)	–	344,935,437	59,046,902
loans provided to companies for a period over 12 months	53031	for 2016	204,417,601	58,900,637	(5,376,752)	(5,376,752)	137,190,459	31,623,886
	53131	for 2015	225,011,291	30,415,639	–	–	204,417,601	58,900,637
joint activity	53032	for 2016	32,580,393	–	(676,418)	–	38,265,119	–
	53132	for 2015	33,138,604	–	(7,889,028)	–	32,580,393	–
third party promissory notes	53033	for 2016	–	–	–	–	–	–
	53133	for 2015	–	–	–	–	–	–
long-term deposits	53034	for 2016	83,957	82,957	–	–	142,230,915	100,000,000
	53134	for 2015	20,124,717	20,056,261	–	–	83,957	82,957
bonds	53035	for 2016	–	–	–	–	–	–
	53135	for 2015	–	–	–	–	–	–
other	53036	for 2016	107,853,486	63,308	–	–	149,529,400	63,308
	53136	for 2015	43,723,379	1,480,396	–	–	107,853,486	63,308



### 3.2 Other use of financial investments

Narrative	Line code	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Long-term financial investments pledged – total	5320	–	15,274,472	15,274,472
including:				
investments	5321	–	15,274,472	15,274,472
investments in subsidiaries	53211	–	15,274,472	15,274,472
investments in associates	53212	–	–	–
investments in other entities	53213	–	–	–
other long-term financial investments	5322	–	–	–
third party promissory notes	53221	–	–	–
bonds	53222	–	–	–
other	53223	–	–	–
Long-term financial investments transferred to third parties (except sales) – total	5325	10,000	–	–
including:				
investments	5326	10,000	–	–
investments in subsidiaries	53261	10,000	–	–
investments in associates	53262	–	–	–
investments in other entities	53263	–	–	–
other long-term financial investments	5327	–	–	–
third party promissory notes	53271	–	–	–
bonds	53272	–	–	–
other	53273	–	–	–
Short-term financial investments pledged – total	5328	–	–	–
including:				
third party promissory notes	53281	–	–	–
bonds	53282	–	–	–
other	53283	–	–	–
Short-term financial investments transferred to third parties (except sales) – total	5329	–	–	–
including:				
third party promissory notes	53291	–	–	–
bonds	53292	–	–	–
other	53293	–	–	–

## 4. Inventory

### 4.1 The presence and movement of inventory

Narrative	Line code	Period	At the beginning of the year			Changes for the period				At the end of the period				
			Cost	Provision for impairment in value of inventory	Book value	Additions and expenses	Disposals		Impairment loss	Inventory turnover between groups (types)	Cost	Provision for impairment in value of inventory	Book value	
							Cost	Provision for impairment						
inventory – total	5400	for 2016	539,864,750	–	539,864,750	2,621,533,461	(2,672,511,012)	–	–	–	–	488,887,199	–	488,887,199
	5420	for 2015	491,437,777	–	491,437,777	2,623,300,763	(2,574,878,194)	–	–	4,404	539,864,750	–	539,864,750	
including:														
raw materials and other inventories	5401	for 2016	4,607,980	–	4,607,980	182,093,724	(181,881,007)	–	–	166,134	4,986,831	–	4,986,831	
	5421	for 2015	3,541,526	–	3,541,526	161,417,059	(160,528,198)	–	–	177,593	4,607,980	–	4,607,980	
livestock	5402	for 2016	93	–	93	–	–	–	–	–	93	–	93	
	5422	for 2015	33	–	33	60	–	–	–	–	93	–	93	
work in progress	5403	for 2016	332,284,836	–	332,284,836	1,249,397,215	(459,484,399)	–	–	(818,747,515)	303,450,137	–	303,450,137	
	5423	for 2015	298,764,068	–	298,764,068	1,202,516,186	(455,044,974)	–	–	(713,950,444)	332,284,836	–	332,284,836	
finished goods and goods for resale	5404	for 2016	199,359,939	–	199,359,939	1,190,017,764	(506,516,564)	–	–	(706,524,843)	176,336,296	–	176,336,296	
	5424	for 2015	186,050,803	–	186,050,803	1,259,366,273	(532,597,287)	–	–	(713,459,850)	199,359,939	–	199,359,939	
goods dispatched	5405	for 2016	3,611,902	–	3,611,902	24,758	(1,524,629,042)	–	–	1,525,106,224	4,113,842	–	4,113,842	
	5425	for 2015	3,081,347	–	3,081,347	1,185	(1,426,707,735)	–	–	1,427,237,105	3,611,902	–	3,611,902	



## 5. Accounts receivable and accounts payable

### 5.1 The presence and movement of accounts receivable

Narrative	Line code	Period	At the beginning of the year		Changes for the period							At the end of the period			
			Recognised under the terms of the contract	Provision for doubtful debt	Additions			Disposals			Transfer from long-term to short-term (and vice versa)				
					As a result of transactions	Interest, penalties and other charges due	Provision for doubtful debt	Settlement	Write off to financial result	Recovery of the provision for doubtful debt	Writing off against provision	Recognised under the terms of the contract	Provision for doubtful debt		
Long-term accounts receivable – total	5501	for 2016	481,448,376	(1,449,079)	(1,044,303)	8,918,944	–	(741,334)	–	243,077	–	(110,897,367)	–	377,684,316	(1,206,002)
	5521	for 2015	497,725,349	(1,118,549)	5,258,420	31,199,756	(330,530)	(2,189,413)	–	–	–	(50,545,736)	–	481,448,376	(1,449,079)
including:															
buyers and customers	5502	for 2016	3,510,563	(1,449,079)	(243,077)	–	–	–	–	243,077	–	11,120,138	–	14,387,624	(1,206,002)
	5522	for 2015	4,956,239	(1,118,549)	330,530	–	(330,530)	–	–	–	–	(1,776,206)	–	3,510,563	(1,449,079)
advances issued	5503	for 2016	54,183	–	–	–	–	–	–	–	–	–	–	54,183	–
	5523	for 2015	–	–	54,183	–	–	–	–	–	–	–	–	54,183	–
other debtors	5504	for 2016	477,883,630	–	(801,226)	8,918,944	–	(741,334)	–	–	(122,017,505)	–	363,242,509	–	–
	5524	for 2015	492,769,110	–	4,873,707	31,199,756	–	(2,189,413)	–	–	(48,769,530)	–	477,883,630	–	–
Short-term accounts receivable – total	5510	for 2016	2,600,940,874	(565,564,624)	8,825,879,207	200,002,208	(59,640,219)	(9,834,860,429)	(83,858)	106,839,114	(115,092)	110,897,367	–	1,902,660,277	(518,250,637)
	5530	for 2015	1,848,506,928	(385,573,075)	9,999,739,390	317,157,642	(190,500,357)	(9,614,998,707)	(1,609)	10,500,302	(8,506)	50,545,736	–	2,600,940,874	(565,564,624)
including:															
buyers and customers	5511	for 2016	1,389,950,854	(562,275,759)	4,837,569,782	–	(59,638,009)	(5,015,178,513)	(7,926)	106,822,017	(93,026)	(11,120,138)	–	1,201,121,033	(514,998,725)
	5531	for 2015	952,709,249	(385,352,512)	5,564,721,648	–	(187,423,564)	(5,129,256,234)	–	10,500,302	(15)	1,776,206	–	1,389,950,854	(562,275,759)
advances issued	5512	for 2016	51,073,261	(182,264)	161,782,144	–	(360)	(119,398,163)	(2)	2,023	(21,888)	–	–	93,435,352	(158,713)
	5532	for 2015	42,333,739	(142,042)	160,350,054	–	(40,222)	(151,610,532)	–	–	–	–	–	51,073,261	(182,264)
outstanding participants' (shareholders') contributions to charter capital	5513	for 2016	–	–	–	–	–	–	–	–	–	–	–	–	–
	5533	for 2015	–	–	–	–	–	–	–	–	–	–	–	–	–
other debtors	5514	for 2016	1,159,916,759	(3,106,601)	3,826,527,281	200,002,208	(1,850)	(4,700,283,753)	(75,930)	15,074	(178)	122,017,505	–	608,103,892	(3,093,199)
	5534	for 2015	853,463,940	(78,521)	4,274,667,688	317,157,642	(3,036,571)	(4,334,131,941)	(1,609)	–	(8,491)	48,769,530	–	1,159,916,759	(3,106,601)
Accounts receivable – total	5500	for 2016	3,082,389,250	(567,013,703)	8,824,834,904	208,921,152	(59,640,219)	(9,835,601,763)	(83,858)	107,082,191	(115,092)	–	–	2,280,344,593	(519,456,639)
	5520	for 2015	2,346,232,277	(386,691,624)	10,004,997,810	348,357,398	(190,830,887)	(9,617,188,120)	(1,609)	10,500,302	(8,506)	–	–	3,082,389,250	(567,013,703)

Form on OKUD 0710005 p. 11

## 5.2 Overdue accounts receivable

Narrative	Line code	As at 31 December 2016		As at 31 December 2015		As at 31 December 2014	
		Under a contract	Book value	Under a contract	Book value	Under a contract	Book value
Overdue receivable – total	5540	706,374,235	188,235,705	806,690,284	244,361,668	585,515,554	199,958,571
including:							
buyers and customers	5541	684,481,657	169,595,039	766,474,830	204,419,146	542,890,742	157,554,322
advances issued	5542	1,491,854	1,333,141	2,753,750	2,571,486	630,422	488,380
other debtors	5543	20,400,724	17,307,525	37,461,704	37,371,036	41,994,390	41,915,869

## 5.3 The presence and movement of accounts payable

Narrative	Line code	Period	At the beginning of the year	Changes for the period			Transfer from long-term to short-term (and vice versa)	At the end of the period
				Additions		Disposals		
				As a result of transactions	Interest, penalties and other charges due			
long-term accounts payable – total	5551	for 2016	2,494,107	41,204	–	–	(123,913)	2,411,398
	5571	for 2015	2,602,174	15,846	–	–	(123,913)	2,494,107
including:								
suppliers and contractors	5552	for 2016	–	–	–	–	–	–
	5572	for 2015	–	–	–	–	–	–
promissory notes payable	5553	for 2016	–	–	–	–	–	–
	5573	for 2015	–	–	–	–	–	–
restructured debt to budget and state non-budgetary funds	5554	for 2016	–	–	–	–	–	–
	5574	for 2015	–	–	–	–	–	–
advances from customers	5555	for 2016	–	–	–	–	–	–
	5575	for 2015	–	–	–	–	–	–
other creditors	5556	for 2016	2,494,107	41,204	–	–	(123,913)	2,411,398
	5576	for 2015	2,602,174	15,846	–	–	(123,913)	2,494,107

Form on OKUD 0710005 p. 11

Narrative	Line code	Period	At the beginning of the year	Changes for the period			Transfer from long-term to short-term (and vice versa)	At the end of the period
				Additions	Interest, penalties and other charges due	Disposals		
				As a result of transactions	Settlement	Write off to financial result		
Short-term accounts payable – total	5560	for 2016	672,170,249	5,879,268,022	187,920,375	(5,983,589,636)	123,913	755,889,069
	5580	for 2015	639,986,936	5,956,821,909	171,089,189	(6,095,850,689)	123,913	672,170,249
including:								
suppliers and contractors	5561	for 2016	540,330,045	3,573,818,021	745,977	(3,526,859,191)	–	588,032,679
	5581	for 2015	489,778,400	3,552,687,173	215,118	(3,502,350,625)	–	540,330,045
promissory notes payable	5562	for 2016	–	–	–	–	–	–
	5582	for 2015	–	–	–	–	–	–
salaries payable	5563	for 2016	334,264	49,149,646	–	(49,110,353)	–	373,397
	5583	for 2015	264,874	44,675,515	–	(44,606,028)	–	334,264
payable to state non-budget funds	5564	for 2016	151,780	10,285,959	1	(10,235,247)	–	202,493
	5584	for 2015	90,525	9,433,571	315	(9,372,631)	–	151,780
payable to budget	5565	for 2016	24,314,332	717,232,913	41,698	(665,354,298)	–	76,234,645
	5585	for 2015	14,679,988	729,655,718	13,483	(720,034,857)	–	24,314,332
advances from customers	5566	for 2016	67,734,771	811,792,163	–	(821,743,504)	–	57,782,735
	5586	for 2015	106,110,006	1,105,079,702	–	(1,143,454,259)	–	67,734,771
dividends payable to participants (shareholders)	5567	for 2016	936,714	–	186,784,017	(186,819,684)	–	901,047
	5587	for 2015	651,961	–	170,449,293	(170,164,540)	–	936,714
other creditors	5568	for 2016	38,368,343	716,989,320	348,682	(723,467,359)	123,913	32,362,073
	5588	for 2015	28,411,182	515,290,230	410,980	(505,867,749)	123,913	38,368,343
Accounts payable – total	5550	for 2016	674,664,356	5,879,309,226	187,920,375	(5,983,589,636)	–	758,300,467
	5570	for 2015	642,589,110	5,956,837,755	171,089,189	(6,095,850,689)	–	674,664,356

Form on OKUD 07/0005 p. 12

#### 5.4 Overdue accounts payable

Narrative	Line code	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Overdue payables – total	5590	128,969,191	143,364,213	141,867,986
including:				
suppliers and contractors	5591	124,525,194	141,445,270	135,553,829
promissory notes payable	5592	–	–	–
advances from customers	5593	–	–	–
dividends payable to participants (shareholders)	5594	–	–	–
others creditors	5599	4,443,997	1,918,943	6,314,157

#### 6. Cost of production

Narrative	Line code	For 2016	For 2015
Material costs	5610	1,779,497,978	1,719,735,160
Payroll expenses	5620	43,474,231	41,551,803
Social contributions	5630	9,501,406	8,934,102
Depreciation	5640	628,985,396	630,242,313
Other expenses	5650	178,911,008	153,497,394
Total by cost element	5660	2,640,370,019	2,553,960,772
Change in the balances			
Increase [-]:	5670		
finished goods	5671	(251,437,030)	(216,135,231)
other (except intrafirm turnover costs)	5672	(845,039,293)	(739,647,247)
Decrease [+]:	5680		
sale of finished products	5681	32,406,841	32,060,154
sale of goods for resale	5682	472,149,886	499,305,002
sale of goods dispatched	5683	1,524,529,400	1,426,330,774
Change in the balance of work in progress (increase [-]/decrease [+])	5690	28,834,699	(33,520,768)
Total expenses attributable to ordinary activities	5600	3,601,814,522	3,522,353,456

Form on OKUD 0710005 p. 13

## 7. Estimated liabilities

Narrative	Line code	At the beginning of the year	Accrued	Used	Reversed	At the end of the period
Estimated liabilities – total	5700	106,404,836	34,282,337	(15,956,972)	(26,472,287)	98,257,914
onerous contracts	5702	–	–	–	–	–
liabilities related to the future restructuring	5703	–	–	–	–	–
given guarantee commitment	5704	–	–	–	–	–
legal proceedings	5705	–	–	–	–	–
other estimated liabilities, including:	5706	97,860,837	24,995,947	(6,261,895)	(26,403,649)	90,191,240
adjustments to gas prices		97,154,243	16,312,336	(5,694,963)	(26,334,180)	81,437,436
expenses on liquidation and conservation assets		–	7,829,183	–	–	7,829,183
liabilities of paying remuneration based on performance results	5707	4,793,445	4,375,004	(4,736,115)	(60,608)	4,371,726
liabilities of vacation payment	5708	3,750,554	4,911,386	(4,958,962)	(8,030)	3,694,948
including repayment period up to 1 year		106,404,836	–	–	–	90,428,731

## 8. Security

Narrative	Line code	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Received – total	5800	7,533,251	6,885,954	263,158
including:				
promissory notes	5801	–	–	–
assets under pledge	5802	–	–	–
including:				
fixed assets	5803	–	–	–
securities and other financial investments	5804	–	–	–
other	5805	–	–	–
Issued – total	5810	233,899,844	393,714,494	467,793,954
including:				
promissory notes	5811	–	–	–
assets under pledge	5812	–	16,967,763	16,967,763
including:				
fixed assets	5813	–	–	–
securities and other financial investments	5814	–	16,967,763	16,967,763
other	5815	–	–	–

## 9. Exploration assets

### 9.1 The presence and movement of exploration assets

Narrative	Line code	Period	At the beginning of the year				Changes for the period						At the end of the period		
			Initial cost	Accumulated depreciation	Impairment loss	Additions	Disposals		Depreciation	Revaluation		Impairment loss	Initial cost	Accumulated depreciation	Impairment loss
							Initial cost	Accumulated depreciation		Initial cost	Accumulated depreciation				
Intangible exploration assets	6010	for 2016	111,433,570	-	-	23,340,076	(16,531,729)	-	-	-	-	-	118,241,917	-	-
	6020	for 2015	111,803,400	-	-	-	(369,830)	-	-	-	-	-	111,433,570	-	-
including:															
licenses	6011	for 2016	111,433,570	-	-	23,340,076	(16,531,729)	-	-	-	-	-	118,241,917	-	-
	6021	for 2015	111,803,400	-	-	-	(369,830)	-	-	-	-	-	111,433,570	-	-
other	6019	for 2016	-	-	-	-	-	-	-	-	-	-	-	-	-
	6029	for 2015	-	-	-	-	-	-	-	-	-	-	-	-	-
Tangible exploration assets	6030	for 2016	1,502,708	-	-	569,506	-	-	-	-	-	-	2,072,214	-	-
	6040	for 2015	962,335	-	-	540,373	-	-	-	-	-	-	1,502,708	-	-
buildings and roads	6031	for 2016	-	-	-	-	-	-	-	-	-	-	-	-	-
	6041	for 2015	-	-	-	-	-	-	-	-	-	-	-	-	-
wells	6032	for 2016	1,502,708	-	-	569,506	-	-	-	-	-	-	2,072,214	-	-
	6042	for 2015	962,335	-	-	540,373	-	-	-	-	-	-	1,502,708	-	-
machinery and equipment	6033	for 2016	-	-	-	-	-	-	-	-	-	-	-	-	-
	6043	for 2015	-	-	-	-	-	-	-	-	-	-	-	-	-
other fixed assets	6039	for 2016	-	-	-	-	-	-	-	-	-	-	-	-	-
	6049	for 2015	-	-	-	-	-	-	-	-	-	-	-	-	-

Form on OKUD 0710005 p. 15

## 9.2 Exploration expenses recognised as non-current assets

Narrative	Line code	Period	At the beginning of the year	Changes for the period			At the end of the period
				Expenses for the period	Written off	Recognised as tangible exploration assets or intangible exploration assets	
Exploration expenses recognised as intangible exploration assets	6050	for 2016	203,656	23,342,347	–	(23,340,076)	–
	6060	for 2015	207,428	6,663	(10,435)	–	–
Exploration expenses recognised as tangible exploration assets	6070	for 2016	39,951,042	11,390,861	(768,618)	(569,506)	(1,044,355)
	6080	for 2015	30,185,142	10,370,733	(12,398)	(540,373)	(52,062)
							205,927
							203,656
							48,959,424
							39,951,042

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

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

28 March 2017

# Explanatory Notes to the Balance Sheet and the Statement of Financial Results in the Statutory Financial Statements for 2016 (in thousand Russian Roubles, unless otherwise stated)

38

## 1. General information

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

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

As at 31 December 2016, 2015 and 2014 the Company employed 25,550, 24,840 and 24,334 people, respectively.

As at 31 December 2016 members of the Board of Directors of PJSC Gazprom included:

Zubkov, Viktor Alekseevich – Chairman of the Board of Directors

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

As at 31 December 2016 members of the Management Committee of PJSC Gazprom included:

Miller, Alexey Borisovich – Chairman of the Management Committee

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

As at 31 December 2016 members of the Audit Commission of PJSC Gazprom included:

Mironova, Margarita Ivanovna – Chairman of the Audit Commission

Afonyashin, Alexey Anatolyevich	Oganyan, Karen Iosifovich
Bikulov, Vadim Kasymovich	Platonov, Sergey Revazovich
Gladkov, Alexander Alexeyevich	Semerikova, Viktoriya Vladimirovna
Nosov, Yury Stanislavovich	Fisenko, Tatiana Vladimirovna



## 2. Significant accounting policies and basis of presentation

### Basis of presentation

The financial statements have been prepared in accordance with the accounting and reporting rules applicable in the Russian Federation, specifically with Federal Law «On Accounting» dated 6 December 2011 No. 402-FZ, and the Regulations on Accounting and Reporting in the Russian Federation, approved by Order of the Ministry of Finance of the Russian Federation dated 29 July 1998 No. 34n, as well as the Accounting Policy Regulation approved by order of PJSC Gazprom of 31 December 2015 No. 826.

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

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

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

As at 31 December 2016 the official exchange rates of Russian Rouble to US dollar and euro were: RUB 60.6569 to USD 1 (31 December 2015 – RUB 72.8827, 31 December 2014 – RUB 56.2584) and RUB 63.8111 to EUR 1 (31 December 2015 – RUB 79.6972, 31 December 2014 – RUB 68.3427).

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

### Current and non-current assets and liabilities

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

### Research and development results

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

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

### Intangible and tangible exploration assets

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

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

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

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

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

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

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

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

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

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

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

### Fixed assets

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

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

The Company revalued its lands plots, buildings, structures, machinery and equipment, transport vehicles and other fixed assets as at 31 December 2016 at their current replacement cost determined by an independent appraiser. Results of the revaluation were recognised on the balance sheet as at 31 December 2016. The revaluation surplus and accumulated depreciation were taken to additional capital.

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

The revaluation surplus as at 31 December 2016 in the amount of prior period revaluation write-downs that had been recognised within other expenses in prior periods was recorded within other income. Fixed assets revaluation write-down is posted to other expenses. The revaluation write down of an asset as at 31 December 2016, the value of which had been increased in prior periods as a result of prior period revaluations, was charged against additional capital formed by revaluation surpluses recognised for this asset in prior periods. Any excess of the revaluation write-down over the revaluation surplus included in the additional capital as a result of prior year revaluation is posted to other expenses.

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

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

Fixed assets are depreciated on a straight-line basis.

The following assets are not depreciated:

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

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

### Capital investments in progress

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

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

### Financial investments

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

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

Investments for which the fair market value cannot be reliably measured and significant and constant impairment indicators exist at the reporting date are presented in the year-end balance sheet at their carrying (book) value net of the impairment provision. The investment impairment provision is determined annually based on the stock taking results as at 31 December of the reporting year. For the purposes of determining the provision amount the Company estimated the cost of investments, for which significant and constant impairment indicators exist, on the basis of the available information and created the investment impairment provision in the amount by which the carrying value (initial cost) of investments exceeded their estimated value. Changes in the above provision resulting from the year-end stock-take are posted to other expenses and income.

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

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

### Inventory

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

### Work in progress

The balance sheet line «Work in progress» includes gas transportation and storage costs attributable to outstanding gas balances.

### Selling and administrative expenses

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

Administrative expenses are expensed in full on a monthly basis to general expenses.

### Accounts receivable and accounts payable

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

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

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

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

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

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

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

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

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

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

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

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

### Loans and borrowings received

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

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

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

As at 31 December 2016 the Russian Federation Central Bank's refinance rate is 10.00%. During 2016, the Russian Federation Central Bank's refinance rate has decreased from 11.00% to 10.00%.

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

### Estimated liabilities

The Company recognises the following estimated liabilities:

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

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

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

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

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

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

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

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

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

### Taxation

The Company is a responsible participant of the consolidated group of taxpayers (CGT) since 1 January 2012.

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

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

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

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

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

### Revenue recognition

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

### Segment information

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

## 3. Changes in accounting policies

No significant changes have been made to the Company's accounting policies for 2016 and 2017.

## 4. Adjustments to prior reporting period data

Certain data of columns "As at 31 December 2015" and "As at 31 December 2014" on the balance sheet and certain data of the statement of financial results for 2015 were adjusted due to the following events:

1. An update was made to the classification of expenses associated with creation of intangible assets. As a result, the assets were reclassified from line 1154 "Capital Investments in Progress" to line 1119 "Other" (adjustment No. 1).
2. An update was made to the disclosure of the movement in doubtful debt provision associated with its release (adjustment No. 2)
3. Income and expenses associated with the participation in joint activities agreements were adjusted to be reported on a net basis (adjustment No. 3).



#### 4. Adjustments to prior reporting period data (continued)

Adjustments to the 2014 and 2015 data in the financial statements for 2016:

Line code	Narrative	Unadjusted	Number of adjustment	Adjustment, RUB'000	Adjusted
<b>2014 data adjustments</b>					
<b>Balance sheet</b>					
1110	Intangible assets, including	7,659,649	1	4,519	7,664,168
1119	other	88,011	1	4,519	92,530
1150	Fixed assets, including	6,722,378,077	1	(4,519)	6,722,373,558
1154	Capital investments in progress	287,902,826	1	(4,519)	287,898,307
<b>2015 data adjustments</b>					
<b>Balance sheet</b>					
1110	Intangible assets, including	11,776,108	1	152,804	11,928,912
1119	other	391,245	1	152,804	544,049
1150	Fixed assets, including	6,854,031,578	1	(152,804)	6,853,878,774
1154	Capital investments in progress	488,561,314	1	(152,804)	488,408,510
<b>Statement of financial results</b>					
2340	Other income	4,120,256,593	2,3	13,067,525	4,133,324,118
2350	Other expenses	(4,727,722,936)	2,3	(13,067,525)	(4,740,790,461)

#### 5. Fixed assets

	Trunk pipelines	Wells	Machinery and equipment	Buildings	Other	Total
<b>As at 31 December 2014</b>						
Initial (replacement) cost	11,401,959,910	1,461,651,716	2,573,826,844	792,168,215	2,210,094,174	18,439,700,859
Accumulated depreciation	(7,945,389,434)	(1,122,057,135)	(1,822,015,599)	(343,345,481)	(772,417,959)	(12,005,225,608)
<b>Net book value</b>	<b>3,456,570,476</b>	<b>339,594,581</b>	<b>751,811,245</b>	<b>448,822,734</b>	<b>1,437,676,215</b>	<b>6,434,475,251</b>
<b>As at 31 December 2015</b>						
Initial (replacement) cost	11,581,231,656	1,473,147,174	2,748,045,071	816,943,762	2,361,783,541	18,981,151,204
Accumulated depreciation	(8,249,917,641)	(1,165,141,438)	(1,957,965,100)	(365,079,887)	(877,576,874)	(12,615,680,940)
<b>Net book value</b>	<b>3,331,314,015</b>	<b>308,005,736</b>	<b>790,079,971</b>	<b>451,863,875</b>	<b>1,484,206,667</b>	<b>6,365,470,264</b>
<b>As at 31 December 2016</b>						
Initial (replacement) cost	13,406,596,368	1,674,784,254	3,352,675,034	950,396,395	2,914,368,468	22,298,820,519
Accumulated depreciation	(9,798,648,525)	(1,349,933,869)	(2,477,185,902)	(437,495,512)	(1,160,803,371)	(15,224,067,179)
<b>Net book value</b>	<b>3,607,947,843</b>	<b>324,850,385</b>	<b>875,489,132</b>	<b>512,900,883</b>	<b>1,753,565,097</b>	<b>7,074,753,340</b>

Net book value of fixed assets leased out to subsidiaries amounted to RUB 6,341,297,875 thousand, RUB 5,852,628,672 thousand and RUB 6,023,122,130 thousand as at 31 December 2016, 2015 and 2014, respectively. As at 31 December 2016, 2015 and 2014 fixed assets included also property items that had been constructed and put into operation but were still to be registered, amounted to RUB 1,606,000,043 thousand, RUB 1,619,166,988 thousand and RUB 1,536,372,472 thousand, respectively (net of accumulated depreciation in the amount of RUB 198,620,571 thousand, RUB 163,312,757 thousand and RUB 110,554,545 thousand, respectively). As at 31 December 2016 the following production infrastructure facilities represent the most significant real property assets, the title to which is undergoing registration: gas trunk pipeline Bovanenkovo – Ukhta 526.7 km – 860.5 km (1st line); gas trunk pipeline Bovanenkovo – Ukhta 186.7 km – 526.7 km (1st line); gas trunk pipeline Bovanenkovo – Ukhta 860.5 km – 1074.0 km (1st line); gas trunk pipeline Bovanenkovo – Ukhta (2nd line), an underwater



## 5. Fixed assets (continued)

crossing through Baydaratskaya Bay (3rd line); gas trunk pipeline Bovanenkovo – Ukhta (2nd line), an underwater crossing through Baydaratskaya Bay (4th line).

### Revaluation of fixed assets

The Company revalued its fixed assets as at 31 December 2014 and 31 December 2016. No revaluation of fixed assets was made as at 31 December 2015 because of insignificant change in the current (replacement) cost.

	Trunk pipelines	Wells	Machinery and equipment	Buildings	Other	Total
<b>As at 31 December 2014</b>						
Revaluation surplus posted to additional capital	396,031,914	45,401,508	67,928,113	52,806,295	141,426,386	703,594,216
Revaluation surplus (in the part related to the revaluation write-down posted earlier to other income)	21,453	42,885	372,577	333,910	626,243	1,397,068
Revaluation write-down posted to other expenses	(1,793)	(4,926)	(361,361)	(235,288)	(399,667)	(1,003,035)
Revaluation write-down (in the part related to revaluation surplus posted earlier to additional capital)	(145,290)	(53,678)	(131,826)	(618,119)	(1,155,395)	(2,104,308)
<b>Total revaluation of fixed assets at their current (replacement) cost</b>	<b>395,906,284</b>	<b>45,385,789</b>	<b>67,807,503</b>	<b>52,286,798</b>	<b>140,497,567</b>	<b>701,883,941</b>
<b>As at 31 December 2016</b>						
Revaluation surplus posted to additional capital	471,501,676	31,221,031	94,954,332	53,079,026	220,089,605	870,845,670
Revaluation surplus (in the part related to the revaluation write-down posted earlier to other income)	16,348	10,139	410,233	379,730	450,283	1,266,733
Revaluation write-down posted to other expenses	(62,846)	(175,790)	(2,140,030)	(39,205)	(2,920,233)	(5,338,104)
Revaluation write-down (in the part related to revaluation surplus posted earlier to additional capital)	(2,928,578)	(82,409)	(417,354)	(324,584)	(134,603)	(3,887,528)
<b>Total revaluation of fixed assets at their current (replacement) cost</b>	<b>468,526,600</b>	<b>30,972,971</b>	<b>92,807,181</b>	<b>53,094,967</b>	<b>217,485,052</b>	<b>862,886,771</b>

## 6. Financial investments

### Long-term financial investments

#### Investments in subsidiaries and associates

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

“Investments in Subsidiaries” (balance sheet line 1171) are presented net of impairment provision of RUB 26,468,215 thousand, RUB 26,557,377 thousand and RUB 26,581,909 thousand as at 31 December 2016, 2015 and 2014, respectively.

“Investments in Associates” (balance sheet line 1172) are presented net of impairment provision of RUB 5,910,493 thousand, RUB 6,260,993 thousand and RUB 728,310 thousand as at 31 December 2016, 2015 and 2014, respectively.

#### Investments in other entities

“Investments in Other Entities” (balance sheet line 1173) are presented net of impairment provision of RUB 153 thousand as at 31 December 2016, RUB 161 thousand as at 31 December 2015 and 2014.

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

“Loans Provided to Companies for a Period over 12 Months” (balance sheet line 1174) include long-term loans of RUB 105,566,573 thousand, RUB 145,516,964 thousand and RUB 194,595,652 thousand as at 31 December 2016, 2015 and 2014, respectively.

#### Other long-term investments

Other long-term investments included within “Financial Investments” (balance sheet line 1170) are presented net of impairment provision of RUB 507,676 thousand, RUB 676,418 thousand, RUB 7,889,028 thousand as at 31 December 2016, 2015 and 2014, respectively. The provision relates to investments in joint activities.

	31 December		
	2016	2015	2014
Joint activities	37,757,443	31,903,975	25,249,576
including:			
development of oil and gas fields on continental shelf of the Socialist Republic of Vietnam (operator — JSC Gazprom zarubezhneftegaz)	33,421,854	27,793,137	20,597,948
development of a satellite communication system (operator — OJSC Gazprom Space Systems)	3,345,047	3,252,323	3,252,323
Long-term deposits	42,229,915	—	67,456
Other	149,467,092	107,791,178	42,243,983
including:			
Investment in additional capital of South Stream Transport B.V.	149,095,966	107,420,052	41,872,857
South Pars (oil and gas field located in Iran)	370,126	370,126	370,126
<b>Total</b>	<b>229,454,450</b>	<b>139,695,153</b>	<b>67,561,015</b>

Long-term investments include securities of other entities, mainly investments in the shares of subsidiaries and associates and other entities of RUB 1,584,188,023 thousand, RUB 1,304,930,580 thousand and RUB 1,227,953,737 thousand as at 31 December 2016, 2015 and 2014, respectively, including securities of foreign issuers of RUB 538,454,079 thousand, RUB 536,966,340 thousand and RUB 537,888,702 thousand as at 31 December 2016, 2015 and 2014, respectively.

Additional information is provided in table forms 3.1 “The Presence and Movement of Financial Investments”, 3.1.1 “Current Portion of Long-term Financial Investments” and

## 6. Financial investments (continued)

3.2 "Other Use of Financial Investments" of the Explanatory Notes to the Balance Sheet and the Statement of Financial Results. In table form 3.1 "The Presence and Movement of Financial Investments" data are presented with regard to the current part of long-term investments.

## 7. Other non-current assets

As at 31 December 2016, 2015 and 2014 other non-current assets included long-term advances paid under the capital construction agreement in the amount of RUB 5,496,314 thousand, RUB 3,572,836 thousand and RUB 0 thousand, respectively, expenses of future periods under capital construction agreements in the amount of RUB 1,586,232 thousand, RUB 0 thousand and RUB 0 thousand as at 31 December 2016, 2015 and 2014, as well as the subsoil use licences of RUB 18,224,801 thousand, RUB 3,624,551 thousand, RUB 3,510,099 thousand as at 31 December 2016, 2015 and 2014, respectively.

## 8. Accounts receivable

### Trade receivables

	31 December		
	2016	2015	2014
Accounts receivable for gas sold:	498,204,513	595,804,778	457,029,808
in Russia	278,559,637	316,375,927	192,083,656
outside Russia (net of doubtful debt provision of RUB 514,812,256 thousand, RUB 562,468,928 thousand and RUB 385,397,886 thousand as at 31 December 2016, 2015 and 2014, respectively), including:	219,644,876	279,428,851	264,946,152
to far abroad countries (net of doubtful debt provision of RUB 9,252,846 thousand, RUB 13,114,650 thousand and RUB 10,286,635 thousand as at 31 December 2016, 2015 and 2014, respectively).	186,646,663	232,399,369	216,266,208
Accounts receivable for property lease services (net of doubtful debt provision of RUB 1,292,767 thousand, RUB 1,156,229 thousand and RUB 973,327 thousand as at 31 December 2016, 2015 and 2014, respectively).	151,780,680	167,345,639	63,675,649
Accounts receivable for services related to arrangement of gas transportation (net of doubtful debt provision of RUB 0 thousand, RUB 93,026 thousand and RUB 93,193 thousand as at 31 December 2016, 2015 and 2014, respectively).	8,041,518	7,827,370	8,181,783
Accounts receivable for gas condensate and oil and gas refinery products sold (net of doubtful debt provision of RUB 65 thousand, RUB 65 thousand, RUB 65 thousand as at 31 December 2016, 2015 and 2014, respectively).	37,473,392	37,328,540	36,736,263
Other trade receivables (net of doubtful debt provision of RUB 99,639 thousand, RUB 6,590 thousand, and RUB 6,590 thousand as at 31 December 2016, 2015 and 2014, respectively).	3,803,827	21,430,252	5,570,924
<b>Total</b>	<b>699,303,930</b>	<b>829,736,579</b>	<b>571,194,427</b>

The accounts receivable recorded in the balance sheet line "Accounts Receivable from Buyers and Customers (payments expected within 12 months after the reporting date)" (line 1236) are presented net of a doubtful debt provision of RUB 514,998,725 thousand, RUB 562,275,759 thousand and RUB 385,352,512 thousand as at 31 December 2016, 2015 and 2014, respectively. The doubtful debt provisions were calculated net of a deferred excise in the amount of RUB 88,593 thousand, RUB 88,593 thousand and RUB 101,437 thousand as

## 8. Accounts receivable (continued)

at 31 December 2016, 2015 and 2014, respectively. Deferred excise reduces the balance sheet line "Other Settlements" (line 1528).

The balance sheet line "Accounts Receivable from Buyers and Customers (payments expected beyond 12 months from the reporting date)" (line 1232) includes a receivable due from CJSC Gazprom neft Orenburg under a property purchase-sale agreement dated 2 July 2012 in the amount of RUB 1,030,742 thousand, RUB 2,061,484 thousand and RUB 3,092,226 thousand as at 31 December 2016, 2015 and 2014, respectively, as well as a non-current portion of the receivable due from JSC Gazprom gazenergoset in the amount of RUB 11,411,683 thousand as at 31 December 2016 that was restructured in 2016 in accordance with the debt restructuring agreement dated 12 February 2016.

### Advances receivable

The balance sheet line "Advances Issued" (line 1238) within accounts receivable payments for which are expected beyond 12 months after the reporting date, includes advances paid under the agency contracts on the implementation of investment projects in the amount of RUB 81,526,645 thousand as at 31 December 2016, RUB 34,157,997 thousand as at 31 December 2015, and RUB 20,516,221 thousand as at 31 December 2014

### Other receivables

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

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

A long-term portion of accounts receivable from subsidiaries relates to amounts received for investment project financing and is presented in the balance sheet line "Accounts Receivable from Other Debtors (payments expected beyond 12 months after the reporting date)" (line 1234) in the amount of RUB 232,546,318 thousand, RUB 358,945,776 thousand and RUB 378,016,350 thousand as at 31 December 2016, 2015 and 2014, respectively.

A current portion of accounts receivable from subsidiaries relates to amounts received for investment project financing and is presented in the balance sheet line "Accounts Receivable from Other Debtors (payments expected within 12 months after the reporting date)" (line 1239) in the amount of RUB 204,618,225 thousand, RUB 414,960,617 thousand and RUB 592,631,729 thousand as at 31 December 2016, 2015 and 2014, respectively.

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

## 9. Cash and cash equivalents

The structure of cash and cash equivalents

	31 December		
	2016	2015	2014
Cash on hand	25,184	27,062	16,993
Cash on settlement accounts	214,232,806	278,070,685	471,860,061
Cash on foreign currency accounts	235,975,248	227,226,726	253,136,708
Cash on special bank accounts	1,738,436	1,643,847	81,787
Cash in transit	20,810	5,101	5,367
<b>Total cash</b>	<b>451,992,484</b>	<b>506,973,421</b>	<b>725,100,916</b>

Cash flows from operating activities recognised in line "Other Receipts" (line 4119) of the cash flow statement include on a net basis cash received from members of the consolidated group of taxpayers (CGT) (established in 2012) for the purpose of CGT income tax settlements in the amount of RUB 30,553,979 thousand and RUB 41,329,702 thousand in 2016 and 2015, respectively; advances received from buyers (customers) in the amount of RUB 20,031,591 thousand and RUB 30,410,875 thousand for 2016 and 2015, respectively; proceeds on a net basis from the payment of interest free loans issued to subsidiaries in the amount of RUB 155,258,628 thousand and RUB 40,554,425 thousand for 2016 and 2015, respectively; net based indirect taxes related to operating activities that are presented within payments to suppliers and contractors and proceeds from buyers and customers in the amount of RUB 180,926,567 thousand and RUB 133,923,082 thousand for 2016 and 2015, respectively.

The line "Income Tax" (line 4124) includes a net based amount of the income tax attributable to the CGT in the amount of RUB 56,588,662 thousand and RUB 56,064,328 thousand for 2016 and 2015, respectively.

Cash flows from operating activities recognised in line "Other Payments" (line 4129) of the cash flow statement include contributions to subsidiaries' property in the amount of RUB 252,253,565 thousand and RUB 116,719,038 thousand for 2016 and 2015, respectively; interest-free loans issued to subsidiaries in the amount of RUB 230,482,441 thousand and RUB 176,148,308 thousand for 2016 and 2015, respectively; cash presented on a net basis used to pay customs duties in the amount of RUB 534,187,032 thousand and RUB 568,733,733 thousand for 2016 and 2015, respectively; advances made to suppliers (contractors) in the amount of RUB 3,997,124 thousand and RUB 10,325,900 thousand for 2016 and 2015, respectively; cash refunds to gas buyers due to adjusted gas prices in the amount of RUB 8,242,666 thousand in 2016 and RUB 31,757,494 thousand in 2015.

Cash flows from investment activities recognised in line "Other Payments" (line 4229) of the cash flow statement include on a net basis cash used to finance investment (agency) agreements in the amount of RUB 624,855,312 thousand and RUB 662,879,602 thousand for 2016 and 2015, respectively; net based indirect taxes related to investing activities that are presented within payments to suppliers and contractors and proceeds from buyers and customers amounted to RUB 9,960,668 thousand and RUB 11,010,012 thousand for 2016 and 2015, respectively.

Cash flows from financing activities recognised in line "Other Payments" (line 4329) of the cash flow statement include cash used to repay finance lease obligations in the amount of RUB 0 thousand and RUB 43,691 thousand for 2016 and 2015, respectively; net based indirect taxes related to financing activities that are presented within lease payments in the amount of RUB 0 thousand and RUB 7,864 thousand for 2016 and 2015, respectively.

## 10. Equity and reserves

### Charter capital

The Company's charter capital amounts to RUB 118,367,564 thousand (23,673,513 thousand fully paid common shares with a nominal value of RUB 5 each) and it did not change in 2016.

In accordance with the decision of the general shareholders' meeting, final dividends on the Company's 2015 results were accrued in the amount of RUB 7.89 per one common share. Dividends paid amounted to RUB 186,431,519 thousand. Final dividends on the Company's 2014 and 2013 results were accrued in the amount of RUB 7.20 per one common share, dividends paid in the amount of RUB 170,155,977 thousand and RUB 170,194,059 thousand, respectively (including taxes).

### Reserve capital

In 2016, 2015 and 2014 the Company did not make any contributions to the reserve fund from its net profit as the target limit of the fund was reached (7.3% of the charter capital).

## 11. Borrowings and loans

### Bank loans

Lenders	Currency	Maturity	31 December		
			2016	2015	2014
Bank of China Limited <sup>1</sup>	Euro	2016–2021	128,788,525	–	–
China Construction Bank Corporation <sup>1</sup>	US dollars	2015–2020	92,626,940	111,077,214	–
JP Morgan Europe Limited <sup>1</sup>	US dollars	2015–2018	18,961,990	36,694,342	–
BNP Paribas SA <sup>1</sup>	Euro	2014–2022	15,643,537	22,801,834	22,352,240
UniCredit S.P.A.	Euro	2015–2019	14,744,782	23,940,242	–
Citibank N.A. <sup>1</sup>	US dollars	2014–2021	10,042,189	14,734,060	13,435,720
Intesa Sanpaolo S.P.A.	Euro	2015–2019	6,847,842	11,956,971	–
Commerzbank AG	US dollars	2014–2035	2,401,484	2,650,475	1,879,440
Intesa Sanpaolo S.P.A.	Euro	2015–2016	–	28,028,260	–
Bank of Tokyo-Mitsubishi UFJ Ltd. <sup>1</sup>	US dollars	2014–2016	–	13,753,690	21,232,244
UniCredit Bank Austria AG	Euro	2015	–	–	26,695,588
<b>Total, including</b>			<b>290,057,289</b>	<b>265,637,088</b>	<b>85,595,232</b>
Due within one year, including current portion of long-term loans			44,529,077	72,440,559	42,281,627

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

Total loans received in 2016 amounted to RUB 152,558,600 thousand, total loans and interest repaid in 2016 amounted to RUB 74,573,747 thousand (in 2015 total loans received amounted to RUB 177,603,070 thousand, total loans repaid amounted to RUB 47,569,122 thousand and in 2014 total loans received amounted to RUB 26,207,571 thousand, total loans repaid amounted to RUB 15,317,606 thousand).

In 2014–2016, the Company used the credit facility of RUB 60,000,000 thousand that was opened by Gazprombank (Joint Stock Company) in 2012 and is to be repaid in 2017.

In 2014–2016, credit lines of RUB 60,000,000 thousand and RUB 30,000,000 thousand were opened for the Company by PJSC Sberbank and PJSC Bank VTB in 2013, respectively, to be repaid in 2018.

In December 2011, the Company received a loan from Bank of Tokyo-Mitsubishi UFJ Ltd. in the amount of RUB 25,416,080 thousand for the development of Bovanenkovo gas field, repayable in December 2016, with the interest rate determined for each interest period at LIBOR +1.95%. The said loan was early repaid in May 2016.



## 11. Borrowings and loans (continued)

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

In January 2015, the Company borrowed a loan from Intesa Sanpaolo S.P.A. in the amount of RUB 27,149,150 thousand with the interest rate determined for each interest period at EURIBOR +2.75% to be repaid in 2016. The said loan was repaid in April 2016.

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

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

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

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

In December 2016, the Company entered into a loan agreement with JP Morgan Europe Limited to the amount of RUB 51,048,880 thousand with the interest rate determined for each interest period at EURIBOR + 2.60% to be repaid in 2020.

A fixed interest rate on long-term foreign currency loans was 8.868% in 2016, 2015 and 2014. In addition, LIBOR and EURIBOR rates were also used in 2014–2016.

The Company did not raise any short-term foreign currency loans in 2016. In 2015, a rate varying from 2.75% to 2.832% was used for short-term foreign currency loans; in 2014 the rate of 2.83% was used.

In 2014–2016, no short-term and long-term loans denominated in Russian Roubles were received.

### Loans

Lenders	Currency	Maturity	31 December		
			2016	2015	2014
Gazprom Sakhalin Holdings B.V.	US dollars	2017	265,703,391	392,542,314	373,307,206
Gaz Capital S.A.	Euro	2018	203,830,305	254,574,904	149,295,980
Gaz Capital S.A.	Euro	2017	157,395,103	196,579,419	168,572,651
Gaz Capital S.A.	US dollars	2022	142,487,577	171,206,892	132,155,173
Gaz Capital S.A.	US dollars	2019	138,862,599	166,851,276	128,793,058
Gaz Capital S.A.	Euro	2020	104,104,364	130,021,678	111,497,424
Gaz Capital S.A.	Euro	2021	79,143,103	61,594,581	52,819,171
Gaz Capital S.A.	US dollars	2037	77,893,316	93,593,230	72,244,928
Rosingaz Ltd.	Russian Roubles	2017	77,891,300	78,132,232	70,651,374
Gaz Capital S.A.	US dollars	2034	73,886,312	88,778,588	68,528,489
Gaz Capital S.A.	US dollars	2018	67,930,417	81,622,243	63,004,482
Gaz Capital S.A.	Euro	2023	64,056,948	–	–
Gaz Capital S.A.	US dollars	2028	55,679,622	66,902,219	51,642,047
Gaz Capital S.A.	US dollars	2020	49,278,003	59,210,310	45,704,637
Gaz Capital S.A.	US dollars	2021	37,352,519	44,881,167	34,643,923
Gaz Capital S.A.	Euro	2025	32,996,548	41,211,208	35,339,827
Gaz Capital S.A.	Swiss francs	2019	29,862,772	36,956,997	28,637,001

## 11. Borrowings and loans (continued)

Lenders	Currency	Maturity	31 December		
			2016	2015	2014
Gaz Capital S.A.	Swiss francs	2018	29,793,888	–	–
Gazprom Germania GmbH	Euro	2017	27,440,377	–	–
BO-19 series Russian bonds	Russian Roubles	2043	15,110,850	15,245,550	15,133,800
BO-20 series Russian bonds	Russian Roubles	2043	15,110,850	15,245,550	15,133,800
LLC Gazprom capital	Russian Roubles	2017	10,287,137	10,282,945	10,280,849
LLC Gazprom capital	Russian Roubles	2018	5,143,569	5,141,473	5,140,425
Gaz Capital S.A.	US dollars	2016	–	172,317,300	133,012,300
LLC Gazprom capital	Russian Roubles	2016	–	15,421,644	15,418,520
LLC Gazprom export	Russian Roubles	on demand	–	3,500,000	3,500,000
LLC Gazprom komplektatsiya	Russian Roubles	2016	–	352,834	1,952,834
Gaz Capital S.A.	Euro	2015	–	–	133,056,410
Gaz Capital S.A.	US dollars	2015	–	–	96,133,813
BO-21 series Russian bonds	Russian Roubles	2044	–	–	15,281,400
LLC Gazprom Resource Nortgaz	Russian Roubles	2015	–	–	8,476,000
Loans as part of centralised management of Gazprom Group's cash flows	Russian Roubles	2017	31,391,426	23,734,554	–
Loans as part of centralised management of Gazprom Group's cash flows	Euro	2017	21,018,455	–	–
Loans as part of centralised management of Gazprom Group's cash flows	US dollars	2017	2,532,155	–	–
<b>Total, including</b>			<b>1,816,182,906</b>	<b>2,225,901,108</b>	<b>2,039,357,522</b>
due within one year, including current portion of long-term loans			617,831,585	720,860,571	714,454,010

Total loans received in 2016 amounted to RUB 675,482,570 thousand, total loans and interest repaid in 2016 amounted to RUB 829,316,840 thousand (total loans received in 2015 amounted to RUB 296,467,462 thousand, total loans repaid amounted to RUB 634,900,917 thousand and total loans received in 2014 amounted to RUB 187,254,897 thousand, total loans repaid amounted to RUB 595,328,883 thousand).

In 2014, the Company raised a loan from Gazprom Sakhalin Holdings B.V. totalling RUB 33,192,416 thousand and repaid the principal amount and interest in the amount of RUB 277,712,968 thousand. In 2015, the said loan was extended to 2016 and increased to RUB 36,357,049 thousand; the principal amount as well as the interest thereupon was repaid in the amount of RUB 113,052,975 thousand. In 2016, this loan was extended to 2017 and increased to RUB 3,347,229 thousand, the principal amount and interest on the loan in the amount of RUB 84,703,521 thousand were repaid. In 2016, the interest rate ranged from 1.71% to 3.60%, in 2015 and 2014 from 2.15% to 3.60% and from 1.20% to 2.15%, respectively.

In February 2014, the Company raised a loan from Gaz Capital S.A. related to the issue of loan participation notes of RUB 36,649,050 thousand maturing in 2021 at 3.6%.

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

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

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

In February 2013, the Company raised three loans from LLC Gazprom capital in the amount of RUB 5,000,000 thousand, RUB 10,000,000 thousand and RUB 15,000,000 thousand maturing in 2018, 2017 and 2016 at 7.65%, 7.65% and 7.60%, respectively. In 2016, the loan was repaid in the amount of RUB 15,000,000 thousand.



## 11. Borrowings and loans (continued)

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

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

In 2016, in order to centralise the management of Gazprom Group's cash flows, the Company raised Russian Rouble loans at the interest rate ranging from 0.00% to 12.78% maturing in 2017. Total loans received amounted to RUB 472,999,613 thousand, total loans and interest repaid amounted to RUB 465,683,536 thousand.

In 2016, in order to centralise the management of Gazprom Group's cash flows, the Company raised foreign currency loans at 0.00% maturing in 2017. Total loans received amounted to RUB 35,259,202 thousand, total loans repaid amounted to RUB 4,508,701 thousand.

Interest rates on other Russian Rouble short-term loans ranged from 10.01% to 11.51% in 2016, from 8.17% to 11.51% in 2015, from 8.17% to 8.46% in 2014.

Interest rates on other Russian Rouble long-term loans ranged from 1.50% to 11.51% in 2016, from 1.50% to 11.51% in 2015, from 1.50% to 10.92% in 2014.

In 2014-2015, no short-term foreign currency loans were raised by the Company.

Interest rates on foreign currency long-term loans received from Gaz Capital S.A. related to the issue of loan participation notes ranged from 2.65% to 9.25% in 2016, from 2.85% to 9.25% in 2015 and 2014.

Interest rates on other foreign currency long-term loans ranged from 1.07% to 3.60% in 2016, from 2.15% to 3.60% in 2015, from 1.20% to 10.50% in 2014.

The loans (borrowings) not disbursed by the Company due to the lack of need amounted to RUB 70,580,402 thousand, RUB 71,167,080 thousand and RUB 56,539,766 thousand as at 31 December 2016, 2015 and 2014, respectively.

## 12. Taxation

### Income tax

Income tax determined based on accounting profit (loss) and statutory rates (20%, 13%, 9%, 0%) amounted to RUB 99,355,755 thousand and RUB 33,098,025 thousand (provisional income tax expense) in 2016 and 2015, respectively. According to the Company's data, the current income tax was RUB 142,454,223 thousand and RUB 14,074,273 thousand in 2016 and 2015, respectively.

According to the amended 2014 tax return submitted in 2016, the income tax amounted to RUB 22,667 thousand. According to the amended tax returns submitted in 2015 for the period of 2013, the income tax amounted to RUB 562 thousand.

Permanent differences, which increase the taxable profit of the reporting year, amounted to RUB 696,883,041 thousand and RUB 679,373,261 thousand in 2016 and 2015, respectively. Permanent differences, which decrease the taxable profit, amounted to RUB 68,998,565 thousand and RUB 685,517,819 thousand in 2016 and 2015, respectively. In 2016, permanent differences increasing the taxable profit exceeded permanent differences decreasing the taxable profit by RUB 627,884,476 thousand. This resulted in the income tax amount calculated based on the taxable profit exceeding the provisional income tax expense by RUB 126,002,972 thousand, unlike the year of 2015 when permanent differences, which decrease the taxable profit, exceeded permanent differences, which increase the taxable profit, by RUB 6,144,558 thousand, which resulted in the decrease in the income tax amount calculated based on the taxable profit against provisional income tax expense by RUB 1,131,436 thousand.

Deductible temporary differences amounted to RUB 240,886,143 thousand and RUB 254,266,660 thousand in 2016 and 2015, respectively; deductible temporary differences settled amounted to RUB 216,069,736 thousand and RUB 82,589,778 thousand in 2016 and 2015,

## 12. Taxation (continued)

respectively. In 2016, newly originated deductible temporary differences exceeded deductible temporary difference settled by RUB 24,816,407 thousand, which resulted in the increase of the deferred tax asset by RUB 4,963,281 thousand. In 2015, originated deductible temporary differences exceeded deductible temporary difference settled by RUB 171,676,882 thousand, which resulted in the increase of the deferred tax assets by RUB 34,335,376 thousand. Deductible temporary differences are mainly explained through a different procedure applied to recognise provisions for accounting and tax accounting purposes, which resulted in the origination of deductible temporary differences in the amount of RUB 12,222,126 thousand and increase in the deferred tax asset by RUB 2,424,425 thousand. In 2015, deductible temporary differences at the expense of the doubtful debt provision amounted to RUB 131,267,074 thousand and deferred tax assets amounted to RUB 26,253,415 thousand.

In 2016, deferred tax assets attributed to the increase in the net profit and recorded in line "Other" (line 2460) of the statement of financial results amounted to RUB 4,774,263 thousand. In 2015, deferred tax assets attributed to the decrease in the net profit amounted to RUB 286,802 thousand.

Taxable temporary differences amounted to RUB 561,756,393 thousand in 2016 and RUB 276,773,098 thousand in 2015. Taxable temporary differences settled amounted to RUB 122,275,671 thousand and RUB 15,577,035 thousand in 2016 and 2015, respectively. In 2016, newly originated taxable temporary differences exceeded taxable temporary differences settled by RUB 439,480,722 thousand, which resulted in the increase in the deferred tax liability by RUB 87,845,118 thousand. In 2015, newly originated taxable temporary differences exceeded taxable temporary differences settled by RUB 261,196,063 thousand, which resulted in the increase in the deferred tax liability by RUB 52,227,130 thousand.

Taxable temporary differences have arisen mainly due to the revaluation of the securities, which resulted in the increase in the deferred tax liability by RUB 56,614,659 thousand in 2016 (in 2015 by RUB 11,349,797 thousand).

In 2016, deferred tax liabilities attributed to the decrease in the net profit and recorded in line "Other" (line 2460) of the statement of financial results amounted to RUB 2,000,089 thousand. In 2015, deferred tax liability attributed to the increase in the net profit amounted to RUB 237,927 thousand.

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

The income tax of CGT for 2016 and 2015 amounted to RUB 170,581,363 thousand and RUB 50,222,003 thousand, respectively.

## 12. Taxation (continued)

### Other taxes

VAT accrued upon dispatch (transfer) of goods (works, services, property rights) including VAT accrued upon receipt of payment, partial payment against forthcoming supplies of goods (works, services, property rights) and reversed amounts of previously accepted VAT with respect to payment, partial payment issued against forthcoming purchases of goods (works, services, property rights) totalled RUB 494,097,049 thousand and RUB 503,639,045 thousand for 2016 and 2015, respectively.

## 13. Accounts payable

As at 31 December 2016, 2015 and 2014 the balance sheet line "Advances from Customers" (line 1527) within accounts payable (payment expected within 12 months of the reporting date) includes advances of RUB 42,849,859 thousand, RUB 50,016,017 thousand and RUB 75,007,577 thousand, respectively, received by the Company from gas suppliers under commission agreements between PJSC Gazprom and LLC Gazprom export in accordance with the terms and conditions of gas supply contracts.

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

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

## 14. Sales

	2016	2015
Revenue from gas sales:		
in Russia	963,136,214	915,390,281
outside Russia, including:	1,696,612,877	2,138,988,519
to far abroad countries	1,426,424,202	1,748,053,925
	2,659,749,091	3,054,378,800
Revenue from leasing out assets	730,571,086	728,068,425
Revenue from sale of gas condensate and oil and gas refinery products	281,586,474	285,768,552
Revenue from sale of gas transportation services	238,779,014	247,468,705
Other	23,802,776	18,608,995
<b>Total</b>	<b>3,934,488,441</b>	<b>4,334,293,477</b>

Revenues from gas sales outside Russia include revenue from export gas sales through an agent as well. Revenues from sales of gas to far abroad countries in 2016 are reported on the basis of an upward adjustment in the amount of RUB 8,551,931 thousand with respect to gas supplies made in 2016, prices of which were revised in 2016. Revenues from sales of gas to far abroad countries in 2015 are reported on the basis of a downward adjustment in the amount of RUB 10,552,146 thousand with respect to gas supplies made in 2015, prices of which were revised in 2015.

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

	2016	2015
LLC Gazprom mezhregiongaz	821,038,004	791,887,357
OJSC Gazprom transgaz Belarus	169,760,728	170,151,334

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

	2016	2015
Purchase cost of gas, including gas sold		
in Russia	476,125,494	470,712,943
outside Russia, including:	506,016,805	581,716,277
to far abroad countries	448,330,502	509,298,647
	982,142,299	1,052,429,220
Gas transportation costs, including gas sold		
in Russia	397,787,541	369,460,764
outside Russia, including:	865,590,872	784,530,582
to far abroad countries	787,148,259	687,049,655
	1,263,378,413	1,153,991,346
Cost of assets leasing out	726,367,167	717,876,095
Cost of purchased gas condensate, oil products and their refinery and transportation	254,923,807	220,733,276
Cost of gas transportation services	250,709,084	265,592,456
Cost of other sales	30,519,587	23,264,987
<b>Total</b>	<b>3,508,040,357</b>	<b>3,433,887,380</b>

**16. Other income and expenses**

	2016		2015	
	Income	Expenses	Income	Expenses
Sale of foreign currency	3,071,944,863	3,070,870,952	2,583,075,449	2,580,833,332
Exchange differences on foreign currency transactions	920,181,938	720,311,034	1,378,583,418	1,617,269,789
Doubtful debt provision accrual/release	107,082,191	59,640,219	23,568,616	203,912,045
Movement of investments	31,184,307	9,986,146	26,398,240	21,864,297
Prior year profit (loss)	49,027,300	19,214,770	24,755,820	3,918,214
Recognition/release of estimated liabilities related to gas price adjustments (Note 19)	26,334,180	16,312,336	24,932,052	93,878,699
Investments impairment provision accrual/release	652,107	43,695	9,043,682	12,715,975
Contributions to subsidiaries' property	–	252,253,565	–	116,719,038
Costs of mineral resources development	–	37,740,648	–	18,673,242
Market value revaluation of investments	283,073,291	304,790	56,761,588	–
Charity expenses	–	25,162,295	–	17,634,730
Other	5,770,439	72,038,248	6,205,253	53,371,100
<b>Total</b>	<b>4,495,250,616</b>	<b>4,283,878,698</b>	<b>4,133,324,118</b>	<b>4,740,790,461</b>

In 2016, due to an increase in the share quotation of PJSC Gazprom neft, the Company recognised a gain of RUB 283,073,291 thousand from revaluation of investments at current market value as at 31 December 2016. Due to a decrease in the share quotation of JSC Latvijas Gaze, the Company recognised a loss in the amount of RUB 304,790 thousand from revaluation of investments at current market value as at 31 December 2016. Due to an increase in the share quotation of investees, the Company in 2015 recognised a gain in the amount of RUB 56,761,588 thousand from revaluation of investments at current market value as at 31 December 2015, including the shares of PJSC Gazprom neft in the amount of RUB 56,748,987 thousand.

## 16. Other income and expenses (continued)

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

In 2016, the line "Prior Year Profit (Loss)" demonstrated a positive effect of gas price revision amounting to RUB 34,733,174 thousand. In 2015, the positive effect of gas price revision was RUB 17,020,764 thousand. These adjustments relate to gas supplies of prior years for which price adjustments were agreed in 2016 and 2015, respectively.

The line "Contributions to Subsidiaries' Property" includes contributions paid into the property of subsidiaries under decisions adopted by the participant (the Company) in 2004–2016. As at 31 December 2016, 2015 and 2014, contributions in the subsidiaries' property that were to be made according to the taken decisions amounted to RUB 138,229,534 thousand, RUB 152,118,825 thousand and RUB 31,868,416 thousand, respectively.

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

The line "Other Expenses" includes pension contributions of RUB 1,599,822 thousand and RUB 1,580,128 thousand transferred to PJSC Gazprom's joint account in NPF Gazfond in 2016 and 2015, respectively. Non-state pensions shall be paid to employees of the Company when corresponding conditions are met.

## 17. Earnings per share

Basic earnings per share have been calculated by dividing the net profit for the year by the weighted average number of common shares outstanding during the year. The weighted average number of shares outstanding during the year totalled 23,673,513 thousand for the years ended 31 December 2016, 2015 and 2014, respectively.

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

## 18. Related parties

### Major 100% subsidiaries of PJSC Gazprom:

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

In March 2016, the Company acquired one common share of JSC Chechengazprom for RUB 0.221 thousand, which increased the stake of the Company in JSC Chechengazprom from 99.99% to 100%.

In 2015, the Company made an additional contribution of RUB 80,269,668 thousand to the charter capital of LLC Novourengeysky GCC. The change in the charter capital was registered in January 2016.

In March 2016, the Company entrusted the management of a 100-percent interest in the charter capital of CJSC Yamalgazinvest to LLC Gazprom invest.



## 18. Related parties (continued)

Other major subsidiaries of PJSC Gazprom:

Company name	Share in the charter capital, %	Type of business	Location
JV OJSC Brestgazoapparat	51.0%	Manufacturing of household gas equipment	Belarus
OJSC Vostokgazprom	99.98%	Production, processing and sale of gas and gas condensate	Russia
JSC Gazprom Household Systems (formerly OJSC Gazmash)	99.99%	Manufacturing of household fuel utilisation equipment	Russia
LLC Gazpromviet	51.0%	Exploration, oil and gas transportation and processing	Russia
Gazprom EP International B.V.	0.02104%	Investment activities	Netherlands
PJSC Gazprom neft	95.68%	Oil production, processing and sale	Russia
Gazprom Sakhalin Holdings B.V.	0.000000016%	Financing and investing activities	Netherlands
LLC Gazprom toorgservice	99.0%	Trading	Russia
OJSC Gazpromtrubinvest	99.87%	Manufacturing and sale of pipes	Russia
Gazprom Finance B.V.	0.0056%	Financing and investing activities	Netherlands
Gazprom Holding Cooperatie U.A.	99.99981%	Financing and investing activities	Netherlands
JSC Gazprom YRGM Development (formerly CJSC Gazprom YRGM Development)	75.0%	Sale of hydrocarbons	Russia
CJSC Gazprom YRGM Trading	75.0%	Gas production, storage and transportation	Russia
JSC Daltransgaz (formerly OJSC Daltransgaz)	87.99%	Gas transportation	Russia
OJSC Kamchatgazprom	92.25%	Production, processing and sale of gas and gas condensate	Russia
LLC Lazurnaya	99.69%	Hotel business	Russia
South Stream Serbia AG	51.0%	Design, construction and operation of the South Stream pipeline section	Serbia
OJSC Severneftegazprom	40.0005%	Production, processing and sale of gas and gas condensate	Russia
JSC Tsentrgez (formerly OJSC Tsentrgez)	99.99%	Construction	Russia

In April 2016, the Company made an additional contribution to the charter capital of Gazprom Holding Cooperatie U.A. by way of shares of Gazprom Sakhalin Holdings B.V. in the amount of RUB 218,025,580 thousand. This resulted in the increase of the Company's stake in Gazprom Holding Cooperatie U.A. from 99.99972% to 99.99981%, while the Company's stake in Gazprom Sakhalin Holdings B.V. decreased to 0.000000016%, with the Company still holding control over the activities of Gazprom Sakhalin Holdings B.V.

Major associates of PJSC Gazprom:

Company name	Share in the charter capital, %	Type of business	Location
OJSC Belgazprombank	49.66%	Banking	Belarus
Gazprombank (Joint Stock Company)	35.54% <sup>1</sup>	Banking	Russia
JSC Gaztranzit	40.22%	Construction, management and operation of industrial gas facilities	Ukraine
Blue Stream Pipeline Company B.V.	50.0%	Gas transportation	Netherlands
JSC EuRoPol Gaz	48.0%	Gas transportation and sale	Poland

### 18. Related parties (continued)

Company name	Share in the charter capital, %	Type of business	Location
KazRosGas LLP	50.0%	Gas transportation and sale	Kazakhstan
JSC Latvijas Gaze	34.0%	Gas transportation and sale	Latvia
CJSC Leader	25.714%	Trust management of NSPF pension reserves, management of insurance companies and mutual funds	Russia
JSC Moldovagaz	50.0%	Gas transportation and sale	Moldova
Nord Stream AG	51.0%	Design, construction and operation of the North Stream pipeline section	Switzerland
Nord Stream 2 AG	50.0%	Design, construction and operation of the North Stream 2 pipeline section	Switzerland
CJSC Rosshelf	39.505%	Gas production	Russia
South Stream Austria GmbH	50.0%	Design, construction and operation of the South Stream pipeline section	Austria
South Stream Bulgaria A.D.	50.0%	Design, construction and operation of the South Stream pipeline section	Bulgaria
South Stream Hungary Ltd	50.0%	Design, construction and operation of the South Stream pipeline section	Hungary
South Stream Greece S.A.	50.0%	Design, construction and operation of the South Stream pipeline section	Greece
South Stream Slovenia LLC	50.0%	Design, construction and operation of the South Stream pipeline section	Slovenia
LLC Tsentrikasneftegaz	50.0%	Exploration of oil and gas fields	Russia
JSC YugoRosGaz	50.0%	Gas transportation and sale	Serbia

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

In February 2016, the shareholders of South Stream Hungary Ltd decided to decrease the charter capital, which resulted in the decrease of the Company's stake in South Stream Hungary Ltd by RUB 270,517 thousand, with the Company still holding a 50-percent interest in the charter capital of South Stream Hungary Ltd.

In February 2016, the shareholders of South Stream Austria GmbH decided to decrease the charter capital, which resulted in the decrease of the Company's stake in South Stream Austria GmbH by RUB 66,836 thousand, with the Company still holding a 50-percent interest in South Stream Austria GmbH.

In December 2016, the Company acquired from Gazprom Gerosgaz Holding B.V. a 50-percent interest in the charter capital of Nord Stream 2 AG in the amount of RUB 2,028,486 thousand.

In January 2016, the Company sold to JSC Gasonia a 25-percent interest in the charter capital of Gasum Oy in the amount of RUB 20,892,635 thousand, which resulted in the Gasum Oy leaving the list of the Company's major associates.



## 18. Related parties (continued)

### Other major related parties

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

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

In May 2016, the Company sold to Trilini Energy OU a 6.382-percent interest in the charter capital of JSC Eesti Gaas in the amount of RUB 314,579 thousand.

### Related-party transactions

Figures for 2014 and 2015 are adjusted so as to follow the comparability principle of current and prior period accounting information concerning transactions with related parties.

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

	2016	2015
Sale		
(net of VAT, excise, customs duties and similar payments):		
gas	1,126,868,798	1,099,757,362
leased assets	706,219,557	702,544,382
gas transportation services	8,943,004	11,600,397
gas condensate and oil and gas refinery products	5,133,497	5,999,172

## 18. Related parties (continued)

	2016	2015
Acquisition:		
gas transportation and storage services	1,062,771,197	1,078,447,878
gas	555,042,531	536,148,392
liquid hydrocarbons	88,564,912	72,878,763
liquid hydrocarbons refinery services	27,876,491	28,669,484

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

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

	31 December		
	2016	2015	2014
Accounts receivable	1,156,886,817	1,675,593,678	1,257,743,696
Accounts payable	378,479,840	375,830,907	357,215,139

Accounts receivable include outstanding interest free loans given to the major wholly owned subsidiaries in the amount of RUB 241,967,475 thousand, RUB 166,747,737 thousand and RUB 31,153,854 thousand as at 31 December 2016, 2015 and 2014, respectively.

Loans due from the major wholly owned subsidiaries of PJSC Gazprom were as follows:

	31 December		
	2016	2015	2014
Loans due beyond 12 months of the reporting date	2,294,290	1,862,500	51,700,500
Loans due within 12 months of the reporting date	102,729,554	1,211,000	15,485,809

Interest on loans that the Company granted to its major wholly owned subsidiaries was RUB 7,663,523 thousand, RUB 3,289,990 thousand and RUB 4,900,892 thousand in 2016, 2015 and 2014, respectively. The Company issued loans to its major wholly owned subsidiaries at the interest rates ranging from 8.27% to 16.16%, from 7.82% to 16.16% and from 7.05% to 10.81% in 2016, 2015 and 2014, respectively.

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

	31 December		
	2016	2015	2014
Loans due beyond 12 months of the reporting date	5,000,000	15,000,000	31,952,834
Loans due within 12 months of the reporting date	59,603,411	42,900,749	4,339,794

## 18. Related parties (continued)

As at 31 December 2016, the debt on loans received from LLC Gazprom capital due beyond 12 months of the reporting date amounted to RUB 5,000,000 thousand, and as at 31 December 2015 and 31 December 2014 the debt on these loans amounted to RUB 15,000,000 thousand and RUB 30,000,000 thousand, respectively.

Interest on loans that the Company received from its major wholly owned subsidiaries was RUB 1,633,703 thousand, RUB 2,346,654 thousand and RUB 2,309,985 thousand in 2016, 2015 and 2014, respectively.

The Company received loans from its major wholly owned subsidiaries at the interest rates ranging from 0.00% to 12.78% in 2016, from 0.00% to 12.61% in 2015, from 0.00% to 7.65% in 2014.

In 2016, the Company allocated cash of RUB 26,115,760 thousand for the increase of charter capitals of its major wholly owned subsidiaries (2015: RUB 164,336,037 thousand, 2014: RUB 8,405,922 thousand). These amounts included RUB 14,598,000 thousand to increase the charter capital of LLC Gazprom pererabotka (2015: RUB 15,000,000 thousand, 2014: RUB 3,060,000 thousand), and RUB 4,635,942 thousand to increase the charter capital of LLC Gazprom Kyrgyzstan (2015: RUB 2,923,893 thousand, 2014: RUB 0 thousand), and RUB 4,175,000 thousand to increase the charter capital of LLC Gaz-Oil (2015: RUB 2,175,000 thousand, 2014: RUB 1,300,000 thousand).

In 2016, the Company made additional contributions to the charter capitals of its major wholly owned subsidiaries by way of non-monetary assets in the amount of RUB 1,722,410 thousand (2015: RUB 12,268,445 thousand, 2014: RUB 1,490,204 thousand). These amounts included RUB 1,722,410 thousand to increase the charter capital of LLC Gazpromtrans in 2016. In 2015 and 2014, no additional contributions were made into the charter capital of LLC Gazpromtrans.

Guarantees issued by the Company on behalf of its other major wholly owned subsidiaries totalled RUB 168,039,156 thousand, RUB 289,534,098 thousand and RUB 237,469,427 thousand as at 31 December 2016, 2015 and 2014, respectively.

### Transactions with other major subsidiaries

	2016	2015
Sale		
(net of VAT, excise, customs duties and similar payments):		
gas transportation services	29,333,415	46,526,950
Acquisition:		
gas	82,803,398	128,232,552
gas condensate, oil and oil and gas refinery products	28,615,963	18,612,267

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

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

	31 December		
	2016	2015	2014
Accounts receivable	11,320,875	48,953,460	8,466,696
Accounts payable	16,156,655	17,511,385	19,238,369

## 18. Related parties (continued)

The debt of other major subsidiaries of the Company due to the Company was as follows:

	31 December		
	2016	2015	2014
Loans due beyond 12 months of the reporting date	93,714,910	117,997,091	90,595,152
Loans due within 12 months of the reporting date	8,525,206	20,950,129	16,476,367

As at 31 December 2016, 2015 and 2014, loans due beyond 12 months are represented by the debt of the Company's subsidiary Gazprom EP International B.V. amounted to RUB 93,714,910 thousand, RUB 117,997,091 thousand and RUB 90,595,152 thousand, respectively. As at 31 December 2016, 2015 and 2014, loans due within 12 months are represented primarily by the debt of its subsidiary JSC Daltransgaz amounted to RUB 3,129,941 thousand, RUB 3,849,809 thousand and RUB 4,590,325 thousand, respectively; and by the debt of Gazprom EP International B.V. in the amount of RUB 4,488,611 thousand, RUB 15,524,015 thousand and RUB 10,239,029 thousand as at 31 December 2016, 2015 and 2014, respectively.

Interest on loans that the Company granted to its other major subsidiaries was RUB 3,809,501 thousand, RUB 4,010,388 thousand and RUB 2,207,438 thousand in 2016, 2015 and 2014, respectively.

The Company granted loans to its other major subsidiaries at the interest rates ranging from 3.19% to 8.48% in 2016, 2015 and 2014.

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

	31 December		
	2016	2015	2014
Loans due within 12 months of the reporting date	265,703,391	392,542,314	373,307,206

As at 31 December 2016, 2015 and 2014, loans due within 12 months are represented basically by the loan payable to the subsidiary Gazprom Sakhalin Holdings B.V. in the amount of RUB 265,703,391 thousand, RUB 392,542,314 thousand and RUB 373,307,206 thousand, respectively.

Interest on loans that the Company received from its other major subsidiaries was RUB 8,967,880 thousand, RUB 11,412,875 thousand and RUB 7,346,104 thousand in 2016, 2015 and 2014, respectively, including interest on the loan received from Gazprom Sakhalin Holdings B.V. amounting to RUB 8,967,880 thousand, RUB 11,412,875 thousand and RUB 6,528,874 thousand in 2016, 2015 and 2014, respectively.

The Company received loans from its other major subsidiaries at interest rates ranging from 1.71% to 3.60% in 2016, from 2.15% to 3.60% in 2015, from 1.2% to 8.46% in 2014.

Guarantees issued by the Company on behalf of its other major subsidiaries totalled RUB 0 thousand, RUB 16,967,763 thousand and RUB 17,131,361 thousand as at 31 December 2016, 2015 and 2014, respectively.

## Transactions with major associates

	2016	2015
Sale (net of VAT, excise, customs duties and similar payments):		
gas	62,300,224	74,393,901
Acquisition:		
gas transportation and storage services, including	105,906,011	102,161,427
through LLC Gazprom export acting as the commissioner	99,614,679	96,035,565

## 18. Related parties (continued)

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

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

	31 December		
	2016	2015	2014
Accounts receivable	349,886,237	417,287,662	279,415,712
Accounts payable	8,260,585	12,475,373	9,024,705

As at 31 December 2016, 2015 and 2014 the doubtful debt provisions of RUB 321,711,205 thousand, RUB 361,887,737 thousand and RUB 247,262,465 thousand, respectively, were formed in respect to receivables from major associates.

The loans receivables from the Company's major associates were as follows:

	31 December		
	2016	2015	2014
Loans due beyond 12 months of the reporting date	4,957,373	4,957,373	–
Loans due within 12 months of the reporting date	3,890,869	3,862,565	3,816,845

As at 31 December 2016 and 2015, loans due beyond 12 months of the reporting date are presented by the loan of RUB 4,957,373 thousand given to Belgazprombank, a joint Belarusian-Russian open joint-stock company. As at 31 December 2016, 2015 and 2014, loans due within 12 months of the reporting date are presented by the loans of RUB 3,890,869 thousand, RUB 3,862,565 thousand and RUB 3,816,845 thousand, respectively, given to LLC TsentrKaspiyeftegaz.

Interest on loans given by the Company to its major associates was RUB 776,935 thousand, RUB 717,576 thousand and RUB 322,603 thousand in 2016, 2015 and 2014, respectively.

In 2016, the Company granted loans to its major associates at the interest rates ranging from 8.25% to 11.50% (2015: from 8.25% to 8.50%, 2014: 8.50%).

Deposits placed with Gazprombank (Joint Stock Company) totalled RUB 142,229,915 thousand, RUB 82,957 thousand and RUB 20,123,717 thousand as at 31 December 2016, 2015 and 2014, respectively.

	31 December		
	2016	2015	2014
Deposits due beyond 12 months of the reporting date	42,229,915	–	67,456
Deposits due within 12 months of the reporting date	100,000,000	82,957	20,056,261

No loans or borrowings were raised from the major associates in 2016, 2015 and 2014.

Guarantees issued by the Company on behalf of its major associates amounted to RUB 0 thousand, RUB 26,975 thousand and RUB 62,466 thousand as at 31 December 2016, 2015 and 2014, respectively.

## 18. Related parties (continued)

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

Line code	Narrative	For reporting period	including major subsidiaries and associates	For the same period of the prior year	including major subsidiaries and associates
<b>Cash flows from operating activities</b>					
<b>4110</b>	<b>Receipts – total, including:</b>	<b>5,188,167,787</b>	<b>2,230,413,619</b>	<b>4,728,851,572</b>	<b>1,918,474,314</b>
4111	sales of products, goods, work and services	4,706,944,240	1,981,310,833	4,440,537,307	1,798,998,349
4112	rent payments, licence payments, royalties, commissions and other payments	–	–	–	–
4113	resale of financial investments	–	–	–	–
4119	other receipts	481,223,547	249,102,786	288,314,265	119,475,965
<b>4120</b>	<b>Payments – total, including:</b>	<b>(4,183,927,855)</b>	<b>(2,557,203,136)</b>	<b>(4,049,555,002)</b>	<b>(2,384,839,397)</b>
4121	to suppliers for raw materials, works, services	(2,782,542,330)	(2,059,524,694)	(2,793,760,058)	(2,074,527,248)
4122	wages and salaries	(40,124,474)	–	(36,603,750)	–
4123	interests on borrowings	(113,223,285)	(11,213,840)	(111,994,733)	(13,547,129)
4124	income tax	(56,588,662)	–	(56,064,328)	–
4129	other payments	(1,191,449,104)	(486,464,602)	(1,051,132,133)	(296,765,020)
<b>4100</b>	<b>Net cash flows from operating activities</b>	<b>1,004,239,932</b>	<b>(326,789,517)</b>	<b>679,296,570</b>	<b>(466,365,083)</b>
<b>Cash flows from investing activities</b>					
<b>4210</b>	<b>Receipts – total, including:</b>	<b>307,407,138</b>	<b>216,306,977</b>	<b>358,534,202</b>	<b>326,725,622</b>
4211	from sales of non-current assets (except for financial investments)	943,715	1,995	879,118	–
4212	from sales of shares of other entities (ownership interest)	44,925,071	–	6,131,833	–
4213	from return of loans issued, sales of debt securities (rights of claiming cash from third parties)	63,309,482	28,578,955	101,911,904	94,613,281
4214	dividends, interest from long-term financial investments and receipts from participation in other entities	193,321,323	187,557,004	247,855,122	230,664,105
4219	other receipts	4,907,547	169,023	1,756,225	1,448,236
<b>4220</b>	<b>Payments – total, including:</b>	<b>(1,132,734,763)</b>	<b>(1,013,833,290)</b>	<b>(1,037,076,175)</b>	<b>(981,588,909)</b>
4221	acquisition, construction, modernisation, reconstruction and preparation for the use of non-current assets	(63,458,573)	(52,489,557)	(37,784,249)	(19,492,459)
4222	acquisition of other entities shares (ownership interest)	(29,872,861)	(26,155,949)	(203,697,781)	(203,365,459)
4223	acquisition of debt securities (rights of claiming cash from third parties), issue of loans to third parties	(344,000,603)	(297,138,822)	(82,888,712)	(82,660,004)
4224	borrowing costs included in the cost of the investment asset	–	–	–	–
4225	construction/acquisition of exploration assets	(51,884,160)	(28,234,338)	(27,688,910)	(27,307,574)
4229	other payments	(643,518,566)	(609,814,624)	(685,016,523)	(648,763,413)
<b>4200</b>	<b>Net cash flows from investing activities</b>	<b>(825,327,625)</b>	<b>(797,526,313)</b>	<b>(678,541,973)</b>	<b>(654,863,287)</b>
<b>Cash flows from financing activities</b>					
<b>4310</b>	<b>Receipts – total, including:</b>	<b>370,856,555</b>	<b>48,551,765</b>	<b>309,758,112</b>	<b>59,558,901</b>
4311	borrowings and bank loans	370,814,825	48,551,765	309,745,273	59,558,901
4312	contributions of owners (participants)	–	–	–	–
4313	issue of shares, increase in ownership interest	–	–	–	–
4314	issue of bonds, promissory notes and other debt securities, etc.	–	–	1,284	–
4319	other receipts	41,730	–	11,555	–

## 18. Related parties (continued)

Line code	Narrative	For reporting period	including major subsidiaries and associates	For the same period of the prior year	including major subsidiaries and associates
<b>4320</b>	<b>Payments – total, including:</b>	<b>(516,691,526)</b>	<b>(106,425,368)</b>	<b>(573,542,349)</b>	<b>(103,446,233)</b>
4321	to owners (participants) due to the fact of share buy-back or cessation of membership	–	–	–	–
4322	dividend payments or other distribution of profit to owners (participants)	(183,250,569)	–	(167,340,747)	–
4323	redemption (buy-back) of promissory notes and other debt securities, loan repayment	(333,440,957)	(106,425,368)	(406,150,047)	(103,446,233)
4329	other payments	–	–	(51,555)	–
<b>4300</b>	<b>Net cash flows from financing activities</b>	<b>(145,834,971)</b>	<b>(57,873,603)</b>	<b>(263,784,237)</b>	<b>(43,887,332)</b>
<b>4400</b>	<b>Net cash flows for the reporting period</b>	<b>33,077,336</b>	<b>(1,182,189,433)</b>	<b>(263,029,640)</b>	<b>(1,165,115,702)</b>

## Transactions with other major related parties

	2016	2015
Sale (net of VAT, excise, customs duties and similar payments):		
gas	455,547,093	538,875,540
gas condensate, oil and oil and gas refinery products	225,658,268	202,545,272
gas transportation services	28,129,719	38,194,898
leased assets	20,761,368	21,472,474
Acquisition:		
gas	215,942,769	311,789,123
gas transportation and storage services, including	21,994,272	21,615,163
through LLC Gazprom export acting as the commissioner	21,980,826	21,550,800
liquid hydrocarbons	53,866,988	48,006,499
oil products refinery services	19,575,461	18,427,793

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

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

	31 December		
	2016	2015	2014
Accounts receivable	263,207,772	319,587,441	280,356,968
Accounts payable	56,136,747	62,694,540	76,764,581

As at 31 December 2016, doubtful debt provision was formed for accounts receivable from other major related parties in the amount of RUB 6,379,967 thousand. In 2015, 2014 no doubtful debt provision was formed for accounts receivable from other major related parties of the Company.



## 18. Related parties (continued)

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

	31 December		
	2016	2015	2014
Loans due beyond 12 months of the reporting date	–	16,100,000	47,700,000
Loans due within 12 months of the reporting date	39,600,000	31,600,000	6,500,000

Interest on loans that the Company granted to its other major related parties in 2016 amounted to RUB 3,926,660 thousand (2015: RUB 4,242,886 thousand, 2014: RUB 3,491,477 thousand).

In 2016 the Company granted loans to its other major related parties at interest rates ranging from 8.00% to 10.50% (2015: from 7.91% to 8.18%, 2014: from 7.91% to 8.18%).

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

	31 December		
	2016	2015	2014
Loans due to within 12 months of the reporting date	109,570,560	78,664,932	79,127,374

Interest on loans that the Company received from other major related parties was RUB 8,260,673 thousand, RUB 7,962,754 thousand and RUB 5,143,070 thousand in 2016, 2015 and 2014, respectively.

Interest on loans that the Company received from its other major related parties varied from 0.00% to 11.51% in 2016 and 2015 (2014: from 6.90% to 10.92%).

Guarantees issued by the Company on behalf of its other major related parties totalled RUB 10,787,980 thousand, RUB 13,589,460 thousand and RUB 147,464,048 thousand as at 31 December 2016, 2015 and 2014, respectively.

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

	2016	2015
Cash inflow, including:		
from operating activities	1,106,713,544	941,660,932
from financing activities	1,006,293,635	919,133,902
from investing activities	37,036,261	532,701
Cash outflow, including:		
from operating activities	63,383,648	21,994,329
from financing activities	410,246,046	478,528,608
from investing activities	346,092,819	443,640,602
	14,530,283	8,476,000
	49,622,944	26,412,006

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

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



## 18. Related parties (continued)

### Remuneration to key management personnel

Short-term compensation of key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom), including salary, bonuses and remuneration for membership in the management bodies of the Company, amounted to RUB 3,196,598 thousand, RUB 3,500,341 thousand and RUB 3,118,188 thousand for the years ended 31 December 2016, 2015 and 2014, respectively. Such amounts include personal income tax and insurance contributions. Government employees, who are members of the Board of Directors, do not receive any remuneration from the Company. Remuneration of members of the Board of Directors shall be approved by the annual meeting of shareholders. Compensation of key management personnel (other than remuneration of the Board of Directors) is determined by the terms of employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to the Russian legislation, the Company makes contributions to the Russian Federation State Pension Fund, Social Insurance Fund of the Russian Federation, Federal Compulsory Medical Insurance Fund calculated on the basis of salaries and other payments to employees, including the key management personnel.

The Company also provided medical insurance and liability insurance for its key management personnel. Voluntary medical insurance amounted to RUB 6,914 thousand, RUB 7,057 thousand and RUB 824 thousand, and the liability insurance was RUB 1,526 thousand, RUB 1,607 thousand and RUB 1,376 thousand in 2016, 2015 and 2014, respectively.

## 19. Estimated and contingent liabilities

### Estimated liabilities

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

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

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

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

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

The Company recognises estimated liabilities with respect to the removal of the infrastructure facilities of the Kirinskoye gas and condensate field and the infrastructure facilities of the Chayandinskoye field, and with respect to the removal of the completed and suspended exploratory and prospecting wells.

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

## 19. Estimated and contingent liabilities (continued)

mineral resources does not have any liabilities of dismantling fixed assets that are not subject for further use or restoring the environment disturbed by the subsoil use.

### Pension liabilities

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

### Estimated liabilities related to gas price adjustments

The Company has recognised estimated liabilities related to price adjustments with regard to delivered gas supplies caused by foreign customer claims based on contract conditions. The estimated liabilities of RUB 81,437,436 thousand, RUB 97,154,243 thousand and RUB 51,253,268 thousand as at 31 December 2016, 2015 and 2014, respectively, do not include any potential adjustment of customs duties accrued earlier.

### Contingencies

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

	31 December		
	2016	2015	2014
Guarantees issued on behalf of the following entities:			
LLC Novourenskoy GSC	151,940,736	270,205,669	218,397,257
OJSC Gazprom Space Systems	48,166,909	59,670,485	47,827,225
OJSC Severneftegazprom	–	16,967,763	16,967,763
LLC Gazprom neft shelf	10,787,980	13,589,460	10,973,802
LLC Gazprom export	9,188,599	11,476,148	10,099,486
Blackrock Capital Investments Ltd.	4,967,513	9,946,006	7,675,462
LLC Gazprom investproject	6,909,821	7,852,281	8,972,684
PJSC Gazprom avtomatizatsiya	1,930,000	2,450,000	–
JSC Achimgaz	–	1,476,393	–
JSC Gaztransit	–	26,975	62,466
Sakhalin Energy Investment Company Ltd.	–	–	136,490,246
LLC VIS Production Company	–	–	7,016,244
EM Interfinance Ltd	–	–	3,064,641
Other	8,286	53,314	246,678
<b>Total</b>	<b>233,899,844</b>	<b>393,714,494</b>	<b>467,793,954</b>

In January 2007, the Company issued guarantees for the liabilities of LLC Gazprom neft shelf to Blueward Shipping Company Ltd. and Nostalgic Moon Shipping Company Ltd. under shipping agreements. The guarantees will be valid for 25 years after the vessels are transferred to LLC Gazprom neft shelf. As at 31 December 2016, 2015 and 2014 the guarantees totalled RUB 10,787,980 thousand, RUB 13,589,460 thousand and RUB 10,973,802 thousand, respectively.

In 2006, the Company issued guarantees to Asset Repackaging Trust Five B.V. registered in the Netherlands, for Blackrock Capital Investments Limited registered in Ireland in respect to the issued bonds maturing in June, 2018. The bonds were issued to raise financing for construction of a transit gas pipeline in the territory of Poland to be carried out by JSC EuroPol Gaz. Consequently, as at 31 December 2016, 2015 and 2014 the guarantees totalled RUB 4,967,513 thousand, RUB 9,946,006 thousand and RUB 7,675,462 thousand, respectively.

## 19. Estimated and contingent liabilities (continued)

In May 2010, the Company issued a guarantee valid till October 2023 to Bank BNP Pariba SA as a security of the loan granted to OJSC Gazprom Space Systems. As at 31 December 2016, 2015 and 2014, the guarantee amounted to RUB 8,410,609 thousand, RUB 12,461,834 thousand and RUB 12,239,397 thousand, respectively.

In May 2011, the Company pledged the shares of OJSC Severneftegazprom to ING Bank N.V. before December 2018 to secure the obligations of OJSC Severneftegazprom under the project financing agreement. As at 31 December 2015 and 2014, the collateral amounted to RUB 16,967,763 thousand. In October 2016, in view of an early performance of its obligations by OJSC Severneftegazprom, the encumbrances on the shares were lifted.

In September 2002, the Company issued a guarantee valid till June 2017 to Gazprombank (Joint Stock Company) to secure the loan provided to JSC Gaztransit. As at 31 December 2015 and 2014, the guarantee amounted to RUB 26,975 thousand and RUB 62,466 thousand, respectively. In June 2016, JSC Gaztransit repaid the loan early, and the guarantee agreement, was, therefore, terminated.

In March 2011, the Company issued a guarantee valid till March 2016 to Bank of Tokyo Mitsubishi UFJ Ltd. as a security of the loan granted to LLC Novourengoysky GCC. As at 31 December 2015 and 2014, the guarantee amounted to RUB 21,976,353 thousand and RUB 16,955,815 thousand, respectively. In March 2016, LLC Novourengoysky GCC repaid the loan, and the guarantee agreement was, therefore, terminated.

In July 2011, the Company issued a guarantee valid till July 2016 to Sumitomo Mitsui Finance Dublin Ltd as a security of the loan granted to LLC Novourengoysky GCC. As at 31 December 2015, 2014, the guarantee amounted to RUB 23,436,464 thousand and RUB 18,074,256 thousand, respectively. In July 2016, LLC Novourengoysky GCC repaid the loan, and the guarantee agreement was, therefore, terminated.

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

In December 2011, the Company issued a guarantee valid till December 2016 to Bank of America Securities Ltd. as a security of the loan granted to LLC Novourengoysky GCC. As at 31 December 2015 and 2014, the guarantee amounted to RUB 18,408,008 thousand and RUB 14,647,147 thousand, respectively. In December 2016, LLC Novourengoysky GCC discharged its loan obligations, and the guarantee agreement was, therefore, terminated.

In August 2012, the Company issued a guarantee valid till April 2016 to Deutsche Bank AG as a security of the loan granted to LLC Novourengoysky GCC. As at 31 December 2015, 2014, the guarantee amounted to RUB 29,897,529 thousand and RUB 23,022,409 thousand, respectively. In April 2016, LLC Novourengoysky GCC discharged its loan obligations, and the guarantee agreement was, therefore, terminated.

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

In November 2012, the Company issued a guarantee valid till October 2017 to Bank of America Securities Ltd. as a security of the loan granted to LLC Novourengoysky GCC. As at 31 December 2016, 2015 and 2014, the guarantee amounted to RUB 11,681,132 thousand, RUB 14,603,683 thousand and RUB 12,534,923 thousand, respectively.

In September 2013, the Company issued a guarantee valid till September 2018 to Bank of America Securities Ltd. as a security of the loan granted to OJSC Gazprom Space Systems. As at 31 December 2016, 2015 and 2014, the guarantee amounted to RUB 9,362,026 thousand, RUB 22,157,829 thousand and RUB 17,061,100 thousand, respectively.

## 19. Estimated and contingent liabilities (continued)

In October 2013, the Company issued a guarantee valid till October 2018 to Bank of America Securities Ltd. as a security of the loan granted to LLC Novourengoysky GCC. As at 31 December 2016, 2015 and 2014, the guarantee amounted to RUB 18,586,920 thousand, RUB 22,274,253 thousand and RUB 17,157,627 thousand, respectively.

In October 2013, the Company issued a guarantee valid till August 2017 to PJSC Sberbank of Russia as a security of the loan granted to LLC Novourengoysky GCC. As at 31 December 2016, 2015 and 2014, the guarantee amounted to RUB 14,443,025 thousand, RUB 18,047,305 thousand and RUB 15,484,310 thousand, respectively.

In December 2013, the Company issued a guarantee valid till December 2018 to UniCredit Bank Austria AG as a security of the loan granted to LLC Novourengoysky GCC. As at 31 December 2016, 2015 and 2014, the guarantee amounted to RUB 12,366,748 thousand, RUB 14,825,963 thousand and RUB 11,415,664 thousand, respectively.

In January 2014, the Company issued a guarantee valid till December 2018 to PJSC Sberbank of Russia as a security of the loan granted to LLC Novourengoysky GCC. As at 31 December 2016, 2015 and 2014, the guarantee amounted to RUB 9,275,061 thousand, RUB 11,119,472 thousand and RUB 8,561,748 thousand, respectively.

In September 2014, the Company issued a guarantee valid till September 2019 to UniCredit Bank Austria AG as a security of the loan granted to OJSC Gazprom Space Systems. As at 31 December 2016, 2015 and 2014, the guarantee amounted to RUB 3,999,911 thousand, RUB 5,000,406 thousand and RUB 4,293,686 thousand, respectively.

In July 2015, the Company issued a guarantee valid till January 2017 to Wintershall Vermoögens-verwaltungsgesellschaft GmbH as a security of the loan granted to JSC Achimgaz. As at 31 December 2015, the guarantee amounted to RUB 1,476,393 thousand. In March 2016, JSC Achimgaz discharged its loan obligations, and the guarantee agreement was, therefore, terminated.

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

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

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

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

Based on the Company's estimates, there are no third party liability secured by PJSC Gazprom's guarantee with any significant risk of default as at 31 December 2016, 2015 and 2014. The Company, therefore, did not record estimated liabilities for the issued guarantees as of 31 December 2016, 2015 and 2014.

### Legal proceedings

On 16 June 2014, the Company addressed the Arbitration Court of Stockholm Chamber of Commerce, Sweden, with a request for arbitration aimed at demanding NJSC Naftogaz of Ukraine to settle the outstanding payments and the corresponding interest for the natural gas supplied in November-December 2013 and in April-May 2014.

At the same time, on 16 June 2014, NJSC Naftogaz of Ukraine addressed the Arbitration Court of Stockholm Chamber of Commerce with a request for arbitration with regard to the Company, claiming to retrospectively change the price of gas and refund excessively paid amounts for the period from 20 May 2011, as well as to revoke the contract provision prohibiting the sale of gas supplied under the contract, outside Ukraine. On 1 July 2014,

## 19. Estimated and contingent liabilities (continued)

NJSC Naftogaz of Ukraine and the Company provided their responses to corresponding arbitration requests. On 21 July 2014, both requests were combined into one litigation process. The total corrected amount of claim against the Company exceeds USD 14,230 million. On 12 June 2015, the Company provided a response to the claim by NJSC Naftogaz of Ukraine and a counter-claim with a corrected total amount of its claims of USD 29,200 million. On 9 October 2015, NJSC Naftogaz of Ukraine applied to withdraw the claim against the Company. On 14 March 2015, the Company filed its response to the withdrawal by NJSC Naftogaz of Ukraine of its claim with the arbitration court. The corrected amount of claim of the Company against NJSC Naftogaz of Ukraine exceeded USD 37 billion. This amount includes the outstanding payment for the gas supplied in May-June 2014, and take-or-pay obligations for 2012-2016, and penalty interest for late payment for the gas supplied. Verbal hearings in the case eventually took place, the parties presented their closing statements on 11 November 2016, and the arbitration panel is expected to deliver its ruling on 30 April 2017.

On 13 October 2014, NJSC Naftogaz of Ukraine addressed the Arbitration Court of Stockholm Chamber of Commerce, Sweden, with a request for arbitration with regard to the Company seeking: (1) to acknowledge that rights and obligations of NJSC Naftogaz of Ukraine under the Contract on volumes and terms of gas transportation through Ukraine in 2009-2019 should be transferred to Ukrtransgaz; (2) to acknowledge that certain provisions of Contract, that will be subsequently updated, are invalid and/or inoperative and should be supplemented with or substituted by provisions that will be updated in line with the energy and anti-monopoly legislation of Ukraine and the EU; (3) to oblige the Company to pay a compensation of USD 3,200 million (and related interest) to NJSC Naftogaz of Ukraine for the failure to provide agreed volumes of gas for transit; (4) to acknowledge that the transit tariff stipulated in the Contract should be revised in such a way as provided in further written statements of NJSC Naftogaz of Ukraine in line with key principles of the Swedish contractual law.

The claim amounts to approximately USD 6,200 million. On 28 November 2014, the Company responded to the request for arbitration. A new arbitration panel was formed on 11 December 2014. On 28 January 2015, the arbitration court made a decision not to combine the case with the above ones. On 30 April 2015, NJSC Naftogaz of Ukraine filed a claim increasing the amount of its claims, according to various estimates, up to USD 11–16 billion. Verbal hearings in the case eventually took place, the parties presented their closing statements on 22 December 2016, the arbitration panel is expected to deliver its ruling on 30 June 2017.

On 25 January 2016, the Antimonopoly Committee of Ukraine made a decision to impose a fine on PJSC Gazprom in the amount of UAH 85,966 million (about USD 3,370 million) for violation of economic competition. On 12 April 2016, PJSC Gazprom filed an appeal with the Kiev Commercial Court challenging the decision by the Antimonopoly Committee of Ukraine. On 13 April 2016, the appeal was returned unconsidered on formal grounds. On 4 May 2016, PJSC Gazprom filed an appeal with the Kiev Commercial Court of Appeal which resolved to keep the first-instance court's decision unchanged based on the decision made on 18 May 2016. On 7 June 2016, PJSC Gazprom filed a cassational appeal with the Supreme Commercial Court of Ukraine. On 13 July 2016, the Supreme Commercial Court of Ukraine rejected the appeal filed by PJSC Gazprom maintaining the first-instance court's ruling and the resolution of the court of appeal. On 2 September 2016, PJSC Gazprom filed a petition with the Supreme Court of Ukraine to review the minor courts' decisions in the case. On 13 September 2016, the Supreme Court of Ukraine rejected the commencement of proceedings over the review of the minor courts' decisions in the case. On 7 October 2016, the Kiev Commercial Court delivered a ruling to open proceedings in the case based on a claim filed by the Antimonopoly Committee of Ukraine seeking from PJSC Gazprom enforced collection of the earlier imposed fine in the amount of about USD 3,300 million, penalty interest in the amount about USD 3,300 million and to enforce a portion of its decision dealing with the PJSC Gazprom's all obligations under Contract No. TKGU with respect to the volumes of gas supplied for transit purposes. On 5 December 2016, the Court upheld the claims of the Antimonopoly Committee of Ukraine in their entirety. PJSC Gazprom is looking to challenge this judgement.

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



## 19. Estimated and contingent liabilities (continued)

### Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and frequent change. As of 31 December 2016, the management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency and customs positions will be sustained.

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

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

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

## 20. Business risks

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

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

## 21. Information on production innovations and upgrade

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

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

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

28 March 2017



## **II PJSC Gazprom IFRS consolidated financial statements 31 December 2016**



<b>Independent Auditor's Report</b>	80
<b>Consolidated Balance Sheet</b>	86
<b>Consolidated Statement of Comprehensive Income</b>	88
<b>Consolidated Statement of Cash Flows</b>	90
<b>Consolidated Statement of Changes in Equity</b>	91
<b>Notes to the Consolidated Financial Statements</b>	93

To the Shareholders and the Board of Directors of PJSC Gazprom

### Opinion

We have audited the accompanying consolidated financial statements of PJSC Gazprom and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended December 31, 2016, and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

### Basis for Opinion

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

### Key Audit Matters

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

### Revenue recognition

We focused on revenue recognition in our audit because of broad geographic segments of the streams of revenue with significantly different terms underlying revenue recognition, including price determination and the procedure for price change, and identification of risks and rewards.

We assessed the consistency in the application of the revenue recognition accounting policy against various types of revenue and geographic segments. Our audit procedures with respect to material misstatement risk included, specifically, test of controls and application of substantive procedures with respect to the sales transactions. Based on the results of our audit procedures, we found the position of the Group's management on the revenue recognition to be appropriate.

Special emphasis was laid on the analysis and testing of estimated liabilities associated with adjusted gas prices under long-term agreements and existing controls in this area. The amount of the projected adjustments depends of the effective terms and conditions of the contracts and the results of the negotiations between the Group and the specific customers. Based on the results of the analysis, we found that the amount of the estimated liability recognised as at the end of the reporting period is the best indication of costs required to settle the existing liability.

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

### Impairment assessment of non-current assets

We consider this area to be one of the most significant audit areas in view of high significance of the non-current assets, a high level of subjectivity of the underlying assumptions as well as the judgements and estimates made by the management used to conduct the impairment analysis. Furthermore, significant cut in prices for energy resources, change in demand and depreciation of the Russian Ruble might result in the impairment of the Group's assets.

We assessed significant assumptions underlying the impairment test procedures with respect to various cash-generating units. The significant assumptions, specifically, included discount rates, forecast prices for energy resources and exchange rates, and evaluation of volumes of extraction and sale. This analysis revealed that the significant assumptions applied by the Group's management in calculating the recoverable amount of the assets as at the end of the reporting period are within the acceptable range and are well in line with current economic environment.

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

Special emphasis was also laid on the assessment of the assets under construction. We conducted a thorough analysis of the facilities where no active works had been done for long. The management of the Group decided to recognise impairment allowance with respect to such assets. In our opinion, this decision is well in line with the current expectations about possible economic rewards from these assets.

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

### Impairment of accounts receivable

One of high-risk audit areas is the evaluation of sufficiency of impairment allowance for accounts receivable. We assessed the assumptions and professional judgement applied by the Group, including critical assessment of the information used by the Group to make projections of the ability of its customers to repay their debts. We also applied procedures to test controls over the recognition and repayment of the receivables.

Given current political and economic environment in Ukraine, we paid greater attention to the evaluation of the impairment allowance for accounts receivable with respect to NJSC Naftogaz of Ukraine. As at the end of the reporting period, a allowance was made for the entire amount of the receivables due from NJSC Naftogaz of Ukraine.

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

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

### Estimated and contingent liabilities in respect of litigations

Evaluation, recognition and disclosure of information about estimated and contingent liabilities in respect of litigations require plenty of professional judgement. We consider this area to be one of most significance in our audit due to the significant amounts subject to contestation and essential difficulties associated with the assessment issue. The Group is a party to a number of significant litigations, including litigations with the Ukrainian party:

- proceedings on the claim of NJSC Naftogaz of Ukraine, dated 16 June 2014, seeking, specifically, a retroactive revision of the price, cancellation of a contractual provision for the supply of natural gas which prevents the re-export of natural gas outside Ukraine;
- proceedings on the claim of NJSC Naftogaz of Ukraine, dated 13 October 2014, seeking, specifically, to enforce PJSC Gazprom to reimburse NJSC Naftogaz of Ukraine for the volumes of gas not supplied for transit purpose;

- proceedings on the claim of the Antimonopoly Committee of Ukraine, dated 25 January 2016, that made a ruling to impose a fine on PJSC Gazprom for violating economic competition.

Procedures we applied included analysis of the rulings delivered by the court of various jurisdictions, discussions of significant matters with the Group's staff, including staff responsible for providing judicial and legal support to the Group in its activities, evaluation and testing of terms underlying the recognition of estimated liabilities and disclosure of contingencies.

Based on the results of the procedures applied, we found the criteria and estimates applied by the management to be acceptable and the disclosures to be consistent and appropriate.

Information about estimated liabilities is disclosed in Note 24 "Provisions for liabilities and charges", information about contingencies is disclosed in Note 37 "Operating risks" to the consolidated financial statements.

### Other Information

Management is responsible for the other information. The other information comprises the information included in Management's report of PJSC Gazprom for 2016 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, Annual report of PJSC Gazprom for 2016 and Quarterly issuer's report of PJSC Gazprom for the second quarter of 2017, which are expected to be made available to us after the date of this auditor's report.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read Annual report of PJSC Gazprom for 2016 and Quarterly issuer's report of PJSC Gazprom for the second quarter of 2017, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors' Audit Committee.

### Responsibilities of Management and the Board of Directors' Audit Committee for the Consolidated Financial Statements

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

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

Management and the Board of Directors' Audit Committee are responsible for overseeing the Group's financial reporting process (within the functions of control over ensuring the completeness, accuracy and reliability of the PJSC Gazprom's financial statements).

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

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

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

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

We communicate with the Board of Directors' Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors' Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

President of FBK, LLC

S.M. Shapiguzov  
(by virtue of the Charter,  
Audit Qualification Certificate  
01-001230, ORNZ 21606043397)

Engagement partner

K.S. Shirikova, ACCA  
(Audit Qualification Certificate  
d.9 July 2012, No. 01-000712,  
ORNZ 20501042062)

Date of Independent auditor's report  
April 27, 2017

**Audited entity****Name:**

Public Joint Stock Company (PJSC Gazprom).

**Place of business:**

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

**Official registration:**

State registration certificate No. 002.726, issued by Moscow Registration Chamber on 25 February 1993.

The registration entry was made in the Unified State Register of Legal Entities on 2 August 2002 under principal state registration number 1027700070518.

**Independent auditor****Name:**

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

**Place of business:**

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

**Official registration:**

State registration certificate series YZ 3 No. 484.583 RP, issued by Moscow Registration Chamber on 15 November 1993.

The registration entry was made in the Unified State Register of Legal Entities on 24 July 2002 under principal state registration number 1027700058286.

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

Self-regulatory organization of auditors Association "Sodruzhestvo".

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

Certificate of membership in the Self-regulatory organization of auditors Association "Sodruzhestvo" No. 7198, ORNZ 11506030481.

# Consolidated Balance Sheet as of 31 December 2016

(in millions of Russian Rubles)

86

Notes		31 December 2016	31 December 2015
<b>Assets</b>			
<b>Current assets</b>			
8	Cash and cash equivalents	896,728	1,359,095
	Restricted cash	3,471	1,815
9	Short-term financial assets	11,481	12,570
10	Accounts receivable and prepayments	1,084,967	1,114,207
11	Inventories	711,199	804,364
	VAT recoverable	195,033	229,626
12	Other current assets	331,467	472,045
		<b>3,234,346</b>	<b>3,993,722</b>
<b>Non-current assets</b>			
13	Property, plant and equipment	11,502,747	11,003,881
14	Goodwill	105,330	107,467
15	Investments in associates and joint ventures	730,149	808,246
16	Long-term accounts receivable and prepayments	710,747	599,848
17	Available-for-sale long-term financial assets	294,345	235,607
12	Other non-current assets	341,274	303,269
		<b>13,684,592</b>	<b>13,058,318</b>
	<b>Total assets</b>	<b>16,918,938</b>	<b>17,052,040</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
18	Accounts payable, accruals and provisions for liabilities and charges	1,197,005	1,298,006
	Current profit tax payable	62,479	11,929
19	Other taxes payable	215,244	168,394
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	447,080	646,372
		<b>1,921,808</b>	<b>2,124,701</b>
<b>Non-current liabilities</b>			
21	Long-term borrowings, promissory notes	2,382,543	2,795,843
24	Provisions for liabilities and charges	406,234	435,438
22	Deferred tax liabilities	688,503	618,404
	Other non-current liabilities	78,011	163,032
		<b>3,555,291</b>	<b>4,012,717</b>
	<b>Total liabilities</b>	<b>5,477,099</b>	<b>6,137,418</b>

**NOTE:** The accompanying notes on pages 93 to 168 are an integral part of these consolidated financial statements.



Notes		31 December 2016	31 December 2015
	<b>Equity</b>		
25	Share capital	325,194	325,194
25	Treasury shares	(235,919)	(103,919)
25	Retained earnings and other reserves	11,005,256	10,368,311
		<b>11,094,531</b>	<b>10,589,586</b>
33	Non-controlling interest	347,308	325,036
	<b>Total equity</b>	<b>11,441,839</b>	<b>10,914,622</b>
	<b>Total liabilities and equity</b>	<b>16,918,938</b>	<b>17,052,040</b>

A.B. Miller  
Chairman of the Management Committee

April 27, 2017

E.A. Vasilieva  
Chief Accountant

April 27, 2017

**NOTE:** The accompanying notes on pages 93 to 168 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2016 (in millions of Russian Rubles)

88

Notes	Year ended 31 December	
	2016	2015
26 Sales	6,111,051	6,073,318
Net gain from trading activity	3,382	3,704
27 Operating expenses	(5,244,983)	(4,635,502)
27 Charge for impairment and other provisions	(143,870)	(213,219)
<b>Operating profit</b>	<b>725,580</b>	<b>1,228,301</b>
28 Finance income	1,018,997	990,346
28 Finance expense	(543,370)	(1,409,087)
15 Share of net income of associates and joint ventures	82,872	106,560
Gain on disposal of available-for-sale financial assets	1,059	9,121
<b>Profit before profit tax</b>	<b>1,285,138</b>	<b>925,241</b>
Current profit tax expense	(218,113)	(102,223)
Deferred profit tax expense	(69,921)	(17,819)
22 Profit tax	(288,034)	(120,042)
<b>Profit for the year</b>	<b>997,104</b>	<b>805,199</b>
<b>Other comprehensive income (loss):</b>		
Items that will not be reclassified to profit or loss:		
24 Remeasurements of post-employment benefit obligations	33,118	(169,059)
<b>Total items that will not be reclassified to profit or loss</b>	<b>33,118</b>	<b>(169,059)</b>
Items that may be reclassified subsequently to profit or loss:		
Gain arising from change in fair value of available-for-sale financial assets, net of tax	62,133	43,172
Share of other comprehensive (loss) income of associates and joint ventures	(6,397)	28,699
Translation differences	(297,703)	282,924
Gain (loss) from cash flow hedges, net of tax	49,196	(22,862)
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(192,771)</b>	<b>331,933</b>
<b>Other comprehensive (loss) income for the year, net of tax</b>	<b>(159,653)</b>	<b>162,874</b>
<b>Total comprehensive income for the year</b>	<b>837,451</b>	<b>968,073</b>

**NOTE:** The accompanying notes on pages 93 to 168 are an integral part of these consolidated financial statements.

Notes		Year ended 31 December	
		2016	2015
	Profit for the year attributable to:		
	Owners of PJSC Gazprom	951,637	787,056
33	Non-controlling interest	45,467	18,143
		997,104	805,199
	Total comprehensive income for the year attributable to:		
	Owners of PJSC Gazprom	806,903	938,591
	Non-controlling interest	30,548	29,482
		837,451	968,073
30	Basic and diluted earnings per share for profit attributable to the owners of PJSC Gazprom (in Russian Rubles)	42.19	34.29

A.B. Miller  
Chairman of the Management Committee

April 27, 2017

E.A. Vasilieva  
Chief Accountant

April 27, 2017

**NOTE:** The accompanying notes on pages 93 to 168 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows for the Year Ended 31 December 2016 (in millions of Russian Rubles)

90

Notes		Year ended 31 December	
		2016	2015
	Cash flows from operating activities		
31	Net cash from operating activities	1,571,323	2,030,927
	Cash flows from investing activities		
13	Capital expenditures	(1,369,052)	(1,641,024)
13, 28	Interest paid and capitalised	(132,477)	(128,211)
	Net change in loans issued	(9,627)	(25,063)
34	Acquisition of subsidiaries, net of cash acquired	(1,113)	24,551
15	Investments in associates and joint ventures	(3,359)	(1,554)
	Interest received	119,460	54,243
	Change in available-for-sale long-term financial assets	13,451	(27,396)
15	Proceeds from associates and joint ventures	62,461	79,469
	Proceeds from the sale of associates	22,801	–
	Long-term bank deposits placement	(142,374)	–
	Repayment of long-term bank deposits	85	20,609
	Other	(6,221)	(19,780)
	Net cash used in investing activities	(1,445,965)	(1,664,156)
	Cash flows from financing activities		
21	Proceeds from long-term borrowings	548,623	574,924
21	Repayment of long-term borrowings (including current portion of long-term borrowings)	(653,092)	(467,831)
20	Proceeds from short-term borrowings	124,783	62,401
20	Repayment of short-term borrowings	(110,291)	(97,141)
25	Dividends paid	(186,337)	(170,702)
28	Interest paid	(50,835)	(40,100)
25, 35	Acquisition of treasury shares	(132,000)	–
	Acquisition of non-controlling interest in subsidiaries	(124)	(126)
	Issue of shares acquired by non-controlling interests	450	–
	Change in restricted cash	(1,656)	270
	Net cash used in financing activities	(460,479)	(138,305)
	Effect of foreign exchange rate changes on cash and cash equivalents	(127,246)	92,438
	(Decrease) increase in cash and cash equivalents	(462,367)	320,904
8	Cash and cash equivalents at the beginning of the reporting year	1,359,095	1,038,191
8	Cash and cash equivalents at the end of the reporting year	896,728	1,359,095

A.B. Miller  
Chairman of the Management Committee

April 27, 2017

E.A. Vasilieva  
Chief Accountant

April 27, 2017

**NOTE:** The accompanying notes on pages 93 to 168 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity for the Year Ended 31 December 2016 (in millions of Russian Rubles)

91

Notes	Number of shares out- standing (billions)	Attributable to the owners of PJSC Gazprom				Non- controlling interest	Total equity
		Share capital	Treasury shares	Retained earnings and other reserves	Total		
<b>Balance as of 31 December 2014</b>	<b>23.0</b>	<b>325,194</b>	<b>(103,919)</b>	<b>9,595,283</b>	<b>9,816,558</b>	<b>303,463</b>	<b>10,120,021</b>
33 Profit for the year	–	–	–	787,056	787,056	18,143	805,199
Other comprehensive income (loss):							
24, 33 Remeasurements of post-employment benefit obligations	–	–	–	(168,899)	(168,899)	(160)	(169,059)
33 Gain (loss) arising from changes in fair value of available-for-sale financial assets, net of tax	–	–	–	43,179	43,179	(7)	43,172
Share of other comprehensive income of associates and joint ventures	–	–	–	28,699	28,699	–	28,699
25, 33 Translation differences	–	–	–	271,015	271,015	11,909	282,924
33 Loss from cash flow hedges, net of tax	–	–	–	(22,459)	(22,459)	(403)	(22,862)
<b>Total comprehensive income for the year ended 31 December 2015</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>938,591</b>	<b>938,591</b>	<b>29,482</b>	<b>968,073</b>
33 Change in non-controlling interest in subsidiaries	–	–	–	(281)	(281)	(1,535)	(1,816)
25 Return of social assets to governmental authorities	–	–	–	(35)	(35)	–	(35)
25, 33 Dividends declared	–	–	–	(165,247)	(165,247)	(6,374)	(171,621)
<b>Balance as of 31 December 2015</b>	<b>23.0</b>	<b>325,194</b>	<b>(103,919)</b>	<b>10,368,311</b>	<b>10,589,586</b>	<b>325,036</b>	<b>10,914,622</b>
33 Profit for the year	–	–	–	951,637	951,637	45,467	997,104
Other comprehensive income (loss):							
24, 33 Remeasurements of post-employment benefit obligations	–	–	–	33,110	33,110	8	33,118
33 Gain arising from changes in fair value of available-for-sale financial assets, net of tax	–	–	–	62,132	62,132	1	62,133
Share of other comprehensive loss of associates and joint ventures	–	–	–	(6,397)	(6,397)	–	(6,397)
25, 33 Translation differences	–	–	–	(281,414)	(281,414)	(16,289)	(297,703)
33 Gain from cash flow hedges, net of tax	–	–	–	47,835	47,835	1,361	49,196
<b>Total comprehensive income for the year ended 31 December 2016</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>806,903</b>	<b>806,903</b>	<b>30,548</b>	<b>837,451</b>

**NOTE:** The accompanying notes on pages 93 to 168 are an integral part of these consolidated financial statements.

Notes		Number of shares out- standing (billions)	Attributable to the owners of PJSC Gazprom				Non- controlling interest	Total equity
			Share capital	Treasury shares	Retained earnings and other reserves	Total		
33	Change in non-controlling interest in subsidiaries	–	–	–	4,437	4,437	3,451	7,888
25	Return of social assets to governmental authorities	–	–	–	(23)	(23)	–	(23)
25, 35	Treasury shares	(0.9)	–	(132,000)	–	(132,000)	–	(132,000)
25, 33	Dividends declared	–	–	–	(174,372)	(174,372)	(11,727)	(186,099)
Balance as of 31 December 2016		22.1	325,194	(235,919)	11,005,256	11,094,531	347,308	11,441,839

A.B. Miller  
Chairman of the Management Committee

April 27, 2017

E.A. Vasilieva  
Chief Accountant

April 27, 2017

**NOTE:** The accompanying notes on pages 93 to 168 are an integral part of these consolidated financial statements.

## **1. Nature of operations**

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

The Group is involved in the following principal activities:

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

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

The weighted average number of employees during 2016 and 2015 was 456 thousand and 449 thousand, respectively.

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

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

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

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

- as of 31 December 2016 – 60.6569;
- 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 31 December 2016 – 63.8111;
- 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

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

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

### 4. Scope of consolidation

As described in Note 5, these consolidated financial statements include consolidated subsidiaries, associates, joint ventures and operation of the Group. Significant changes in the Group's structure in 2016 and 2015 are described below.

#### 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 (formerly Wintershall Erdgas Beteiligungs 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 (formerly WIEH GmbH & Co. KG), respectively.

The compensation payments from Wintershall Holding GmbH amounted to EUR 29 million (at the exchange rate as of 30 September 2015 – RUB 2,170 million).

Prior to the swap transaction the Group held an equity interest of 49.98 % in W & G Beteiligungs-GmbH & Co. KG<sup>1</sup> and of 50 % in WIEH GmbH. 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 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 (see Note 34).

#### 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 (see Note 34).

<sup>1</sup> In August 2016 W & G Beteiligungs-GmbH & Co. KG was merged with WIBG GmbH.



## 5. Summary of significant accounting policies

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

### 5.1 Group accounting

#### Subsidiaries

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

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

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

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

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

#### Goodwill and non-controlling interest

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

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

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

### Joint arrangements

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

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

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

### Associates

Associates are entities over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint arrangement. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies.

Associates are accounted for using the equity method. The group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

### 5.2 Financial instruments

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

### Accounting for financial guarantee contracts

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

### Fair value disclosure

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

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

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

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

### 5.3 Derivative financial instruments

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

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

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

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

### 5.4 Hedge accounting

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

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

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

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

### 5.5 Non-derivative financial assets

The Group classifies its financial assets in the following categories:

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

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation, which determines the method for measuring financial assets at the subsequent balance sheet date: amortised cost or fair value.

#### **(a) Financial assets at fair value through profit or loss**

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

There were no material financial assets designated at the fair value through profit or loss at inception as of 31 December 2016 and 31 December 2015.

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

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

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

observable markets. The fair value of unquoted debt instruments classified as available-for-sale financial assets is determined using discounted cash flow valuation techniques based on prevailing market interest rate for similar instruments.

Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income and shown net of income tax in the consolidated statement of comprehensive income. When securities classified as available-for-sale are sold, the accumulated fair value adjustments are included in the consolidated statement of comprehensive income as gains (losses) on disposal of available-for-sale financial assets. Interest income on available-for-sale debt instruments, calculated using the effective interest method, is recognised within the profit and loss section of the consolidated statement of comprehensive income.

#### **(c) Loans and receivables**

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

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

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

### Impairment of financial assets

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income to profit or loss for the year. The impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment was recognised. For financial assets measured at amortized cost and available-for-sale financial assets which represent debt instruments, the reversal is recognised in profit or loss. For available-for-sale financial assets which represent equity instruments, the reversal is recognised directly in other comprehensive income. Impairment losses relating to assets recognised at cost cannot be reversed.

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

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

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

### 5.7 Cash and cash equivalents and restricted cash

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

### 5.8 Value added tax

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

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

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

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

### 5.9 Mineral extraction tax

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

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

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

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

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

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

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

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

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

MET is included in operating expenses.

### 5.10 Customs duties

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

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

Revenues are recognised net of the amount of custom duties.



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

### 5.11 Excise tax

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

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

### 5.12 Inventories

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

### 5.13 Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 5.15 Borrowings

Borrowings are recognised initially at their fair value which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are recognised



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

at amortised cost, using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

### 5.16 Deferred tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on all temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

### 5.17 Foreign currency transactions

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

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

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

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

### 5.18 Provisions for liabilities and charges

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

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

### 5.19 Equity

#### **Treasury shares**

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

#### **Dividends**

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

### 5.20 Revenue recognition

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

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

Prices for natural gas and tariffs for transportation of gas to final consumers in the Russian Federation are regulated by the Federal Antimonopoly Service ("FAS"). Until 21 July 2015, these functions were performed by the Federal Tariff Service ("FTS"). Prices for gas sold to European countries are mainly calculated by a formula based on the number of oil product prices, in accordance with the terms of long-term contracts. Gas prices that are being implemented in countries of the former Soviet Union are defined in various ways, including using formulas similar to those used in contracts with European buyers.

#### **Net gain (loss) from trading activity**

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

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

### 5.21 Interest

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

### 5.22 Research and development

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

### 5.23 Employee benefits

#### **Pension and other post-retirement benefits**

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

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

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

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

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

#### **Social expenses**

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

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

### 5.24 Recent accounting pronouncements

#### Application of new IFRSs

A number of amendments to current IFRSs became effective for the periods beginning on or after 1 January 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 December 2014) clarify the rules concerning the accounting of investments in 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 these consolidated financial statements. The amended standards have no significant impact on the Group's consolidated financial statements.

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

Certain new standards, interpretations and amendments 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 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.
- 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.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018) provides requirements to exchange rates that should be used on initial recognition of payment made or received in advance.
- 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

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

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 amendments to IFRS 4 Insurance Contracts (issued in September 2016 and effective for annual periods beginning on or after 1 January 2018) concern the issues of the application of IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments at one time.

- The amendments to IAS 40 Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify the requirements on transfers to, or from, investment properties.

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

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

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

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

### 6.1 Consolidation of subsidiaries

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

### 6.2 Tax legislation and uncertain tax positions

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 37).

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

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

### 6.3 Assumptions to determine amount of provisions

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

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

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

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

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

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

#### **Accounting for provisions**

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

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

### 6.4 Site restoration and environmental costs

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



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

requires significant judgement. This judgement is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

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

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

Were the estimated useful lives to decrease by 10 % or increase by 10 % from management's estimates, the impact on depreciation for the year ended 31 December 2016 would be an increase by RUB 63,429 million or a decrease by RUB 51,896 million (2015: increase by RUB 58,112 million or decrease by RUB 47,546 million).

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

### 6.6 Fair value estimation for financial instruments

The fair values of energy trading contracts, commodity futures and swaps are based on market quotes on measurement date (Level 1 in accordance with the valuation hierarchy). Customary valuation models are used to value financial instruments which are not traded in active markets. The fair values are based on inputs that are observable either directly or indirectly (Level 2 in accordance with the valuation hierarchy). Contracts that are valued based on non-observable market data belong to Level 3 in accordance with the valuation hierarchy. Management's best estimates based on internally developed models are used for the valuation. Where the valuation technique employed incorporates significant unobservable input data such as these long-term price assumptions, contracts have been categorised as Level 3 in accordance with the valuation hierarchy (see Note 39).

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

### 6.7 Fair value estimation for acquisitions

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

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

### 6.8 Accounting for plan assets and pension liabilities

Pension plan liabilities are estimated using actuarial techniques and assumptions (see Note 24). Actual results may differ from the estimates, and the Group's estimates can be revised in the future based on changes in economic and financial conditions. In addition, certain plan

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

assets included in NPF GAZFOND are estimated using the fair value estimation techniques. Management makes judgements with respect to the selection of valuation model applied, the amount and timing of cash flow forecasts or other assumptions such as discount rates. The recognition of plan assets is limited to the estimated present value of future benefits which are available to the Group in relation to this plan. These benefits are determined using actuarial techniques and assumptions. The impact of the change in the limitation of the plan assets in accordance with IAS 19 Employee Benefits is disclosed in Note 24. The value of plan assets and the limit are subject to revision in the future.

### 6.9 Joint Arrangements

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

## 7. Segment information

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

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

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

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

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

The inter-segment sales mainly consist of:

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

Internal transfer prices, mostly for Production of gas, 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 IFRS



## 7. Segment information (continued)

consolidated financial statements are not included within the operating segments which are reviewed by the Governing bodies on a central basis. Gains and losses on available-for-sale financial assets and financial income and expenses are also not allocated to the operating segments.

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
<b>Year ended</b>									
<b>31 December 2016</b>									
<b>Total segment revenues</b>	<b>745,972</b>	<b>1,051,683</b>	<b>3,531,666</b>	<b>53,843</b>	<b>1,005,690</b>	<b>1,506,457</b>	<b>481,716</b>	<b>345,925</b>	<b>8,722,952</b>
Inter-segment sales	723,169	852,712	251,699	48,275	593,732	8,895	–	–	2,478,482
External sales	22,803	198,971	3,279,967	5,568	411,958	1,497,562	481,716	345,925	6,244,470
<b>Segment result</b>	<b>19,089</b>	<b>5,454</b>	<b>125,649</b>	<b>7,247</b>	<b>69,348</b>	<b>85,161</b>	<b>40,762</b>	<b>16,108</b>	<b>368,818</b>
Depreciation	166,614	456,377	19,609	25,226	101,277	50,587	45,826	38,082	903,598
Share of net income (loss) of associates and joint ventures	8,157	26,233	4,577	(2,774)	37,293	5,132	34	4,220	82,872
<b>Year ended</b>									
<b>31 December 2015</b>									
<b>Total segment revenues</b>	<b>707,284</b>	<b>1,063,138</b>	<b>3,636,183</b>	<b>47,144</b>	<b>874,099</b>	<b>1,565,902</b>	<b>424,665</b>	<b>287,411</b>	<b>8,605,826</b>
Inter-segment sales	689,260	869,173	226,950	44,487	613,491	10,311	–	–	2,453,672
External sales	18,024	193,965	3,409,233	2,657	260,608	1,555,591	424,665	287,411	6,152,154
<b>Segment result</b>	<b>11,724</b>	<b>(11,768)</b>	<b>595,837</b>	<b>4,707</b>	<b>89,730</b>	<b>140,160</b>	<b>37,475</b>	<b>(4,214)</b>	<b>863,651</b>
Depreciation	168,631	450,705	12,787	22,854	95,858	36,204	39,575	35,722	862,336
Share of net income (loss) of associates and joint ventures	7,484	18,960	17,594	(1,664)	82,231	3,353	13	(21,411)	106,560

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

Notes	Year ended 31 December	
	2016	2015
Segment result for reportable segments	352,710	867,865
Other segments' result	16,108	(4,214)
<b>Segment result</b>	<b>368,818</b>	<b>863,651</b>
Difference in depreciation <sup>1</sup>	332,034	347,136
(Expense) income associated with pension obligations	(12,992)	2,588
28 Net finance income (expense)	475,627	(418,741)
Gain on disposal of available-for-sale financial assets	1,059	9,121
15 Share of net income of associates and joint ventures	82,872	106,560
27 Derivatives (losses) gains	(9,863)	88
Other	47,583	14,838
<b>Profit before profit tax</b>	<b>1,285,138</b>	<b>925,241</b>

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

## 7. Segment information (continued)

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

	Year ended 31 December	
	2016	2015
External sales for reportable segments	5,898,545	5,864,743
External sales for other segments	345,925	287,411
<b>Total external segment sales</b>	<b>6,244,470</b>	<b>6,152,154</b>
Differences in external sales <sup>1</sup>	(133,419)	(78,836)
<b>Total sales per the consolidated statement of comprehensive income</b>	<b>6,111,051</b>	<b>6,073,318</b>

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

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

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
<b>As of 31 December 2016</b>									
Segment assets	2,479,386	6,596,937	1,557,089	393,482	2,383,892	1,361,161	988,571	937,460	16,697,978
Investments in associates and joint ventures	28,007	131,006	29,701	155	427,432	22,353	1,258	90,237	730,149
Capital additions	231,530	406,828	41,785	35,542	316,823	193,243	63,485	54,926	1,344,162
<b>As of 31 December 2015</b>									
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	220,214	420,874	25,962	48,486	324,330	136,299	98,963	69,701	1,344,829

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

Notes	31 December	
	2016	2015
Segment assets for reportable segments	15,760,518	14,797,753
Other segments' assets	937,460	885,287
<b>Total segment assets</b>	<b>16,697,978</b>	<b>15,683,040</b>
Differences in property, plant and equipment, net <sup>1</sup>	(2,361,075)	(1,778,015)
13 Loan interest capitalised	623,101	645,109
Decommissioning costs	63,639	74,290
8 Cash and cash equivalents	896,728	1,359,095
Restricted cash	3,471	1,815

## 7. Segment information (continued)

Notes	31 December	
	2016	2015
9 Short-term financial assets	11,481	12,570
VAT recoverable	195,033	229,626
Other current assets	331,467	472,045
17 Available-for-sale long-term financial assets	294,345	235,607
14 Goodwill	105,330	107,467
Other non-current assets	341,274	303,269
Inter-segment assets	(597,369)	(598,040)
Other	313,535	304,162
<b>Total assets per the consolidated balance sheet</b>	<b>16,918,938</b>	<b>17,052,040</b>

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

Segment liabilities:

	31 December	
	2016	2015
Distribution of gas	608,767	703,268
Transportation	363,691	317,548
Refining	337,711	255,370
Production of gas	168,632	179,935
Production of crude oil and gas condensate	108,619	142,332
Electric and heat energy generation and sales	85,199	78,618
Gas storage	8,401	11,234
Other segments	131,731	220,394
<b>Total segment liabilities</b>	<b>1,812,751</b>	<b>1,908,699</b>

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

Notes	31 December	
	2016	2015
Segment liabilities for reportable segments	1,681,020	1,688,305
Other segments' liabilities	131,731	220,394
<b>Total segment liabilities</b>	<b>1,812,751</b>	<b>1,908,699</b>
Current profit tax payable	62,479	11,929
20 Short-term borrowings, promissory notes and current portion of long-term borrowings	447,080	646,372
21 Long-term borrowings, promissory notes	2,382,543	2,795,843
24 Provisions for liabilities and charges	406,234	435,438
22 Deferred tax liabilities	688,503	618,404
Other non-current liabilities	78,011	163,032

## 7. Segment information (continued)

Notes	31 December	
	2016	2015
Dividends	3,029	4,969
Inter-segment liabilities	(597,369)	(598,040)
Other	193,838	150,772
<b>Total liabilities per the consolidated balance sheet</b>	<b>5,477,099</b>	<b>6,137,418</b>

## 8. Cash and cash equivalents

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

	31 December	
	2016	2015
Cash on hand and bank balances payable on demand	793,169	1,189,436
Term deposits with original maturity of three months or less	103,559	169,659
<b>Total cash and cash equivalents</b>	<b>896,728</b>	<b>1,359,095</b>

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

	31 December	
	2016	2015
Cash on hand	940	1,058
External credit rating of A-3 and above	190,298	203,753
External credit rating of B	558,278	1,071,979
No external credit rating	147,212	82,305
<b>Total cash and cash equivalents</b>	<b>896,728</b>	<b>1,359,095</b>

The sovereign credit rating of the Russian Federation published by Standard & Poor's is BB+ as of 31 December 2016 and 31 December 2015, however the outlook has changed from negative to stable.

## 9. Short-term financial assets

	31 December	
	2016	2015
Financial assets held for trading:	<b>11,363</b>	<b>9,976</b>
Bonds	10,976	9,673
Equity securities	387	303
Available-for-sale financial assets:	<b>118</b>	<b>2,594</b>
Promissory notes	118	416
Equity securities	–	2,032
Bonds	–	146
<b>Total short-term financial assets</b>	<b>11,481</b>	<b>12,570</b>

## 9. Short-term financial assets (continued)

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

	31 December	
	2016	2015
External credit rating of A-3 and above	2,662	2,759
External credit rating of B	6,812	4,384
No external credit rating	1,620	3,092
	<b>11,094</b>	<b>10,235</b>

## 10. Accounts receivable and prepayments

	31 December	
	2016	2015
<b>Financial assets</b>		
Trade receivables	731,566	726,156
Short-term loans	142,068	93,409
Other receivables	134,352	187,420
	1,007,986	1,006,985
<b>Non-financial assets</b>		
Advances and prepayments	76,981	107,222
<b>Total accounts receivable and prepayments</b>	<b>1,084,967</b>	<b>1,114,207</b>

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

Trade receivables are presented net of impairment allowance of RUB 831,164 million and RUB 839,123 million as of 31 December 2016 and 31 December 2015, respectively.

Accounts receivable due from PJSC Naftogaz Ukraine in relation to gas sales are RUB nil million and RUB 5,528 million net of impairment allowance of RUB 188,307 million and RUB 187,228 million as of 31 December 2016 and 31 December 2015, respectively.

Short-term loans are presented net of impairment allowance of RUB 9,264 million and RUB 10,022 million as of 31 December 2016 and 31 December 2015, respectively.

Other receivables are presented net of impairment allowance of RUB 16,950 million and RUB 24,118 million as of 31 December 2016 and 31 December 2015, respectively.

Advances and prepayments are presented net of impairment allowance of RUB 11,074 million and RUB 1,036 million as of 31 December 2016 and 31 December 2015, respectively.

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

	31 December	
	2016	2015
Short-term trade accounts receivable neither past due nor impaired	614,543	655,288
Short-term trade accounts receivable impaired and provided for	855,687	850,737
Impairment allowance at the end of the year	(831,164)	(839,123)
Short-term trade accounts receivable past due but not impaired	92,500	59,254
<b>Total short-term trade accounts receivable</b>	<b>731,566</b>	<b>726,156</b>

## 10. Accounts receivable and prepayments (continued)

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

	31 December	
	2016	2015
Europe and other countries gas, crude oil, gas condensate and refined products receivables	303,516	388,284
Domestic gas, crude oil, gas condensate and refined products receivables	171,165	139,613
Former Soviet Union countries (excluding the Russian Federation) gas, crude oil, gas condensate and refined products receivables	14,504	23,803
Electricity and heat sales receivables	50,661	46,290
Gas transportation services receivables	5,222	3,628
Other trade receivables	69,475	53,670
<b>Total trade receivables neither past due nor impaired</b>	<b>614,543</b>	<b>655,288</b>

As of 31 December 2016 and 31 December 2015, the individually impaired receivables mainly relate to gas sales to certain Russian regions and Former Soviet Union countries. In management's view the receivables will be ultimately recovered. The ageing analysis of these receivables is as follows:

Ageing from the due date	Gross book value 31 December		Allowance 31 December		Net book value 31 December	
	2016	2015	2016	2015	2016	2015
Up to 6 months	68,509	77,508	(62,053)	(69,793)	6,456	7,715
From 6 to 12 months	79,045	69,191	(69,938)	(68,101)	9,107	1,090
From 1 to 3 years	330,717	329,384	(322,184)	(326,815)	8,533	2,569
More than 3 years	377,416	374,654	(376,989)	(374,414)	427	240
	<b>855,687</b>	<b>850,737</b>	<b>(831,164)</b>	<b>(839,123)</b>	<b>24,523</b>	<b>11,614</b>

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

	Trade receivables Year ended 31 December		Other receivables Year ended 31 December	
	2016	2015	2016	2015
Impairment allowance at the beginning of the year	839,123	616,919	24,118	26,837
Impairment allowance accrued <sup>1</sup>	130,084	133,531	7,064	2,066
Write-off of receivables during the year <sup>2</sup>	(10,099)	(4,691)	(3,948)	(3,309)
Release of previously created allowance <sup>1</sup>	(24,369)	(31,474)	(8,315)	(1,496)
Foreign exchange rate differences	(103,575)	124,838	(1,969)	20
<b>Impairment allowance at the end of the year</b>	<b>831,164</b>	<b>839,123</b>	<b>16,950</b>	<b>24,118</b>

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

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

## 10. Accounts receivable and prepayments (continued)

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

	31 December	
	2016	2015
<b>Ageing from the due date</b>		
Up to 6 months	57,727	44,858
From 6 to 12 months	21,915	8,518
From 1 to 3 years	4,504	5,856
More than 3 years	8,354	22
	<b>92,500</b>	<b>59,254</b>

## 11. Inventories

	31 December	
	2016	2015
Gas in pipelines and storage	430,720	525,822
Materials and supplies (net of an obsolescence allowance of RUB 3,370 million and RUB 5,498 million as of 31 December 2016 and 31 December 2015, respectively)	169,486	183,776
Goods for resale (net of an obsolescence allowance of RUB 831 million and RUB 1,679 million as of 31 December 2016 and 31 December 2015, respectively)	21,955	17,266
Crude oil and refined products	89,038	77,500
<b>Total inventories</b>	<b>711,199</b>	<b>804,364</b>

## 12. Other current and non-current assets

Included within other current assets are prepaid taxes, predominantly VAT in the amount of RUB 97,869 million and RUB 126,477 million and profit tax in the amount of RUB 12,916 million and RUB 97,218 million as of 31 December 2016 and 31 December 2015, respectively. Other current assets include long-term deposits in the amount of RUB 144,035 million and RUB 126,528 million as of 31 December 2016 and 31 December 2015, respectively.

Included within other non-current assets is VAT recoverable related to assets under construction totalling RUB 35,702 million and RUB 50,494 million and long-term deposits totalling RUB 42,231 million and RUB 5,064 million as of 31 December 2016 and 31 December 2015, respectively. Other non-current assets include net pension assets in the amount of RUB 20,499 million and RUB nil million as of 31 December 2016 and 31 December 2015, respectively (see Note 24).

## 13. Property, plant and equipment

Notes	Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
<b>As of 31 December 2014</b>								
Cost	3,415,966	1,478,790	3,652,413	3,036,673	566,905	94,965	2,110,422	14,356,134
Accumulated depreciation	(1,249,246)	(515,682)	(1,465,882)	(932,067)	(207,452)	(35,596)	—	(4,405,925)
<b>Net book value as of 31 December 2014</b>	<b>2,166,720</b>	<b>963,108</b>	<b>2,186,531</b>	<b>2,104,606</b>	<b>359,453</b>	<b>59,369</b>	<b>2,110,422</b>	<b>9,950,209</b>

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

Notes		Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
	Depreciation	(85,564)	(60,517)	(240,979)	(109,983)	(23,341)	(2,625)	–	(523,009)
	Additions	1,237	59,096	50,266	36,864	926	257	1,466,103	1,614,749
	Acquisition of subsidiaries	–	–	29,709	3,681	–	–	12,110	45,500
	Translation differences	5,478	35,665	36,851	12,005	16,943	3	37,701	144,646
	Transfers	201,954	76,229	451,227	252,687	13,144	1,972	(997,213)	–
	Disposals	(663)	(5,199)	(42,756)	(8,737)	(222)	(874)	(40,281)	(98,732)
27	Increase for impairment allowance	–	(57,259)	–	–	–	–	(72,223)	(129,482)
	<b>Net book value as of 31 December 2015</b>	<b>2,289,162</b>	<b>1,011,123</b>	<b>2,470,849</b>	<b>2,291,123</b>	<b>366,903</b>	<b>58,102</b>	<b>2,516,619</b>	<b>11,003,881</b>
	<b>As of 31 December 2015</b>								
	Cost	3,623,972	1,587,322	4,177,710	3,333,173	597,696	96,323	2,516,619	15,932,815
	Accumulated depreciation	(1,334,810)	(576,199)	(1,706,861)	(1,042,050)	(230,793)	(38,221)	–	(4,928,934)
	<b>Net book value as of 31 December 2015</b>	<b>2,289,162</b>	<b>1,011,123</b>	<b>2,470,849</b>	<b>2,291,123</b>	<b>366,903</b>	<b>58,102</b>	<b>2,516,619</b>	<b>11,003,881</b>
	Depreciation	(88,376)	(64,499)	(282,495)	(119,411)	(13,466)	(2,614)	–	(570,861)
	Additions	48	51,071	20,819	10,862	28,259	199	1,348,489	1,459,747
	Acquisition of subsidiaries	–	–	–	–	–	–	–	–
	Translation differences	(5,582)	(45,420)	(33,945)	(27,067)	(13,006)	(101)	(52,349)	(177,470)
	Transfers	134,715	176,390	449,665	330,898	1,249	1,933	(1,094,850)	–
	Disposals	(1,279)	(14,660)	(13,646)	(22,468)	(571)	(3,125)	(77,438)	(133,187)
27	Increase for impairment allowance	–	(14,763)	–	–	(1,975)	–	(62,625)	(79,363)
	<b>Net book value as of 31 December 2016</b>	<b>2,328,688</b>	<b>1,099,242</b>	<b>2,611,247</b>	<b>2,463,937</b>	<b>367,393</b>	<b>54,394</b>	<b>2,577,846</b>	<b>11,502,747</b>
	<b>As of 31 December 2016</b>								
	Cost	3,751,874	1,739,940	4,600,603	3,625,398	611,652	95,229	2,577,846	17,002,542
	Accumulated depreciation	(1,423,186)	(640,698)	(1,989,356)	(1,161,461)	(244,259)	(40,835)	–	(5,499,795)
	<b>Net book value as of 31 December 2016</b>	<b>2,328,688</b>	<b>1,099,242</b>	<b>2,611,247</b>	<b>2,463,937</b>	<b>367,393</b>	<b>54,394</b>	<b>2,577,846</b>	<b>11,502,747</b>

At the each balance sheet date management assess whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment.

Operating assets are shown net of allowance for impairment of RUB 203,476 million and RUB 186,738 million as of 31 December 2016 and 31 December 2015, respectively.

In 2016 the Group conducted an impairment test and recognised an impairment loss in respect of oil assets in Iraq in the amount of RUB 14,763 million and RUB 57,259 million as of 31 December 2016 and 31 December 2015, respectively.

Assets under construction are presented net of allowance for impairment of RUB 167,546 million and RUB 115,175 million as of 31 December 2016 and 31 December 2015, respectively. Charges for impairment allowance of assets under construction primarily relate to assets for which it is not yet probable that there will be future economic benefits.

Due to the uncertainties regarding the implementation of the project “South Stream” the Group recognised impairment losses in respect of facilities under construction in the amount of RUB 45,978 million RUB 56,347 million as of 31 December 2016 and 31 December 2015, respectively.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book



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

value of RUB 200 million and RUB 260 million as of 31 December 2016 and 31 December 2015, respectively.

Included in additions above are capitalized borrowing costs of RUB 132,477 million and RUB 218,127 million for the years ended 31 December 2016 and 31 December 2015, respectively.

Capitalization rates of 5.75 % and 12.62 % were used representing the weighted average borrowing cost including exchange losses on foreign currency borrowings for the years ended 31 December 2016 and 31 December 2015, respectively. Capitalization rates excluding exchange losses on foreign currency borrowings were 5.75 % and 6.79 % for the years ended 31 December 2016 and 31 December 2015, respectively.

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

	Year ended 31 December	
	2016	2015
<b>Exploration and evaluation assets at the beginning of the year</b>	<b>290,945</b>	<b>276,850</b>
Additions	42,303	49,086
Translation differences	(10,165)	14,390
Reclassification	(18,163)	(40,668)
Disposals	(6,432)	(8,713)
<b>Exploration and evaluation assets at the end of the year</b>	<b>298,488</b>	<b>290,945</b>

### 14. Goodwill

Movements of the Group's goodwill on subsidiaries are as follows:

	Year ended 31 December	
	2016	2015
<b>Goodwill at the beginning of the year</b>	<b>107,467</b>	<b>104,221</b>
Additions	–	3,698
Disposals	(2,137)	(452)
<b>Goodwill at the end of the year</b>	<b>105,330</b>	<b>107,467</b>

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

	31 December	
	2016	2015
Gas production, transportation and distribution	69,981	70,022
Production of crude oil and gas condensate	32,901	34,997
Electric and heat energy generation and sales	2,448	2,448
<b>Total goodwill</b>	<b>105,330</b>	<b>107,467</b>

As of 31 December 2016 and 31 December 2015 the Group did not identify any indicators for recognising an impairment loss in relation to goodwill.

## 15. Investments in associates and joint ventures

			Carrying value as of 31 December	Share of the income (loss) of associates and joint ventures for the year ended 31 December		
Notes			2016	2015	2016	2015
35	Sakhalin Energy Investment Company Ltd.	Associate	185,013	240,831	13,893	61,290
35	OJSC NGK Slavneft and its subsidiaries	Joint venture	129,082	118,704	10,509	5,169
35	LLC Yamal razvitie and its subsidiaries	Joint venture	86,600	72,128	14,472	11,914
35, 36	Gazprombank (Joint-stock Company) and its subsidiaries	Associate	77,109	80,800	5,311	(21,221)
35	Nord Stream AG	Joint venture	63,319	69,617	17,307	13,602
35	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Associate	40,510	47,154	8,149	4,530
35	JSC Achimgaz	Joint venture	32,043	26,281	10,221	9,437
35, 36	SGT EuRoPol GAZ S.A.	Associate	26,387	33,410	770	514
35	KazRosGaz LLP	Joint venture	14,470	20,960	3,601	10,155
35	Wintershall AG	Associate	14,233	20,727	(2,746)	213
35	CJSC Northgas	Joint venture	11,735	8,726	3,009	3,996
34, 35	Wintershall Noordzee B.V. <sup>1</sup>	Joint venture	6,862	9,994	(1,650)	(194)
35	JSC Latvijas Gaze	Associate	6,588	8,981	993	751
35	Gasum Oy and its subsidiaries <sup>2</sup>		–	10,253	–	1,619
34, 35	W & G Beteiligungs-GmbH & Co. KG and its subsidiaries <sup>3</sup>		–	–	–	4,974
	Other (net of allowance for impairment of RUB 10,755 million and RUB 7,373 million as of 31 December 2016 and 31 December 2015, respectively)		36,198	39,680	(967)	(189)
			730,149	808,246	82,872	106,560

<sup>1</sup> 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 34).

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

<sup>3</sup> In September 2015 W & G Beteiligungs-GmbH & Co. KG and its subsidiaries became the Group subsidiaries (see Note 34).

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

	Year ended 31 December	
	2016	2015
<b>Balance at the beginning of the year</b>	<b>808,246</b>	<b>677,216</b>
Share of net income of associates and joint ventures	82,872	106,560
Distributions from associates and joint ventures	(64,535)	(64,995)
Share of other comprehensive (loss) income of associates and joint ventures	(6,397)	28,699
Translation differences	(83,043)	86,750
Other acquisitions and disposals	(6,994)	(25,984)
<b>Balance at the end of the year</b>	<b>730,149</b>	<b>808,246</b>

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

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

	31 December	
	2016	2015
JSC Latvijas Gaze	7,594	10,552

### Significant associates and joint ventures

	Country of primary operations	Country of incorporation	Nature of operations	Percent of ordinary shares held as of 31 December <sup>1</sup>	
				2016	2015
JSC Achimgaz	Russia	Russia	Exploration and production of gas and gas condensate	50	50
Bosphorus Gaz Corporation A.S. <sup>2</sup>	Turkey	Turkey	Gas distribution	71	71
WIGA Transport Beteiligungs-GmbH & Co. KG	Germany	Germany	Gas transportation	50	50
Wintershall AG	Libya	Germany	Production of oil and gas distribution	49	49
Gaz Project Development Central Asia AG	Uzbekistan	Switzerland	Gas production	50	50
Gazprombank (Joint-stock Company)	Russia	Russia	Banking	37	37
SGT EuRoPol GAZ S.A.	Poland	Poland	Transportation and gas distribution	48	48
KazRosGaz LLP	Kazakhstan	Kazakhstan	Gas processing and sales of gas and refined products	50	50
JSC Latvijas Gaze	Latvia	Latvia	Transportation and gas distribution	34	34
JSV Moldovagaz	Moldova	Moldova	Transportation and gas distribution	50	50
Nord Stream AG <sup>2</sup>	Russia, Germany	Switzerland	Gas transportation	51	51
CJSC Northgas	Russia	Russia	Exploration and sales of gas and gas condensate	50	50
Overgaz Inc. AD	Bulgaria	Bulgaria	Gas distribution	50	50
Panrusgaz Gas Trading Plc	Hungary	Hungary	Gas distribution	40	40
JSC Prometheus Gas	Greece	Greece	Gas distribution, construction	50	50
Sakhalin Energy Investment Company Ltd.	Russia	Bermuda Islands	Oil production, production of LNG	50	50
OJSC NGK Slavneft	Russia	Russia	Production, processing and sales of oil and refined products	50	50
JSC Turusgaz	Turkey	Turkey	Gas distribution	45	45
LLC Yamal razvitie <sup>3</sup>	Russia	Russia	Investment activities, assets management	50	50

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

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

<sup>3</sup> LLC Yamal razvitie is a holder of 51 % share in LLC SeverEnergiya. In August 2015 with the aim to simplify the ownership structure and achieve parity shareholdings in LLC SeverEnergiya the Group made an additional contribution to equity of LLC Yamal razvitie in the amount of RUB 14,922 million. The payment was performed by converting long-term loans. PJSC NOVATEK made an additional contribution to equity of LLC Yamal razvitie transferring 6.4 % Arctic Russia B.V. shares, as well as RUB 2,512 million by converting long-term loans. As a result the effective Group's share in LLC SeverEnergiya increased from 43.15 % to 44.65 %.

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

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

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

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

	OJSC NGK Slavneft and its subsidiaries	Gazprombank (Joint-stock Company) and its subsidiaries <sup>1</sup>	Sakhalin Energy Investment Company Ltd.
<b>As of and for the year ended 31 December 2016</b>			
Cash and cash equivalents	4,333	570,459	23,400
Other current assets (excluding cash and cash equivalents)	22,505	1,083,850	63,540
Other non-current assets	404,873	3,103,394	919,405
<b>Total assets</b>	<b>431,711</b>	<b>4,757,703</b>	<b>1,006,345</b>
Current financial liabilities (excluding trade payables)	24,614	3,252,183	47,517
Other current liabilities (including trade payables)	47,481	126,121	74,752
Non-current financial liabilities	42,876	984,595	203,553
Other non-current liabilities	54,975	21,826	310,498
<b>Total liabilities</b>	<b>169,946</b>	<b>4,384,725</b>	<b>636,320</b>
<b>Net assets (including non-controlling interest)</b>	<b>261,765</b>	<b>372,978</b>	<b>370,025</b>
Percent of ordinary shares held	50 %	37 %	50 %
<b>Carrying value</b>	<b>129,082</b>	<b>77,109</b>	<b>185,013</b>
Revenue	214,509	213,948	304,810
Depreciation	(40,564)	(45,247)	(146,400)
Interest income	1,652	380,096	1,064
Interest expense	(6,593)	(258,049)	(13,596)
Profit tax expense	(6,224)	(24,403)	(27,502)
<b>Profit for the year</b>	<b>22,269</b>	<b>31,151</b>	<b>57,670</b>
<b>Other comprehensive (loss) income for the year</b>	<b>(403)</b>	<b>(18,585)</b>	<b>1,950</b>
<b>Total comprehensive income for the year</b>	<b>21,866</b>	<b>12,566</b>	<b>59,620</b>
<b>Dividends received from associates and joint ventures</b>	<b>–</b>	<b>–</b>	<b>(31,490)</b>
<b>As of and for the year ended 31 December 2015</b>			
Cash and cash equivalents	8,078	708,846	42,766
Other current assets (excluding cash and cash equivalents)	15,830	2,342,873	74,421
Other non-current assets	378,633	1,948,877	1,191,957
<b>Total assets</b>	<b>402,541</b>	<b>5,000,596</b>	<b>1,309,144</b>
Current financial liabilities (excluding trade payables)	26,986	3,433,715	56,520
Other current liabilities (including trade payables)	41,056	147,348	129,944
Non-current financial liabilities	54,562	973,550	295,369
Other non-current liabilities	48,145	37,134	375,537
<b>Total liabilities</b>	<b>170,749</b>	<b>4,591,747</b>	<b>857,370</b>
<b>Net assets (including non-controlling interest)</b>	<b>231,792</b>	<b>408,849</b>	<b>451,774</b>
Percent of ordinary shares held	50 %	37 %	50 %
<b>Carrying value</b>	<b>118,704</b>	<b>80,800</b>	<b>240,831</b>
Revenue	224,224	201,120	380,823
Depreciation	(40,383)	(40,264)	(114,649)
Interest income	2,074	370,945	1,017
Interest expense	(5,279)	(274,886)	(13,759)
Profit tax (expense) income	(6,486)	5,673	(58,234)
<b>Profit (loss) for the year</b>	<b>11,352</b>	<b>(57,117)</b>	<b>122,579</b>

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

	OJSC NGK Slavneft and its subsidiaries	Gazprombank (Joint-stock Company) and its subsidiaries <sup>1</sup>	Sakhalin Energy Investment Company Ltd.
Other comprehensive (loss) income for the year	(512)	16,763	1,265
Total comprehensive income (loss) for the year	10,840	(40,354)	123,844
Dividends received from associates and joint ventures	—	—	(23,449)

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

	Assets	Liabilities	Revenues	Profit (loss)
<b>As of and for the year ended 31 December 2016</b>				
Nord Stream AG	416,875	292,719	80,325	31,949
LLC Yamal razvitie and its subsidiaries	387,516	241,054	133,229	30,877
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	227,154	143,680	45,735	19,137
Wintershall AG	72,134	50,551	14,259	(5,641)
JSC Achimgaz	71,778	7,693	27,994	20,441
SGT EuRoPol GAZ S.A.	62,485	7,513	19,196	1,873
CJSC Northgas	56,543	32,136	25,692	6,019
Wintershall Noordzee B.V.	49,008	38,088	11,114	(3,248)
KazRosGaz LLP	46,158	17,220	45,435	7,203
JSC Latvijas Gaze	37,720	12,417	26,170	2,920
<b>As of and for the year ended 31 December 2015</b>				
Nord Stream AG	545,076	406,551	73,769	26,821
LLC Yamal razvitie and its subsidiaries	391,329	275,744	125,450	20,991
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	320,847	178,732	43,328	8,887
Gasum Oy and its subsidiaries	113,612	68,825	61,414	6,284
Wintershall AG	86,850	56,098	8,349	435
SGT EuRoPol GAZ S.A.	83,320	13,715	20,005	1,312
JSC Achimgaz	65,018	11,345	28,798	18,873
CJSC Northgas	54,986	36,597	28,888	8,008
KazRosGaz LLP	48,942	7,025	56,774	20,307
JSC Latvijas Gaze	47,752	11,047	30,717	2,059
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries <sup>1</sup>	—	—	692,927	10,402

<sup>1</sup> Revenue and profit of W & G Beteiligungs-GmbH & Co. KG and its subsidiaries are disclosed until the date of obtaining the control of these associates (see Note 34).

## 16. Long-term accounts receivable and prepayments

	31 December	
	2016	2015
Long-term accounts receivable and prepayments	198,242	216,103
Advances for assets under construction	512,505	383,745
<b>Total long-term accounts receivable and prepayments</b>	<b>710,747</b>	<b>599,848</b>

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

Long-term accounts receivable, prepayments and advances for assets under construction are presented net of impairment allowance of RUB 16,481 million and RUB 14,621 million as of 31 December 2016 and 31 December 2015, respectively.

As of 31 December 2016 and 31 December 2015 long-term accounts receivable and prepayments with carrying value RUB 198,242 million and RUB 216,103 million have an estimated fair value RUB 193,868 million and RUB 210,757 million, respectively.

	31 December	
	2016	2015
Long-term accounts receivable neither past due nor impaired	194,876	215,549
Long-term accounts receivable impaired and provided for	5,838	6,394
Impairment allowance at the end of the year	(5,837)	(5,859)
Long-term accounts receivable past due but not impaired	3,365	19
<b>Total long-term accounts receivable and prepayments</b>	<b>198,242</b>	<b>216,103</b>

	31 December	
	2016	2015
Long-term loans	101,600	122,804
Long-term trade receivables	16,292	23,030
Other long-term receivables <sup>1</sup>	76,984	69,715
<b>Total long-term accounts receivable neither past due nor impaired</b>	<b>194,876</b>	<b>215,549</b>

<sup>1</sup> Other long-term accounts receivable includes prepayments in the amount of RUB 20,747 million and RUB 2,977 million as of 31 December 2016 and 31 December 2015, respectively.

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

Movements of the Group's allowance for impairment of long-term accounts receivable and prepayments are as follows:

	Year ended 31 December	
	2016	2015
Impairment allowance at the beginning of the year	5,859	29,147
Impairment allowance accrued <sup>1</sup>	1,732	3,697
Release of previously created allowance <sup>1</sup>	(856)	(28,053)
Foreign exchange rate differences	(898)	1,068
<b>Impairment allowance at the end of the year</b>	<b>5,837</b>	<b>5,859</b>

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

## 17. Available-for-sale long-term financial assets

	31 December	
	2016	2015
Equity securities <sup>1</sup>	294,034	235,436
Debt instruments	311	171
<b>Total</b>	<b>294,345</b>	<b>235,607</b>

<sup>1</sup> As of 31 December 2016 and 31 December 2015 equity securities include PJSC NOVATEK shares in the amount of RUB 238,817 million and RUB 181,611 million, respectively.

### 17. Available-for-sale long-term financial assets (continued)

Available-for-sale long-term financial assets are shown net of allowance for impairment of RUB 1,275 million and RUB 2,128 million as of 31 December 2016 and 31 December 2015, respectively.

Debt instruments include promissory notes on Group companies' balances which are assessed by management as of high credit quality.

Movements in available-for-sale long-term financial assets are as follows:

	Year ended 31 December	
	2016	2015
Available-for-sale long-term financial assets at the beginning of the year	235,607	201,824
Increase in fair value of long-term available-for-sale financial assets	62,451	49,257
Acquisition of long-term available-for-sale financial assets	1,719	702
Disposal of long-term available-for-sale financial assets	(6,285)	(15,845)
Release (accrual) of impairment of long-term available-for-sale financial assets	853	(331)
<b>Available-for-sale long-term financial assets at the end of the year</b>	<b>294,345</b>	<b>235,607</b>

The maximum exposure to credit risk as of the reporting date is the fair value of the debt securities classified as available-for-sale. The impairment of available-for-sale assets has been performed using the quoted market prices.

### 18. Accounts payable and accrued charges

	31 December	
	2016	2015
<b>Financial liabilities</b>		
Accounts payable for acquisition of property, plant and equipment	351,170	337,868
Trade payables	331,774	358,393
Derivative financial instruments	94,414	150,068
Provision under financial guarantees <sup>1</sup>	3,427	61,404
Other payables <sup>2</sup>	296,180	266,265
	1,076,965	1,173,998
<b>Non-financial liabilities</b>		
Advances received	108,921	116,307
Accruals and deferred income	11,119	7,701
	120,040	124,008
<b>Total accounts payable, accruals and provisions for liabilities and charges</b>	<b>1,197,005</b>	<b>1,298,006</b>

<sup>1</sup> As of 31 December 2016 and 31 December 2015 provision under financial guarantees includes accrual related to financial guarantee contract issued to Gazprombank (Joint-stock Company) for Ostchem Holding Limited (see Note 27 and 36).

<sup>2</sup> As of 31 December 2016 and 31 December 2015 other payables include RUB 112,256 million and RUB 102,134 million of accruals for probable price adjustments related to natural gas deliveries made from 2013 to 2016, respectively.

Fair values of these liabilities approximate the carrying values.

## 19. Other taxes payable

	31 December	
	2016	2015
VAT	81,859	65,833
MET	65,776	45,721
Property tax	30,615	24,251
Excise tax	18,858	15,794
Other taxes	18,136	16,795
<b>Total other taxes payable</b>	<b>215,244</b>	<b>168,394</b>

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

	31 December	
	2016	2015
Short-term borrowings and promissory notes:		
Borrowings and promissory notes denominated in Russian Rubles	44,352	12,766
Foreign currency denominated borrowings	16,280	39,236
	60,632	52,002
Current portion of long-term borrowings (see Note 21)	386,448	594,370
<b>Total short-term borrowings, promissory notes and current portion of long-term borrowings</b>	<b>447,080</b>	<b>646,372</b>

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

	31 December	
	2016	2015
Fixed rate short-term borrowings denominated in Russian Rubles	10.48 %	10.02 %
Fixed rate foreign currency denominated short-term borrowings	7.78 %	9.12 %
Variable rate short-term borrowings denominated in Russian Rubles	11.81 %	13.72 %
Variable rate foreign currency denominated short-term borrowings	2.73 %	2.01 %

Fair values of these liabilities approximate the carrying values.

## 21. Long-term borrowings, promissory notes

	Currency	Final maturity	31 December	
			2016	2015
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009 <sup>1</sup>	US Dollar	2019	138,863	166,851
Bank of China Limited, London branch	Euro	2021	126,414	–
Mizuho Bank Ltd. <sup>2</sup>	US Dollar	2019	93,228	156,821
China Construction Bank Corporation, Beijing branch <sup>2</sup>	US Dollar	2020	92,627	111,077
Loan participation notes issued in September 2012 <sup>3</sup>	US Dollar	2022	92,102	110,666
Loan participation notes issued in July 2012 <sup>1</sup>	Euro	2017	92,019	114,928
Loan participation notes issued in November 2013 <sup>3</sup>	US Dollar	2023	91,485	109,925
Loan participation notes issued in October 2007 <sup>1</sup>	Euro	2018	81,035	101,209



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

	Currency	Final maturity	31 December	
			2016	2015
Loan participation notes issued in March 2007 <sup>1</sup>	US Dollar	2022	80,480	96,701
Loan participation notes issued in August 2007 <sup>1</sup>	US Dollar	2037	77,893	93,593
Loan participation notes issued in April 2004 <sup>1</sup>	US Dollar	2034	73,886	88,779
Loan participation notes issued in April 2008 <sup>1</sup>	US Dollar	2018	67,930	81,622
Loan participation notes issued in March 2013 <sup>1</sup>	Euro	2020	65,512	81,821
Loan participation notes issued in October 2015 <sup>1</sup>	Euro	2018	64,434	80,475
Loan participation notes issued in November 2016 <sup>1</sup>	Euro	2023	63,353	–
Loan participation notes issued in July 2012 <sup>1</sup>	US Dollar	2022	62,008	74,506
Loan participation notes issued in July 2013 <sup>1</sup>	Euro	2018	58,361	72,891
Loan participation notes issued in February 2013 <sup>1</sup>	US Dollar	2028	55,680	66,902
Loan participation notes issued in February 2014 <sup>1</sup>	Euro	2021	49,317	61,595
Loan participation notes issued in February 2013 <sup>1</sup>	US Dollar	2020	49,278	59,210
Loan participation notes issued in April 2013 <sup>3</sup>	Euro	2018	48,817	60,967
PJSC Sberbank	US Dollar	2018	46,099	56,231
Loan participation notes issued in September 2013 <sup>1</sup>	British Pound Sterling	2020	38,593	48,201
Loan participation notes issued in November 2011 <sup>1</sup>	US Dollar	2021	37,353	44,881
Loan participation notes issued in November 2006 <sup>1</sup>	Euro	2017	33,185	41,447
Loan participation notes issued in March 2013 <sup>1</sup>	Euro	2025	32,997	41,211
Loan participation notes issued in March 2007 <sup>1</sup>	Euro	2017	32,191	40,205
Loan participation notes issued in October 2013 <sup>1</sup>	Swiss Franc	2019	29,863	36,957
PJSC VTB Bank	Russian Ruble	2021	29,800	–
Loan participation notes issued in March 2016 <sup>1</sup>	Swiss Franc	2018	29,513	–
Loan participation notes issued in November 2016 <sup>1</sup>	Swiss Franc	2021	29,492	–
Alfa-Bank (Joint-stock Company)	US Dollar	2019	24,271	29,160
Commerzbank International S.A.	US Dollar	2018	24,265	43,730
Gazprombank (Joint-stock Company)	US Dollar	2018	21,836	26,238
Gazprombank (Joint-stock Company)	US Dollar	2018	20,017	24,051
PJSC Sberbank	Russian Ruble	2017	19,802	19,802
UniCredit Bank Austria AG	Euro	2021	19,172	–
J.P. Morgan Europe Limited <sup>2</sup>	US Dollar	2018	18,962	36,694
Gazprombank (Joint-stock Company)	US Dollar	2019	18,804	22,594
Banc of America Securities Limited	US Dollar	2018	18,368	22,041
BNP Paribas S.A. <sup>2</sup>	Euro	2022	15,644	22,802
PJSC Sberbank	Euro	2020	15,373	19,203
Russian bonds issued in March 2016 <sup>3</sup>	Russian Ruble	2046	15,344	–
Russian bonds issued in November 2013 <sup>4</sup>	Russian Ruble	2043	15,111	15,246
Russian bonds issued in November 2013 <sup>4</sup>	Russian Ruble	2043	15,111	15,246
PJSC Sberbank	Russian Ruble	2021	15,068	–
PJSC Sberbank	Russian Ruble	2021	15,067	–
UniCredit Bank Austria AG	Euro	2019	14,745	23,940
PJSC VTB Bank	Russian Ruble	2021	14,654	–
PJSC Sberbank	Euro	2017	14,388	17,971
PJSC Sberbank	Russian Ruble	2019	12,511	12,514
PJSC Sberbank	Russian Ruble	2019	12,511	12,514
UniCredit Bank Austria AG	US Dollar	2018	12,135	14,581

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

	Currency	Final maturity	31 December	
			2016	2015
Bank of America Securities Limited	Euro	2017	11,541	14,420
Russian bonds issued in March 2016 <sup>3</sup>	Russian Ruble	2046	10,378	–
Russian bonds issued in February 2011 <sup>3</sup>	Russian Ruble	2021	10,368	10,363
Russian bonds issued in August 2016 <sup>3</sup>	Russian Ruble	2046	10,317	–
Russian bonds issued in February 2013 <sup>5</sup>	Russian Ruble	2017	10,279	10,275
Russian bonds issued in April 2009 <sup>3</sup>	Russian Ruble	2019	10,182	10,177
Russian bonds issued in December 2012 <sup>3</sup>	Russian Ruble	2022	10,075	10,070
Russian bonds issued in June 2016 <sup>3</sup>	Russian Ruble	2046	10,062	–
Citibank International plc <sup>2</sup>	US Dollar	2021	10,042	14,734
PJSC Sberbank	Russian Ruble	2019	10,009	10,011
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2017	10,000	10,000
HSBC Bank plc	Euro	2022	9,880	14,394
Gazprombank (Joint-stock Company)	Russian Ruble	2022	9,809	6,187
BNP Paribas S.A.	Euro	2023	9,451	13,559
Bank of America Merrill Lynch International Limited	US Dollar	2018	9,157	21,960
Banca Intesa a.d. Beograd	US Dollar	2019	9,114	10,947
PJSC Sberbank	US Dollar	2018	9,113	10,947
PJSC VTB Bank	Russian Ruble	2018	8,250	8,250
PJSC Sberbank	Euro	2022	7,713	–
PJSC Credit Bank of Moscow	US Dollar	2018	7,582	5,831
PJSC Sberbank	Russian Ruble	2025	7,221	7,220
Intesa Sanpaolo S.p.A.	Euro	2019	6,848	11,957
PJSC VTB Bank	Euro	2020	6,761	8,449
PJSC VTB Bank	Russian Ruble	2019	6,510	–
Alfa-Bank (Joint-stock Company)	Russian Ruble	2019	6,509	–
GC Vnesheconombank	Russian Ruble	2025	6,500	7,852
PJSC Sberbank	US Dollar	2018	6,493	–
BNP Paribas S.A. <sup>2</sup>	Euro	2022	5,904	8,650
Credit Agricole CIB	Euro	2024	5,691	8,018
PJSC Sberbank	Russian Ruble	2026	5,670	–
Sberbank Serbia a.d.	US Dollar	2019	5,469	6,568
Russian bonds issued in August 2016 <sup>3</sup>	Russian Ruble	2046	5,158	–
PJSC VTB Bank	Russian Ruble	2021	5,151	–
Russian bonds issued in February 2013 <sup>5</sup>	Russian Ruble	2018	5,140	5,137
Russian bonds issued in November 2015 <sup>6</sup>	Russian Ruble	2020	5,061	5,058
Russian bonds issued in November 2015 <sup>6</sup>	Russian Ruble	2020	5,061	5,058
Alfa-Bank (Joint-stock Company)	Russian Ruble	2019	5,008	5,011
JSC BANK ROSSIYA	Russian Ruble	2019	4,920	–
Banca Intesa a.d. Beograd	Euro	2018	4,617	5,754
Gazprombank (Joint-stock Company)	Russian Ruble	2017	3,220	9,750
Loan participation notes issued in November 2006 <sup>1</sup>	US Dollar	2016	–	99,054
Loan participation notes issued in November 2011 <sup>1</sup>	US Dollar	2016	–	73,264
JSC Rosselkhozbank	Russian Ruble	2016	–	30,029
Deutsche Bank AG	US Dollar	2016	–	29,690

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

	Currency	Final maturity	31 December	
			2016	2015
Intesa Sanpaolo S.p.A.	Euro	2016	–	28,028
Sumitomo Mitsui Banking Corporation				
Europ Limited <sup>2</sup>	US Dollar	2016	–	25,537
PJSC Promsvyazbank	US Dollar	2016	–	25,509
Sumitomo Mitsui Finance Dublin Limited	US Dollar	2016	–	23,392
Bank of Tokyo-Mitsubishi UFJ Ltd.	US Dollar	2016	–	21,891
Russian bonds issued in February 2013 <sup>5</sup>	Russian Ruble	2016	–	15,410
UniCredit Bank AG <sup>2,7</sup>	US Dollar	2016	–	14,377
Bank of Tokyo-Mitsubishi UFJ Ltd. <sup>2</sup>	US Dollar	2016	–	13,754
Banc of America Securities Limited	US Dollar	2016	–	13,126
PJSC Sberbank	Russian Ruble	2016	–	12,400
PJSC VTB Bank	US Dollar	2016	–	12,104
UniCredit Bank AG <sup>2,7</sup>	Euro	2016	–	11,297
Russian bonds issued in February 2011 <sup>3</sup>	Russian Ruble	2016	–	10,259
Russian bonds issued in February 2011 <sup>3</sup>	Russian Ruble	2016	–	10,228
PJSC Sberbank	Russian Ruble	2016	–	8,300
Gazprombank (Joint-stock Company)	US Dollar	2016	–	8,017
Sberbank Serbia a.d.	US Dollar	2016	–	5,483
JSC BANK ROSSIYA	Russian Ruble	2016	–	5,000
UniCredit Bank AG <sup>2,7</sup>	Russian Ruble	2016	–	1,894
Russian bonds issued in February 2012 <sup>3</sup>	Russian Ruble	2016	–	452
Other long-term borrowings, promissory notes	Various	Various	115,790	127,112
<b>Total long-term borrowings, promissory notes</b>			<b>2,768,991</b>	<b>3,390,213</b>
Less: current portion of long-term borrowings			(386,448)	(594,370)
			<b>2,382,543</b>	<b>2,795,843</b>

<sup>1</sup> Issuer of these bonds is Gaz Capital S.A.

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

<sup>3</sup> Issuer of these bonds is PJSC Gazprom Neft.

<sup>4</sup> Issuer of these bonds is PJSC Gazprom.

<sup>5</sup> Issuer of these bonds is Gazprom capital LLC.

<sup>6</sup> Issuer of these bonds is PJSC WGC-2.

<sup>7</sup> Loans were obtained for development of Yuzhno-Russkoye oil and gas field.

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

	31 December	
	2016	2015
Long-term borrowings and promissory notes denominated in Russian Rubles (including current portion of RUB 69,489 million and RUB 79,910 million as of 31 December 2016 and 31 December 2015, respectively)	427,014	362,400
denominated in foreign currency (including current portion of RUB 316,959 million and RUB 514,460 million as of 31 December 2016 and 31 December 2015, respectively)	2,341,977	3,027,813
	<b>2,768,991</b>	<b>3,390,213</b>

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

	31 December	
	2016	2015
<b>Due for repayment</b>		
Between one and two years	708,355	472,657
Between two and five years	956,731	1,452,110
After five years	717,457	871,076
	<b>2,382,543</b>	<b>2,795,843</b>

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,086,181 million and RUB 2,431,823 million and fair value of RUB 2,209,883 million and RUB 2,480,142 million as of 31 December 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 682,810 million and RUB 958,390 million and fair value is RUB 702,251 million and RUB 948,744 million as of 31 December 2016 and 31 December 2015, respectively.

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

	31 December	
	2016	2015
Fixed rate long-term borrowings denominated in Russian Rubles	10.41 %	10.68 %
Fixed rate foreign currency denominated long-term borrowings	5.43 %	5.63 %
Variable rate long-term borrowings denominated in Russian Rubles	9.20 %	15.70 %
Variable rate foreign currency denominated long-term borrowings	3.72 %	3.37 %

As of 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 31 December 2015 carrying amount of these fixed assets was RUB 21,654 million. As of 31 December 2016 the Group does not have pledged shares and pledged fixed assets because the agreement was early repaid in August 2016.

Under the terms of the Russian bonds with the nominal value of RUB 15,000 million issued by PJSC Gazprom Neft in August 2016 due in 2046 bondholders can execute the right of early redemption in August 2021 at par, including interest accrued.

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

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.

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 (see Note 25).

## 22. Profit tax

Profit before profit tax for financial reporting purposes is reconciled to profit tax expense as follows:

Notes	Year ended 31 December	
	2016	2015
Profit before profit tax	1,285,138	925,241
Theoretical tax charge calculated at applicable tax rates	(257,028)	(185,048)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses, including:		
Tax losses for which no deferred tax asset was recognised	(1,659)	(23,092)
Impairment in the "South Stream" project	(395)	(11,269)
24, 27 Provision for post-employment benefit obligations	(10,192)	(7,111)
13 Impairment of assets under construction	(12,525)	(3,176)
Other non-deductible expenses	(26,846)	(19,415)
15 Non-taxable profits of associates and joint ventures	16,574	21,312
Changes in tax policy regarding making of impairment allowance of accounts receivable	—	71,406
Other non-taxable income	4,037	36,351
<b>Profit tax expense</b>	<b>(288,034)</b>	<b>(120,042)</b>

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS 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.

## 22. Profit tax (continued)

	Tax effects of taxable and deductible temporary differences:						Total net deferred tax liabilities
	Property, plant and equipment	Financial assets	Inventories	Tax losses carry forward	Retroactive gas price adjustments	Other deductible temporary differences	
<b>31 December 2014</b>	<b>(620,754)</b>	<b>(7,328)</b>	<b>(8,377)</b>	<b>20,121</b>	<b>11,671</b>	<b>10,569</b>	<b>(594,098)</b>
Differences recognition and reversals recognised in profit or loss	(65,316)	10,737	(6,366)	(1,765)	8,929	35,962	(17,819)
Differences recognition and reversals recognised in other comprehensive income	—	(3,032)	—	—	—	(3,455)	(6,487)
<b>31 December 2015</b>	<b>(686,070)</b>	<b>377</b>	<b>(14,743)</b>	<b>18,356</b>	<b>20,600</b>	<b>43,076</b>	<b>(618,404)</b>
Differences recognition and reversals recognised in profit or loss	(64,303)	3,020	3,124	(12,697)	2,157	(1,222)	(69,921)
Differences recognition and reversals recognised in other comprehensive income	—	(1,461)	—	—	—	1,283	(178)
<b>31 December 2016</b>	<b>(750,373)</b>	<b>1,936</b>	<b>(11,619)</b>	<b>5,659</b>	<b>22,757</b>	<b>43,137</b>	<b>(688,503)</b>

Taxable temporary differences recognised for the years ended 31 December 2016 and 31 December 2015 include the effect of depreciation premium on certain property, plant and equipment. As a result a deferred tax liability related to property, plant and equipment was recognised in the amount of RUB 14,742 million and RUB 35,052 million, respectively, with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the years ended 31 December 2016 and 31 December 2015.

The temporary differences associated with undistributed earnings of subsidiaries and associates amount to RUB 694,414 million and RUB 570,402 million as of 31 December 2016 and 31 December 2015, respectively. A deferred tax liability on these temporary differences was not recognised, because management controls the timing of the reversal of the temporary differences and believes that they will not reversed in the foreseeable future.

Effective 1 January 2012, 55 major Russian subsidiaries of PJSC Gazprom formed a consolidated group of taxpayers ("CGT") with PJSC Gazprom acting as the responsible tax payer. During 2013, additional nine Russian subsidiaries of PJSC Gazprom joined the CGT. During 2014, four Russian subsidiaries of PJSC Gazprom left the CGT. During 2015, additional two Russian subsidiaries of PJSC Gazprom joined the CGT. During 2016 there was no change in the CGT. In accordance with the Russian tax legislation, tax deductible losses can be offset against taxable profits among the companies within the CGT to the extent those losses and profits are recognised for tax purposes in the reporting year and, thus, are included into the tax base of the CGT. Tax assets recognised on losses prior to the formation of the CGT are written off.

## 23. Derivative financial instruments

The Group has outstanding commodity contracts measured at fair value. The fair value of derivatives is based on market quotes on measurement date or calculation using an agreed price formula.

Where appropriate, in order to manage currency risk the Group uses foreign currency derivatives.

The following table provides an analysis of the Group's position and fair value of derivatives outstanding as of the end of the reporting year. Fair values of derivatives are reflected at their gross value included in other assets and other liabilities in the consolidated balance sheet.

### 23. Derivative financial instruments (continued)

	Year ended 31 December	
	2016	2015
<b>Fair value</b>		
<b>Assets</b>		
Commodity contracts	100,021	175,517
Foreign currency derivatives and currency and interest rate swaps	1,565	4,123
	<b>101,586</b>	<b>179,640</b>
<b>Liabilities</b>		
Commodity contracts	100,111	195,267
Foreign currency derivatives and currency and interest rate swaps	46,330	82,719
Other derivatives	3,948	1,322
	<b>150,389</b>	<b>279,308</b>

Derivative financial instruments are mainly denominated in US dollars, Euros and Pounds sterling.

### 24. Provisions for liabilities and charges

	31 December	
	2016	2015
Provision for post-employment benefit obligations	236,852	233,077
Provision for decommissioning and site restoration costs	161,764	160,648
Other	7,618	41,713
<b>Total provisions for liabilities and charges</b>	<b>406,234</b>	<b>435,438</b>

Provision for decommissioning and site restoration costs changed due to decrease in discount rate from 9.39 % to 8.54 % as of 31 December 2015 and 31 December 2016, respectively, and change in other estimations.

The Group operates post-employment benefits, which are recorded in the consolidated financial statements under IAS 19 Employee Benefits. Defined benefit plan covers the majority employees of the Group. The retirement benefit plan includes benefits of the following types: pension benefits paid to former employees through the non-state pension fund "GAZFOND" ("NPF GAZFOND") and financial aid to pensioners provided by the Group.

The amount of benefits depends on the period of the employees' service (years of service), salary level at retirement, predetermined fixed amount or a combination of these factors.

Principal actuarial assumptions used:

	31 December	
	2016	2015
Discount rate (nominal)	8.5 %	9.5 %
Future salary and pension increases (nominal)	6.0 %	7.0 %
Retirement ages, years	females 55, males 58	females 55, males 58
Turnover ratio p.a.	Age-related curve, 3.8 % pa on average	

Weighted-average duration of obligations is 12 years.

The assumptions relating to life expectancy at expected pension age were 19.3 years for a 58 year old man and 28.5 years for a 55 year old woman in 2016 and 2015.



## 24. Provisions for liabilities and charges (continued)

The amounts associated with post-employment benefit obligations recognised in the consolidated balance sheet are as follows:

	31 December 2016		31 December 2015	
	Funded benefits – provided through NPF GAZFOND	Unfunded liabilities – other benefits	Funded benefits – provided through NPF GAZFOND	Unfunded liabilities – other benefits
Present value of benefit obligations	(372,845)	(236,852)	(356,565)	(226,097)
Fair value of plan assets	393,344	–	349,585	–
<b>Net balance asset (liability)</b>	<b>20,499</b>	<b>(236,852)</b>	<b>(6,980)</b>	<b>(226,097)</b>

The net pension assets related to benefits provided by the pension plan NPF GAZFOND in the amount of RUB 20,499 million as of 31 December 2016 are included within other non-current assets.

The net pension liabilities related to benefits provided by the pension plan NPF GAZFOND in the amount of RUB 6,980 million as of 31 December 2015 are included within provisions for liabilities and charges.

Changes in the present value of the defined benefit obligations and fair value of plan assets for the years ended 31 December 2016 and 31 December 2015 are as follows:

	Funded liabilities – benefits provided through NPF GAZFOND	Fair value of plan asset	Net (asset) liability	Unfunded liabilities – other post-employment benefits
<b>Opening balance as of 31 December 2015</b>	<b>356,565</b>	<b>(349,585)</b>	<b>6,980</b>	<b>226,097</b>
Current service cost	12,496	–	12,496	11,810
Past service cost	1,203	–	1,203	3,713
Net interest expense (income)	33,868	(33,385)	483	21,256
<b>Total expenses included in staff costs</b>	<b>47,567</b>	<b>(33,385)</b>	<b>14,182</b>	<b>36,779</b>
Remeasurements:				
Actuarial gains arising from changes in financial assumptions	(719)	–	(719)	(583)
Actuarial losses arising from changes in demographic assumptions	58	–	58	134
Actuarial gains – experience	(17,901)	–	(17,901)	(6,771)
Return on assets excluding amounts included in net interest expense	–	(6,702)	(6,702)	–
Exchange differences	–	–	–	(626)
<b>Total recognised in other comprehensive income</b>	<b>(18,562)</b>	<b>(6,702)</b>	<b>(25,264)</b>	<b>(7,846)</b>
Benefits paid	(12,725)	12,725	–	(18,178)
Contributions by employer	–	(16,397)	(16,397)	–
<b>Closing balance as of 31 December 2016</b>	<b>372,845</b>	<b>(393,344)</b>	<b>(20,499)</b>	<b>236,852</b>
<b>Opening balance as of 31 December 2014</b>	<b>279,485</b>	<b>(391,227)</b>	<b>(111,742)</b>	<b>171,275</b>
Current service cost	11,371	–	11,371	10,020
Past service cost	3,869	–	3,869	871
Net interest expense (income)	34,927	(49,135)	(14,208)	21,416
<b>Total expenses included in staff cost</b>	<b>50,167</b>	<b>(49,135)</b>	<b>1,032</b>	<b>32,307</b>



## 24. Provisions for liabilities and charges (continued)

	Funded liabilities – benefits provided through NPF GAZFOND	Fair value of plan asset	Net (asset) liability	Unfunded liabilities—other post-employment benefits
Remeasurements:				
Actuarial losses arising from changes in financial assumptions	54,041	–	54,041	36,609
Actuarial gains arising from changes in demographic assumptions	(3,433)	–	(3,433)	(3,336)
Actuarial (gains) losses – experience	(12,080)	–	(12,080)	2,574
Return on assets excluding amounts included in net interest expense	–	94,479	94,479	–
Exchange differences	–	–	–	205
<b>Total recognised in other comprehensive loss</b>	<b>38,528</b>	<b>94,479</b>	<b>133,007</b>	<b>36,052</b>
Benefits paid	(11,615)	11,615	–	(15,755)
Contributions by employer	–	(15,317)	(15,317)	–
Business combinations	–	–	–	2,218
<b>Closing balance as of 31 December 2015</b>	<b>356,565</b>	<b>(349,585)</b>	<b>6,980</b>	<b>226,097</b>

The major categories of plan assets as a fair value and percentage of total plan assets are as follows:

	31 December 2016		31 December 2015	
	Fair value	Percent in plan assets, %	Fair value	Percent in plan assets, %
<b>Quoted plan asset, including</b>	<b>185,271</b>	<b>47.1</b>	<b>159,946</b>	<b>45.8</b>
Mutual funds	57,579	14.6	75,409	21.6
Bonds	49,065	12.5	51,812	14.8
Shares	78,627	20.0	32,725	9.4
<b>Unquoted plan asset, including</b>	<b>208,073</b>	<b>52.9</b>	<b>189,639</b>	<b>54.2</b>
Shares	171,949	43.7	158,334	45.3
Deposits	16,541	4.2	13,785	3.9
Mutual funds	17,553	4.5	12,178	3.5
Other securities	2,030	0.5	5,342	1.5
<b>Total plan assets</b>	<b>393,344</b>	<b>100</b>	<b>349,585</b>	<b>100</b>

The amount of ordinary shares of PJSC Gazprom included in the fair value of plan assets comprises RUB 38,599 million and RUB 16,702 million as of 31 December 2016 and 31 December 2015, respectively.

Non-quoted equities within plan assets are mostly represented by Gazprombank (Joint-stock Company) shares which are measured at fair value (Level 2) using market approach valuation techniques based on available market data.

For the years ended 31 December 2016 and 31 December 2015 actual return on plan assets was a gain of RUB 40,087 million and loss of RUB 45,344 million primarily caused by the change of the fair value of plan assets.

## 24. Provisions for liabilities and charges (continued)

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2016 is presented below:

	<b>Increase (decrease) of defined benefit obligation</b>	<b>Increase (decrease) of defined benefit obligation, %</b>
Mortality rates lower by 20 %	24,348	4.07
Mortality rates higher by 20 %	(20,316)	(3.39)
Discount rate lower by 1 pp	59,273	9.90
Discount rate higher by 1 pp	(50,155)	(8.38)
Benefit growth lower by 1 pp	(51,692)	(8.64)
Benefit growth higher by 1 pp	60,179	10.05
Staff turnover lower by 1 pp for all ages	28,061	4.69
Staff turnover higher by 1 pp for all ages	(24,579)	(4.11)
Retirement ages lower by 1 year	25,478	4.26
Retirement ages higher by 1 year	(25,709)	(4.29)

The Group expects to contribute RUB 37,400 million to the defined benefit plans in 2017.

### Retirement benefit plan parameters and related risks

As a rule, the above benefits are indexed in line with inflation rate or salary growth for benefits that depend on salary level. All retirement benefit plans of the Group are exposed to inflation risk.

In addition to the inflation risk, the pension plan of the Group is exposed to mortality risk.

## 25. Equity

### Share capital

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

### Dividends

In 2016 PJSC Gazprom declared and paid dividends in the nominal amount of 7.89 Russian Rubles per share for the year ended 31 December 2015. In 2015 PJSC Gazprom declared and paid dividends in the nominal amount of 7.20 Russian Rubles per share for the year ended 31 December 2014.

### Treasury shares

As of 31 December 2016 and 31 December 2015 subsidiaries of PJSC Gazprom held 1,573 million and 723 million ordinary shares of PJSC Gazprom, respectively, which are accounted for as treasury shares.

On 15 July 2016 the Group acquired from Vnesheconombank 211 million PJSC Gazprom's ordinary shares and American depositary receipts representing 639 million PJSC Gazprom's ordinary shares.

Shares of PJSC Gazprom held by the subsidiaries represent 6.6 % and 3.1 % of PJSC Gazprom shares as of 31 December 2016 and 31 December 2015, respectively.

The management of the Group controls the voting rights of these shares.

## 25. Equity (continued)

### Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Russian Ruble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29 Financial Reporting in Hyperinflation Economies. Also, retained earnings and other reserves include translation differences arising on the translation of the net assets of foreign subsidiaries, associates and joint arrangements in the amount of RUB 617,922 million and RUB 899,336 million as of 31 December 2016 and 31 December 2015, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of these assets to governmental authorities and this process may continue. Social assets with a net book value of RUB 35 million and RUB 23 million have been transferred to governmental authorities during the years ended 31 December 2015 and 31 December 2016, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with Russian Accounting Rules. For the year ended 31 December 2016 the statutory profit of the parent company was RUB 411,425 million. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

## 26. Sales

	Year ended 31 December	
	2016	2015
Gas sales gross of excise tax and customs duties to customers in:		
Russian Federation	819,924	805,615
Former Soviet Union (excluding Russian Federation)	340,437	480,204
Europe and other countries	2,685,551	2,776,860
	3,845,912	4,062,679
Customs duties	(537,059)	(582,023)
Excise tax	(39,258)	(79,881)
Retroactive gas price adjustments <sup>1</sup>	33,175	26,482
Total gas sales	3,302,770	3,427,257
Sales of refined products to customers in:		
Russian Federation	980,352	981,792
Former Soviet Union (excluding the Russian Federation)	88,883	105,335
Europe and other countries	428,327	468,464
Total sales of refined products	1,497,562	1,555,591
Sales of crude oil and gas condensate to customers in:		
Russian Federation	81,302	77,519
Former Soviet Union (excluding the Russian Federation)	23,528	27,580
Europe and other countries	307,128	155,509
Total sales of crude oil and gas condensate	411,958	260,608

## 26. Sales (continued)

	Year ended 31 December	
	2016	2015
Electric and heat energy sales:		
Russian Federation	461,908	403,084
Former Soviet Union (excluding the Russian Federation)	2,458	2,524
Europe and other countries	17,350	19,057
Total electric and heat energy sales	481,716	424,665
Gas transportation sales:		
Russian Federation	192,649	191,648
Former Soviet Union (excluding the Russian Federation)	2,689	2,302
Europe and other countries	3,633	15
Total gas transportation sales	198,971	193,965
Other revenues:		
Russian Federation	174,378	182,594
Former Soviet Union (excluding the Russian Federation)	5,858	6,497
Europe and other countries	37,838	22,141
Total other revenues	218,074	211,232
<b>Total sales</b>	<b>6,111,051</b>	<b>6,073,318</b>

<sup>1</sup> 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 years ended 31 December 2016 and 31 December 2015 was an increase of RUB 33,175 million and RUB 26,482 million, respectively. The effects increasing sales are due to recognition of adjustments increasing gas prices for the past periods and due to reverse of related accruals following agreements reached prior to the issuance of the respective consolidated financial statements.

## 27. Operating expenses

	Year ended 31 December	
	2016	2015
Purchased gas and oil	1,157,585	1,048,472
Taxes other than on income	900,397	805,132
Staff costs	641,036	590,981
Transit of gas, oil and refined products	610,275	534,503
Depreciation	571,564	515,200
Materials	288,497	299,182
Cost of goods for resale, including refined products	185,441	193,348
Repairs and maintenance	147,608	161,578
Electricity and heating expenses	98,992	91,822
Foreign exchange rate differences on operating items	52,880	(25,581)
Social expenses	35,516	32,485
Rental expenses	30,152	35,600
Insurance expenses	29,967	27,214
Research and development expenses	28,990	30,588
Transportation services	28,923	32,218
Processing services	15,568	18,810
Derivatives losses (gains)	9,863	(88)
Other	414,638	365,847
	<b>5,247,892</b>	<b>4,757,311</b>
Changes in inventories of finished goods, work in progress and other effects	(2,909)	(121,809)
<b>Total operating expenses</b>	<b>5,244,983</b>	<b>4,635,502</b>

## 27. Operating expenses (continued)

Gas purchase expenses included within purchased gas and oil amounted to RUB 872,892 million and RUB 819,327 million for the years ended 31 December 2016 and 31 December 2015, respectively.

Staff costs include RUB 50,961 million and RUB 35,557 million of expenses associated with post-employment benefit obligations for the years ended 31 December 2016 and 31 December 2015, respectively (see Note 24).

Taxes other than on income consist of:

	Year ended 31 December	
	2016	2015
MET	613,662	591,336
Excise tax	144,648	88,580
Property tax	127,053	112,568
Other taxes	15,034	12,648
<b>Total taxes other than on income</b>	<b>900,397</b>	<b>805,132</b>

The charge for impairment and other provisions is presented below.

Notes	Year ended 31 December	
	2016	2015
13 Charge for allowance for impairment of property, plant and equipment	79,363	129,482
Charge for allowance for accounts receivable	118,815	81,994
Charge for allowance for investments	(596)	1,454
11 Charge for allowance for inventory obsolescence	(2,976)	289
18, 36 Charge for provision under financial guarantees	(50,736)	—
<b>Total charge for impairment and other provisions</b>	<b>143,870</b>	<b>213,219</b>

## 28. Finance income and expense

	Year ended 31 December	
	2016	2015
Foreign exchange gains	925,503	878,181
Interest income	93,494	112,165
<b>Total finance income</b>	<b>1,018,997</b>	<b>990,346</b>
Foreign exchange losses	471,814	1,342,230
Interest expense	71,556	66,857
<b>Total finance expense</b>	<b>543,370</b>	<b>1,409,087</b>

Total interest paid amounted to RUB 183,312 million and RUB 168,311 million for the years ended 31 December 2016 and 31 December 2015, respectively.

Foreign exchange gains and losses for the years ended 31 December 2016 and 31 December 2015 were recognised as a result of the change of US Dollar and Euro exchange rates against the Russian Ruble. Gains and losses primarily relate to revaluation of borrowings denominated in foreign currencies.

**29. Reconciliation of profit, disclosed in consolidated statement of financial results, prepared in accordance with Russian accounting rules (RAR) to profit disclosed in IFRS consolidated statement of comprehensive income**

	Year ended 31 December	
	2016	2015
<b>RAR profit for the year per consolidated statutory accounts</b>	<b>666,912</b>	<b>304,804</b>
Effects of IFRS adjustments:		
Classification of revaluation of available-for-sale financial assets	(62,132)	(43,179)
Difference in share of net income of associates and joint ventures	(24,157)	(9,166)
Differences in depreciation of property, plant and equipment	370,692	388,723
Reversal of goodwill amortisation	62,787	62,184
Loan interest and foreign exchange losses capitalized	93,256	177,736
Impairment and other provisions, including provision for pension obligations and unused vacations	(113,994)	(48,406)
Accounting for finance leases	552	887
Write-off of research and development expenses capitalized for RAR purposes	(5,488)	(6,956)
Fair value adjustment on derivatives	70	88
Differences in fixed assets disposal	1,103	(1,975)
Differences in financial results from acquisition of subsidiaries	–	31,674
Other effects	7,503	(51,215)
<b>IFRS profit for the year</b>	<b>997,104</b>	<b>805,199</b>

**30. Basic and diluted earnings per share, attributable to the owners of PJSC GAZPROM**

Earnings per share attributable to owners of PJSC Gazprom have been calculated by dividing the profit for the year, attributable to the owners of PJSC Gazprom by the annual weighted average number of shares outstanding, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 25).

There were 22.6 billion and 23.0 billion weighted average shares outstanding for the years ended 31 December 2016 and 31 December 2015, respectively.

There are no dilutive financial instruments outstanding in the Group.

**31. Net cash provided by operating activities**

Note	Year ended 31 December	
	2016	2015
<b>Profit before profit tax</b>	<b>1,285,138</b>	<b>925,241</b>
<b>Adjustments to profit before profit tax for:</b>		
27 Depreciation	571,564	515,200
28 Net finance (income) expense	(475,627)	418,741
15 Share of net income of associates and joint ventures	(82,872)	(106,560)
27 Charge for provisions	194,831	248,776
27 Derivatives losses (gains)	9,863	(88)
Gain on disposal of available-for-sale financial assets	(1,059)	(9,121)
Other	(12,393)	(6,952)
Total effect of adjustments	204,307	1,059,996

### 31. Net cash provided by operating activities (continued)

Note	Year ended 31 December	
	2016	2015
Cash flows from operating activities before working capital changes	1,489,445	1,985,237
Decrease in non-current assets	3,541	1,088
Decrease in non-current liabilities	(8,821)	(7,481)
	1,484,165	1,978,844
<b>Changes in working capital:</b>		
Increase in accounts receivable and prepayments	(98,791)	(732)
Decrease (increase) in inventories	96,578	(78,157)
Decrease in other current assets	159,473	297,491
Decrease in accounts payable and accrued charges, excluding interest, dividends and capital construction	(33,497)	(67,769)
Settlements on taxes payable (other than profit tax)	59,923	5,195
(Increase) decrease in available-for-sale financial assets and financial assets held for trading	(952)	784
Total effect of working capital changes	182,734	156,812
Profit tax paid	(95,576)	(104,729)
<b>Net cash from operating activities</b>	<b>1,571,323</b>	<b>2,030,927</b>

Total taxes and other similar payments paid in cash during 2015-2016:

	Year ended 31 December	
	2016	2015
Customs duties	617,788	693,746
Mineral extraction tax	601,985	599,433
Excise	236,892	219,105
Property tax	120,391	110,123
Insurance contributions to non-budget funds	117,503	108,151
Profit tax	95,576	104,729
Personal income tax	63,000	57,911
VAT	53,771	27,586
Other taxes	59,545	25,880
<b>Total taxes paid</b>	<b>1,966,451</b>	<b>1,946,664</b>

### 32. Subsidiaries

#### Significant subsidiaries

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December <sup>1</sup>	
		2016	2015
LLC Aviapredpriyatie Gazprom avia	Russia	100	100
WIBG GmbH <sup>2</sup>	Germany	100	100
OJSC Vostokgazprom	Russia	100	100
GAZPROM Schweiz AG	Switzerland	100	100
CJSC Gazprom Armenia	Armenia	100	100
LLC Gazprom VNIIGAZ	Russia	100	100
JSC Gazprom gazoraspredelenie	Russia	100	100

### 32. Subsidiaries (continued)

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December <sup>1</sup>	
		2016	2015
JSC Gazprom gazoraspredelenie Sever	Russia	73	96
LLC Gazprom geologorazvedka	Russia	100	100
LLC Gazprom geoesurs	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Gerosgaz Holdings B.V.	Netherlands	100	100
Gazprom Global LNG Ltd.	United Kingdom	100	100
LLC Gazprom dobycha Astrakhan	Russia	100	100
LLC Gazprom dobycha Krasnodar	Russia	100	100
LLC Gazprom dobycha Nadym	Russia	100	100
LLC Gazprom dobycha Noyabrsk	Russia	100	100
LLC Gazprom dobycha Orenburg	Russia	100	100
LLC Gazprom dobycha Urengoy	Russia	100	100
LLC Gazprom dobycha shelf Yuzhno-Sakhalinsk	Russia	100	100
LLC Gazprom dobycha Yamburg	Russia	100	100
LLC Gazprom invest	Russia	100	100
LLC Gazprom invest Vostok	Russia	100	100
LLC Gazprom invest RGK	Russia	100	100
CJSC Gazprom invest Yug	Russia	100	100
LLC Gazprom investholding	Russia	100	100
Gazprom International Germany GmbH	Germany	100	100
LLC Gazprom inform	Russia	100	100
LLC Gazprom komplektatsiya	Russia	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
LLC Gazprom mezhregiongaz	Russia	100	100
LLC Gazprom neftekhim Salavat	Russia	100	100
PJSC Gazprom neft	Russia	96	96
LLC Gazpromneft-Orenburg <sup>3</sup>	Russia	100	100
Gazprom Neft Trading GmbH <sup>9</sup>	Austria	100	100
LLC Gazprom neft shelf <sup>3</sup>	Russia	100	100
LLC Gazprom pererabotka	Russia	100	100
LLC Gazprom podzemremont Orenburg	Russia	100	100
LLC Gazprom podzemremont Urengoy	Russia	100	100
LLC Gazprom PKhG	Russia	100	100
Gazprom Sakhalin Holdings B.V.	Netherlands	100	100
LLC Gazprom togservis	Russia	100	100
OJSC Gazprom transgaz Belarus	Belorussia	100	100
LLC Gazprom transgaz Volgograd	Russia	100	100
LLC Gazprom transgaz Ekaterinburg	Russia	100	100
LLC Gazprom transgaz Kazan	Russia	100	100
LLC Gazprom transgaz Krasnodar	Russia	100	100
LLC Gazprom transgaz Makhachkala	Russia	100	100
LLC Gazprom transgaz Moskva	Russia	100	100
LLC Gazprom transgaz Nizhny Novgorod	Russia	100	100
LLC Gazprom transgaz Samara	Russia	100	100



### 32. Subsidiaries (continued)

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December <sup>1</sup>	
		2016	2015
LLC Gazprom transgaz Saint-Petersburg	Russia	100	100
LLC Gazprom transgaz Saratov	Russia	100	100
LLC Gazprom transgaz Stavropol	Russia	100	100
LLC Gazprom transgaz Surgut	Russia	100	100
LLC Gazprom transgaz Tomsk	Russia	100	100
LLC Gazprom transgaz Ufa	Russia	100	100
LLC Gazprom transgaz Ukhta	Russia	100	100
LLC Gazprom transgaz Tchaikovsky	Russia	100	100
LLC Gazprom transgaz Yugorsk	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
LLC Gazprom tsentrremont	Russia	100	100
LLC Gazprom export	Russia	100	100
LLC Gazprom energo	Russia	100	100
LLC Gazprom energoholding	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
LLC Gazpromneft-Vostok <sup>3</sup>	Russia	100	100
JSC Gazpromneft-MNPZ <sup>3</sup>	Russia	100	100
JSC Gazpromneft-Noyabrskneftegaz <sup>3</sup>	Russia	100	100
JSC Gazpromneft-Omsk <sup>3</sup>	Russia	100	100
JSC Gazpromneft-ONPZ <sup>3</sup>	Russia	100	100
JSC Gazpromneft-Severo-Zapad <sup>3</sup>	Russia	100	100
LLC GPN-Finans <sup>3</sup>	Russia	100	100
LLC Gazpromneft-Khantos <sup>3</sup>	Russia	100	100
LLC Gazpromneft-Centr <sup>3</sup>	Russia	100	100
LLC Gazpromtrans	Russia	100	100
OJSC Gazpromtrubinvest	Russia	100	100
LLC Gazprom flot	Russia	100	100
JSC Daltransgaz	Russia	100	100
LLC Zapolyarneft <sup>3</sup>	Russia	100	100
PJSC Krasnoyarskgazprom	Russia	100	75
PJSC MIPC	Russia	90	90
PJSC Mosenergo	Russia	53	53
Naftna Industrija Srbije a.d. <sup>3</sup>	Serbia	56	56
LLC Novourengoyssky GCC	Russia	100	100
PJSC WGC-2	Russia	77	77
CJSC Purgaz	Russia	51	51
OJSC Regiongazholding	Russia	57	57
CJSC Rosshelf	Russia	57	57
South Stream Transport B.V.	—	100	100
OJSC Severneftegazprom <sup>4</sup>	Russia	50	50
LLC Sibmetakhim	Russia	100	100
PJSC Gazprom spetsgazavtotrans	Russia	51	51
PJSC TGC-1	Russia	52	52
JSC Teploset Sankt-Peterburga	Russia	75	75

### 32. Subsidiaries (continued)

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December <sup>1</sup>	
		2016	2015
OJSC Tomskgazprom	Russia	100	100
LLC Faktoring-Finance	Russia	100	90
JSC Tsentr-gaz	Russia	100	100
JSC Gazprom centrenergogaz	Russia	66	66
JSC Yuzhuralneftegaz <sup>3</sup>	Russia	88	88
LLC Yamalgazinvest	Russia	100	100

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

<sup>2</sup> On 30 September 2015 in accordance with the Swap Agreement with Wintershall Holding GmbH the Group acquired the 100 % of the interest in WIBG GmbH (see Note 34).

<sup>3</sup> Subsidiaries of PJSC Gazprom neft.

<sup>4</sup> Group's portion of voting shares.

### 33. Non-controlling interest

	Year ended 31 December	
	2016	2015
Non-controlling interest at the beginning of the year	325,036	303,463
Non-controlling interest share of net profit of subsidiaries <sup>1</sup>	45,467	18,143
Changes in interest in JSC Gazprom gazoraspredelenie Sever	2,644	–
Changes in interest in PJSC WGC-2	131	136
Changes in the non-controlling interest as a result of other acquisitions and disposals	676	(1,671)
Gain (loss) from cash flow hedges	1,361	(403)
Gain (loss) arising from change in fair value of available-for-sale financial assets	1	(7)
Remeasurements of post-employment benefit obligations	8	(160)
Dividends	(11,727)	(6,374)
Translation differences	(16,289)	11,909
<b>Non-controlling interest at the end of the year</b>	<b>347,308</b>	<b>325,036</b>

<sup>1</sup> Non-controlling interest share of net profit (loss) of subsidiaries includes share in impairment of assets in the amount of RUB 5,365 million and RUB 2,034 million for the years ended 31 December 2016 and 31 December 2015, respectively.

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

	Country of primary operation	Percent of share capital held by non-controlling interest <sup>1</sup>	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
<b>As of and for the year ended 31 December 2016</b>					
Gazprom neft Group <sup>2</sup>	Russia	4%	20,412	114,916	1,377
Naftna Industrija Srbije a.d. Group	Serbia	46%	4,183	62,044	1,049
Mosenergo Group	Russia	46%	6,398	88,296	1,039
TGC-1 Group	Russia	48%	4,088	62,701	452
WGC-2 Group	Russia	19%	200	29,558	117

### 33. Non-controlling interest (continued)

	Country of primary operation	Percent of share capital held by non-controlling interest <sup>1</sup>	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
<b>As of and for the year ended 31 December 2015</b>					
Gazprom нефт Group <sup>2</sup>	Russia	4%	9,201	110,396	3,342
Naftna Industrija Srbije a.d. Group	Serbia	46%	3,262	75,485	1,700
Mosenergo Group	Russia	46%	4,741	82,529	184
TGC-1 Group	Russia	48%	3,497	58,941	419
WGC-2 Group	Russia	19%	472	29,367	167

<sup>1</sup> Effective share held by non-controlling interest in charter capital of investments.

<sup>2</sup> Including non-controlling interest in Naftna Industrija Srbije a.d. Group.

The summarised financial information of these subsidiaries before inter-company eliminations was as follows:

	Gazprom нефт Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
<b>As of and for the year ended 31 December 2016</b>					
Current assets	396,286	48,388	84,809	24,233	29,375
Non-current assets	2,357,154	195,271	197,654	155,517	220,817
Current liabilities	290,940	35,641	45,264	20,945	49,695
Non-current liabilities	864,337	57,136	32,914	33,552	60,053
Revenue	1,545,608	189,781	191,466	79,228	134,537
Profit for the year	201,763	7,483	13,884	8,453	809
Total comprehensive income for the year	187,873	7,483	13,191	8,065	527
Net cash from (used in):					
operating activities	397,128	22,896	31,690	14,162	24,266
investing activities	(382,981)	(15,894)	(23,668)	(8,949)	(14,064)
financing activities	(86,500)	(4,914)	(3,581)	(3,386)	(13,097)
<b>As of and for the year ended 31 December 2015</b>					
Current assets	511,348	56,620	67,777	19,673	34,896
Non-current assets	2,180,933	243,131	193,364	151,250	218,397
Current liabilities	346,534	43,006	23,725	20,617	49,652
Non-current liabilities	938,860	76,400	57,890	32,637	60,493
Revenue	1,467,943	183,022	171,932	69,585	112,465
Profit for the year	80,455	7,071	6,533	6,586	2,961
Total comprehensive income for the year	115,253	7,071	6,469	6,440	2,665
Net cash from (used in):					
operating activities	366,747	27,267	21,924	10,332	9,400
investing activities	(431,349)	(18,379)	(25,028)	(9,687)	(25,915)
financing activities	119,240	(2,481)	(921)	(1,201)	10,784

The rights of the non-controlling shareholders of the presented subgroups are determined by the respective laws of country of incorporation and the charter documents of the subsidiaries.

### 34. 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 9.00 % 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 100.00 % of the interest in WIBG GmbH and for 50.00 % of the interest in Wintershall Noordzee B.V. and Wintershall Services B.V. WIBG GmbH holds an equity interest of 50.02 % and 50.00 % in W & G Beteiligungs-GmbH & Co. KG and in WIEH GmbH, respectively.

The compensation payments from Wintershall Holding GmbH amounted to EUR 29 million (RUB 2,170 million – translated at the rate as of 30 September 2015).

Prior to the swap transaction the Group held an equity interest of 49.98 % in W & G Beteiligungs-GmbH & Co. KG and of 50.00 % in WIEH GmbH. 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 50.00 %.

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 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:

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

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. On 31 December 2015 the Group recognised the gain from the revaluation of disposed investments to their fair value in the amount of RUB 20,137 million in the consolidated financial statements of comprehensive income within other operating expenses.

Previously held by the Group investments in W & G Beteiligungs-GmbH & Co. KG, WIEH GmbH and WINGAS Storage UK Ltd. were measured at fair value at the acquisition date. On 31 December 2015 the gain from the revaluation of investments accounted for using the equity method to fair value is recognised in the consolidated financial statement of comprehensive income within other operating expenses in the amount of RUB 18,087 million.

In connection with derecognition of equity-accounted investments the Group recognised the loss in profit and loss within other operating expenses in the amount of RUB 9,034 million previously recognised in other comprehensive loss arising mainly from hedge transactions.

In accordance with IFRS 3 Business Combinations, the Group recognised the acquired assets and liabilities based upon their fair values.

### 34. Acquisition of subsidiaries (continued)

Fair value of assets acquired and liabilities assumed is as follows:

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

Result of the asset swap is as follows:

	31 December 2015
Fair value of transferred assets including compensation payments	87,774
Non-controlling interest measured at its proportionate share of the acquirees's net assets	262
Fair value of acquired assets	97,905
<b>Gain from a bargain purchase</b>	<b>9,869</b>

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. The gain from a bargain purchase is recognised in other operating income in the consolidated financial statement of comprehensive income for the year ended 31 December 2015.

Fair value of acquired accounts receivable amounted to RUB 157,589 million at the acquisition date. The amount of accounts receivable at the acquisition date amounts to RUB 75,517 million. The best estimate of cash flows, that are expected not to be recovered, amounts to RUB 1,729 million at the acquisition date.

### 34. Acquisition of subsidiaries (continued)

At the acquisition date contingencies related to judicial proceedings with fair value of RUB 2,707 million are accounted for within current provisions for liabilities and charges. The probability of unfavorable outcome of filed claim is estimated as medium.

If the acquisition occurred as of 1 January 2015 sales of the Group and the Group's profit before profit tax for the year ended 31 December 2015 would be higher by RUB 395,732 million and RUB 7,034 million, respectively.

#### 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 provision 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.

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 under construction are not made.

Fair value of acquired assets and liabilities assumed of Shtokman Development AG is as follows:

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

### 35. Related parties

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

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

#### Government (Russian Federation)

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

As of 31 December 2016 38.373 % of PJSC Gazprom's issued shares are directly owned by the Government. Another 11.859 % are owned JSC Rosneftegaz and OJSC Rosgazifikatsiya controlled by Government.

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

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

#### Parties under control of the Government

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

As of 31 December 2016 prices of natural gas sales, gas transportation and electricity tariffs in Russia are regulated by the FAS. Until 21 July 2015 these functions were performed by the FTS.

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

As of 31 December 2016 and 31 December 2015 and for the years ended 31 December 2016 and 31 December 2015, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	As of 31 December 2016		Year ended 31 December 2016	
	Assets	Liabilities	Revenues	Expenses
<b>Transactions and balances with the Government</b>				
Current profit tax	11,608	56,695	–	199,675
Insurance contributions to non-budget funds	720	7,795	–	96,693
VAT recoverable / payable	322,643	72,557	–	–
Customs duties	16,183	–	–	–
Other taxes	2,457	116,769	–	763,267
<b>Transactions and balances with other parties under control of the Government</b>				
Gas sales	–	–	76,955	–
Electricity and heating sales	–	–	217,445	–
Gas transportation sales	–	–	46,849	–

### 35. Related parties (continued)

	As of 31 December 2016		Year ended 31 December 2016	
	Assets	Liabilities	Revenues	Expenses
Other services sales	–	–	3,842	–
Accounts receivable	49,091	–	–	–
Oil and refined products transportation expenses	–	–	–	117,045
Accounts payable	–	13,800	–	–
Borrowings	–	345,604	–	–
Interest expense	–	–	–	11,467
Short-term financial assets	10,136	–	–	–
Available-for-sale long-term financial assets	8,087	–	–	–

  

	As of 31 December 2015		Year ended 31 December 2015	
	Assets	Liabilities	Revenues	Expenses
<b>Transactions and balances with the Government</b>				
Current profit tax	78,678	3,816	–	85,542
Insurance contributions to non-budget funds	688	7,369	–	126,042
VAT recoverable / payable	400,295	54,990	–	–
Customs duties	46,446	–	–	–
Other taxes	2,411	85,132	–	800,605
<b>Transactions and balances with other parties under control of the Government</b>				
Gas sales	–	–	70,439	–
Electricity and heating sales	–	–	190,891	–
Gas transportation sales	–	–	42,445	–
Other services sales	–	–	3,581	–
Accounts receivable	40,431	–	–	–
Oil and refined products transportation expenses	–	–	–	118,161
Accounts payable	–	14,062	–	–
Borrowings	–	300,003	–	–
Interest expense	–	–	–	17,205
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 27). 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 statement of changes in equity for returns of social assets to governmental authorities during the years ended 31 December 2016 and 31 December 2015. See Note 13 for net book values as of 31 December 2016 and 31 December 2015 of social assets vested to the Group at privatisation.

On 15 July 2016 the Group acquired from Vnesheconombank 211 million PJSC Gazprom's ordinary shares and American depositary receipts representing 639 million PJSC Gazprom's ordinary shares for RUB 132,000 million.



### 35. Related parties (continued)

#### Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RUB 4,685 million and RUB 4,801 million for the years ended 31 December 2016 and 31 December 2015, respectively.

Government officials, who are directors, do not receive remuneration from the Group.

The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

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

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

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

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

#### Associates and joint ventures

For the years ended 31 December 2016 and 31 December 2015 and as of 31 December 2016 and 31 December 2015 the Group had the following significant transactions and balances with associates and joint ventures.

	Year ended 31 December	
	2016	2015
	Revenues	
<b>Gas sales</b>		
Panrusgaz Gas Trading Plc	38,041	69,345
JSV Moldovagaz	24,849	31,950
VEDEX s.r.o. and its subsidiaries	16,046	7,166
Bosphorus Gaz Corporation A.S.	15,376	19,735
KazRosGaz LLP	10,509	3,598
JSC Latvijas Gaze	10,237	13,338
CJSC Gazprom YRGM Trading <sup>1</sup>	7,917	17,312
JSC Gazprom YRGM Development <sup>1</sup>	7,137	12,366
SGT EuRoPol GAZ S.A.	4,759	5,927
PremiumGas S.p.A	4,702	638
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries <sup>2</sup>	–	123,156
WIEH GmbH <sup>2</sup>	–	109,935
Gasum Oy <sup>3</sup>	–	24,999
Overgaz Inc. AD	–	4,944
WIEE AG <sup>2</sup>	–	1,344
<b>Gas transportation sales</b>		
CJSC Gazprom YRGM Trading <sup>1</sup>	11,453	23,641
JSC Gazprom YRGM Development <sup>1</sup>	10,323	16,886
KazRosGaz LLP	2,688	2,299

### 35. Related parties (continued)

	Year ended 31 December	
	2016	2015
<b>Gas condensate, crude oil and refined products sales</b>		
OJSC NGK Slavneft and its subsidiaries	38,445	44,075
CJSC SOVEKS	3,696	4,674
LLC NPP Neftekhimia	2,379	3,054
Sakhalin Energy Investment Company Ltd.	2,054	2,233
Poliom Ltd.	1,800	2,744
<b>Operator services sales and other services sales</b>		
JSC Messoyakhaneftegaz	4,538	31,142
<b>Gas refining services sales</b>		
KazRosGaz LLP	8,169	5,940
<b>Expenses</b>		
<b>Purchased gas</b>		
LLC SeverEnergiya and its subsidiaries	49,393	48,714
KazRosGaz LLP	32,567	44,624
CJSC Gazprom YRGM Trading <sup>1</sup>	24,566	62,560
JSC Gazprom YRGM Development <sup>1</sup>	22,089	44,708
Sakhalin Energy Investment Company Ltd.	11,811	20,226
CJSC Northgas	8,512	8,819
VEDEX s.r.o. and its subsidiaries	3,885	1,512
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries <sup>2</sup>	—	57,182
<b>Purchased transit of gas</b>		
Nord Stream AG	79,002	73,966
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	38,035	24,386
SGT EuRoPol GAZ S.A.	16,613	17,881
JSV Moldovagaz	3,587	3,027
<b>Purchased crude oil and refined products</b>		
OJSC NGK Slavneft and its subsidiaries	91,524	95,752
Sakhalin Energy Investment Company Ltd.	19,090	9,140
<b>Purchased services of gas and gas condensate extraction</b>		
JSC Achimgaz	27,994	28,798
<b>Purchased processing services</b>		
OJSC NGK Slavneft and its subsidiaries	13,313	14,179

<sup>1</sup> CJSC Gazprom YRGM Trading and JSC Gazprom YRGM Development are not associates and joint ventures.

<sup>2</sup> In September 2015 W&G Beteiligungs-GmbH & Co. KG and its subsidiaries, WIEH GmbH (formerly WIEH GmbH & Co. KG), WIEE AG (formerly Wintershall Erdgas Handelshaus Zug AG) became subsidiaries of the Group (see Note 34). In August 2016 W & G Beteiligungs-GmbH & Co. KG was merged with WIBG GmbH.

<sup>3</sup> 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.

### 35. Related parties (continued)

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
<b>Short-term accounts receivable and prepayments</b>				
JSC Messoyakhaneftegaz	40,530	–	19,742	–
Gazprombank (Joint-stock Company) and its subsidiaries	14,306	–	35,831	–
OJSC NGK Slavneft and its subsidiaries	8,286	–	8,415	–
Wintershall Noordzee B.V.	5,811	–	–	–
KazRosGaz LLP	3,287	–	842	–
Panrusgas Gas Trading Plc	3,175	–	7,434	–
Sakhalin Energy Investment Company Ltd.	2,733	–	1,149	–
Wintershall AG	2,125	–	3,064	–
DEMEX s.r.o. and its subsidiaries	1,518	–	1,790	–
CJSC Gazprom YRGM Trading	1,167	–	2,756	–
JSC Gazprom YRGM Development	1,052	–	1,968	–
Overgaz Inc. AD <sup>1</sup>	–	–	8,813	–
JSV Moldovagaz <sup>2</sup>	–	–	4,435	–
Gasum Oy	–	–	2,579	–
<b>Cash balances</b>				
Gazprombank (Joint-stock Company) and its subsidiaries	518,084	–	883,194	–
<b>Other current assets</b>				
Gazprombank (Joint-stock Company) and its subsidiaries	100,015	–	16,467	–
OJSC Belgazprombank	968	–	11,827	–
<b>Other non-current assets</b>				
Gazprombank (Joint-stock Company) and its subsidiaries	42,230	–	–	–
<b>Long-term accounts receivable and prepayments</b>				
JSC Messoyakhaneftegaz	18,962	–	15,172	–
LLC Yamal razvitie	15,722	–	1,460	–
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	12 757	–	15 933	–
OJSC Belgazprombank	4,957	–	4,957	–
Etzel-Kavernenbetriebsgesellschaft mbH & Co. KG	–	–	4,695	–
Wintershall Noordzee B.V.	–	–	3,742	–
<b>Short-term accounts payable</b>				
Nord Stream AG	–	5,723	–	7,170
CJSC Gazprom YRGM Trading	–	4,490	–	7,739
KazRosGaz LLP	–	4,186	–	3,370
OJSC NGK Slavneft and its subsidiaries	–	4,094	–	1,510
JSC Messoyakhaneftegaz	–	3,694	–	–
JSC Gazprom YRGM Development	–	3,682	–	5,690
LLC SeverEnergiya and its subsidiaries	–	3,436	–	5,755
JSC Achimgaz	–	3,025	–	4,506
Sakhalin Energy Investment Company Ltd.	–	2,948	–	854
SGT EuRoPol GAZ S.A.	–	2,100	–	2,710
JSC Latvijas Gaze	–	92	–	1,806
Gasum Oy	–	–	–	2,260

### 35. Related parties (continued)

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
<b>Short-term borrowings (including current portion of long-term borrowings)</b>				
Gazprombank (Joint-stock Company) and its subsidiaries	–	31,797	–	15,635
<b>Long-term borrowings</b>				
Gazprombank (Joint-stock Company) and its subsidiaries	–	88,850	–	114,793

<sup>1</sup> Net of impairment allowance on accounts receivable in the amount of RUB 6,380 million and nil million as of 31 December 2016 and 31 December 2015, respectively.

<sup>2</sup> Net of impairment allowance on accounts receivable in the amount of RUB 342,765 million and RUB 380,942 million as of 31 December 2016 and 31 December 2015, respectively.

Investments in associates and joint ventures are disclosed in Note 15.

Financial guarantees issued by the Group for the associates and joint ventures are disclosed in Note 36.

### 36. Commitments and contingencies

#### Financial guarantees

Notes	31 December	
	2016	2015
Outstanding guarantees issued for:		
Blackrock Capital Investments Limited	4,968	9,946
18, 27 Ostchem Holding Limited	3,427	61,404
Other	36,362	36,001
<b>Total financial guarantees</b>	<b>44,757</b>	<b>107,351</b>

In 2016 and 2015 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 87 million and USD 1,018 million as of 31 December 2016 and 31 December 2015, respectively, as well as amounts denominated in Euros of EUR 66 million and EUR 72 million as of 31 December 2016 and 31 December 2015, respectively.

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) in respect of bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by 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 31 December 2016 and 31 December 2015 the guarantees issued for Blackrock Capital Investments Limited amounted to RUB 4,968 million (USD 82 million) and RUB 9,946 million (USD 136 million), 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 31 December 2016 and 31 December 2015 the above guarantee amounted to RUB 3,427 million and RUB 61,404 million (USD 843 million), respectively, and was fully provided. 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. The change in the amount

### 36. Commitments and contingencies (continued)

of guarantee as of 31 December 2016 is mainly due to the partial assignment of Gazprombank (Joint-stock company) to RUB 54,099 million of the principal debt of the borrower under a loan agreement to a third party in December 2016.

#### Other

The Group has transportation agreements with certain of its associates and joint ventures (see Note 35).

#### Capital commitments

The total investment program related to gas, oil and power assets for 2017 is RUB 1,798,705 million.

#### Operating lease commitments

As of 31 December 2016 and 31 December 2015 the Group does not have significant liabilities related to operating leases.

#### Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2016 no loss is expected to result from these long-term commitments.

### 37. Operating risks

#### Operating environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. Due to the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings of the Group.

The future economic prospects of the Russian Federation is largely dependent upon the world economic situation, effectiveness of economic, financial and monetary measures undertaken by the Government of the Russian Federation, together with tax, legal, regulatory, and political developments.

#### Taxation

The tax, currency and customs legislation in the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 31 December 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 of Ukraine to recover unpaid debt for gas supplied under Contract No. KP dated 19 January 2009 regarding sale

### 37. Operating risks (continued)

and purchase of natural gas in the years 2009-2019 ("Contract No. KP"), and related interest charged. On 12 June 2015 PJSC Gazprom submitted to arbitration a review on the claim from NJSC Naftogaz of Ukraine and a new counter-claim, in which it specified its claims totalling USD 29,200 million. On 9 October 2015 NJSC Naftogaz of Ukraine filed a response to the claim from PJSC Gazprom. On 14 March 2016 PJSC Gazprom filed an answer to the response of NJSC Naftogaz of Ukraine. The corrected amount of claim of PJSC Gazprom against NJSC Naftogaz of Ukraine exceeded USD 37,000 million. This amount includes the outstanding payment for the gas supplied in May-June 2014, and take-or-pay obligations for 2012-2016, and penalty interest for late payment for the gas supplied.

At the same time on 16 June 2014 NJSC Naftogaz of Ukraine submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom seeking a retroactive revision of the price, compensation of all overpaid amounts starting from 20 May 2011 and cancellation of the provision of Contract No. KP which provides for the prohibition on reexport of natural gas out of Ukraine. The clarified claims of NJSC Naftogaz of Ukraine to PJSC Gazprom amounted to over USD 14,230 million.

On 21 July 2014 both cases were consolidated. Oral hearings of the case were held, the parties provided post-hearing statements on 11 November 2016. The arbitration panel is expected to deliver its ruling on 30 June 2017.

On 13 October 2014 NJSC Naftogaz of Ukraine submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom, seeking:

(1) to acknowledge that rights and obligations of NJSC Naftogaz Ukraine under Contract No. TKGU dated 19 January 2009 ("Contract No. TKGU") on volumes and terms of gas transportation through Ukraine in the years 2009-2019 should be transferred to PJSC Ukrtransgaz;

(2) to acknowledge that certain provisions of Contract No. TKGU, which will be subsequently updated, are invalid and / or inoperative and should be supplemented with or substituted by provisions which will be updated in line with the energy and anti-monopoly legislation of Ukraine and the European Union ("the EU");

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

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

On 28 November 2014 PJSC Gazprom filed its response to the request of arbitration. On 11 December 2014 the arbitration panel was formed. On 28 January 2015 the arbitration court made a decision not to combine the case with the above ones. On 30 April 2015 NJSC Naftogaz of Ukraine filed a claim, significantly increasing the amount of the claims, according to various estimates, up to USD 11,000-16,000 million. Oral hearings of the case were held, the parties provided post-hearing statements on 11 November 2016. The arbitration panel is expected to deliver its ruling on 30 June 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 (at the exchange rate as of 31 December 2016 – RUB 92,405 million). PJSC Gazprom did not agree to the claims and on 9 November 2012, filed with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, response to the request for arbitration. Arbitration panel was formed and hearing on the merits took place from 1 to 9 July 2015. On 30 September 2015 the parties submitted additional written opinions based on the analysis of the hearing materials including witness statement and expert statement.

On 22 June 2016 the arbitration court made a final decision which rejects all claims raised by the Ministry of Energy of the Republic of Lithuania, including claims on unfair pricing of gas which PJSC Gazprom supplied to Lithuania in 2006-2015. On 22 September 2016 it became



### 37. Operating risks (continued)

known that the Ministry of Energy of the Republic of Lithuania has filed appeal with the Court of Appeal of Stockholm, Sweden, to cancel the Final arbitration decision of 22 June 2016. On 4 April 2017 PJSC Gazprom officially received this appeal and is preparing a statement to contest it.

In August 2012 the European Commission launched a formal stage of investigation into a potential breach of the EU antitrust law by PJSC Gazprom. In April 2015 the European Commission adopted a Statement of Objections in the course of the ongoing antitrust investigation of PJSC Gazprom activity in the EU. The 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. On 27 December 2016 PJSC Gazprom forwarded to the European Commission a formal proposal for the settlement of the investigation (commitments). On 13 March 2017 the European Commission launched a market test process of the commitments upon which it will be able to rightfully accept the commitments and close the investigation without recognising the Gazprom Group guilty of violating the antitrust law of the European Union. The period for the market testing procedure established by the European Commission is seven weeks. Currently it's impossible to assess a potential negative impact of this ongoing investigation on activity of PJSC Gazprom in Europe and on financial position of PJSC Gazprom as a whole.

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" pipeline. In its notice of arbitration Saipem S.p.A. claimed to receive from South Stream Transport B.V. 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 (at the exchange rate as of 31 December 2016 – RUB 48,496 million). On 16 February 2016 South Stream Transport B.V. sent a response to the notice of arbitration of Saipem S.p.A., where it rejected all the claims raised by Saipem S.p.A. and declared its intention to file a counterclaim. On 30 September 2016 Saipem S.p.A. submitted its claim in its entirety with all attachments. The amount of claim of Saipem S.p.A. was reduced to the amount of EUR 679 million (at the exchange rate as of 31 December 2016 – RUB 43,328 million). On 10 March 2017 South Stream Transport B.V. filed a defense on the claim along with testimony and experts' opinions which underpin the respondent's argument, and a counter-claim in the amount of about EUR 730 million (at the exchange rate as of 31 December 2016 – RUB 46,582 million). The parties are currently undergoing a mutual information disclosure procedure. The hearings are scheduled for May 2018.

On 25 January 2016 the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of Ukrainian hryvnia 85,966 million (at the exchange rate as of 31 December 2016 – RUB 192,414 million) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed an action with the Kiev Economic Court against the decision of the Antimonopoly Committee of Ukraine. On 13 April 2016 the action was returned unconsidered on formal grounds. On 4 May 2016 PJSC Gazprom filed an appeal with the Kiev Economic Court of Appeal which left the primary court's award unchanged based on the decision of 18 May 2016. On 7 June 2016 PJSC Gazprom filed a cassation appeal with the Ukraine's Higher Economic Court. On 13 July 2016 the Ukraine's Higher Economic Court dismissed the appeal of PJSC Gazprom and affirmed the ruling of the court of first appearance and the decision of appeals instance. On 2 September 2016 PJSC Gazprom filed with the Supreme Court of Ukraine a petition to review the judgements in the case delivered by the lower-level courts.

On 13 September 2016 the Supreme Court of Ukraine rejected to move the petition forward to review the judgements delivered in the case by the lower-level courts. On 7 October 2016

### 37. Operating risks (continued)

the Kiev Economic Court determined to initiate proceedings in the case in view of the application filed by the Antimonopoly Committee of Ukraine along with a claim to impose a penalty in the amount of about USD 3,300 million on PJSC Gazprom, a fine in the amount of about USD 3,300 million and a demand to enforce PJSC Gazprom to fulfil a portion of its decision which pertains to the performance of the terms and conditions to the fullest extent of Contract No. TKGU regarding the volumes of gas intended for transit purposes. On 5 December 2016 the Court satisfied the claims of the Antimonopoly Committee of Ukraine to the fullest extent. On 22 February 2017 the Court dismissed the appeal of PJSC Gazprom keeping the first-instance court's decision in force. On 14 March 2017 PJSC Gazprom filed with the Ukraine's Higher Economic Court a cassation appeal on the decision of the Kiev Economic Court dated 5 December 2016 and the ruling of the Kiev Economic Court of Appeal dated 22 February 2017. Management of the Group believes that the charges are not founded.

On 3 February 2016 under 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.

On 14 March 2017 the European Commission received a complaint from PGNiG S.A., Poland, stating that PJSC Gazprom and its subsidiary LLC Gazprom export allegedly violate Article 102 of the EU Agreement the European Commission. The complaint specifically states that PJSC Gazprom violates the antitrust law of the EU through:

- 1) applying unfair pricing policy with respect to PGNiG S.A.;
- 2) preventing cross-border gas sale;
- 3) tying commercial issues with infrastructure.

Based on the complaint, the European Commission registered case No. AT.40497. The commencement of the case does not necessarily entail formal proceedings and recognise PJSC Gazprom guilty of violation of the antitrust law of the European Union. It is currently impossible to assess a potential negative impact of this ongoing investigation on the activities of PJSC Gazprom in Europe and on a financial position of PJSC Gazprom.

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

### Sanctions

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 Federation economy.

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

- 1) transacting in, providing financing for, or otherwise dealing 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);



### 37. Operating risks (continued)

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.

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.

### 38. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

Risks are managed centrally and to some extent at the level of subsidiaries in accordance with Group policies.

#### Market risk

Market risk is a risk that changes in market prices, such as foreign currency exchange rates, interest rates, commodity prices and prices of marketable securities, will affect the Group's financial results or the value of its holdings of financial instruments.

#### (a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The carrying amounts of the Group's financial instruments are denominated in the following currencies.

Notes		Russian Ruble	US dollar	Euro	Other	Total
<b>As of 31 December 2016</b>						
<b>Financial assets</b>						
<b>Current</b>						
8	Cash and cash equivalents	539,158	249,143	90,458	17,969	896,728
9	Short-term financial assets (excluding equity securities)	11,094	–	–	–	11,094
10	Trade and other accounts receivable	506,332	187,767	216,638	97,249	1,007,986
<b>Non-current</b>						
16	Long-term accounts receivable (excluding prepayments)	130,556	6,573	39,068	1,298	177,495
17	Available-for-sale long-term financial assets (excluding equity securities)	311	–	–	–	311
<b>Total financial assets</b>		<b>1,187,451</b>	<b>443,483</b>	<b>346,164</b>	<b>116,516</b>	<b>2,093,614</b>
<b>Financial liabilities</b>						
<b>Current</b>						
18	Accounts payable and accrued charges (excluding derivative financial instruments)	692,907	126,497	96,091	67,056	982,551
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	113,841	108,334	224,400	505	447,080
<b>Non-current</b>						
21	Long-term borrowings, promissory notes	357,525	1,192,238	743,887	88,893	2,382,543
<b>Total financial liabilities</b>		<b>1,164,273</b>	<b>1,427,069</b>	<b>1,064,378</b>	<b>156,454</b>	<b>3,812,174</b>
<b>As of 31 December 2015</b>						
<b>Financial assets</b>						
<b>Current</b>						
8	Cash and cash equivalents	660,664	468,936	170,407	59,088	1,359,095
9	Short-term financial assets (excluding equity securities)	10,089	146	–	–	10,235
10	Trade and other accounts receivable	467,587	217,425	216,775	105,198	1,006,985

### 38. Financial risk factors (continued)

Notes		Russian Ruble	US dollar	Euro	Other	Total
<b>Non-current</b>						
16	Long-term accounts receivable (excluding prepayments)	123,506	10,060	66,856	12,704	213,126
17	Available-for-sale long-term financial assets (excluding equity securities)	171	–	–	–	171
<b>Total financial assets</b>		<b>1,262,017</b>	<b>696,567</b>	<b>454,038</b>	<b>176,990</b>	<b>2,589,612</b>
<b>Financial liabilities</b>						
<b>Current</b>						
18	Accounts payable and accrued charges (excluding derivative financial instruments)	713,374	121,705	128,627	60,224	1,023,930
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	92,676	461,694	91,793	209	646,372
<b>Non-current</b>						
21	Long-term borrowings, promissory notes	282,490	1,569,153	907,203	36,997	2,795,843
<b>Total financial liabilities</b>		<b>1,088,540</b>	<b>2,152,552</b>	<b>1,127,623</b>	<b>97,430</b>	<b>4,466,145</b>

See discussion of derivative financial instruments in Note 23.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in selected foreign currencies.

As of 31 December 2016, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 195,208 million, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. As of 31 December 2015, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 291,197 million, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. The effect of related Russian Ruble strengthening against the US dollar would have been approximately the same amount with opposite impact.

As of 31 December 2016, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 145,508 million, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. As of 31 December 2015, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 134,717 million, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. The effect of related Russian Ruble strengthening against the Euro would have been approximately the same amount with opposite impact.

#### (b) Cash flow and fair value interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group's interest rate risk primarily arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The table below summarises the balance between long-term borrowings at fixed and at variable interest rates:

### 38. Financial risk factors (continued)

Notes	Long-term borrowings and promissory notes	31 December	
		2016	2015
21	At fixed rate	2,086,181	2,431,823
21	At variable rate	682,810	958,390
		<b>2,768,991</b>	<b>3,390,213</b>

The Group does not have a formal policy of determining how much the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether obtaining financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

During the years ended 31 December 2016 and 31 December 2015 the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2016, if benchmark interest rates on borrowings had been 5 % higher with all other variables held constant, profit before profit tax would have been lower by RUB 34,141 million for 2016, mainly as a result of higher interest expense on floating rate borrowings. As of 31 December 2015, if benchmark interest rates on borrowings had been 5 % higher with all other variables held constant, profit before profit tax would have been lower by RUB 47,920 million for 2015, mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in benchmark interest rates is approximately equal and opposite.

#### (c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows.

The Group's overall strategy in production and sales of natural gas, crude oil and related products is centrally managed. Natural gas export prices to Europe and other countries are generally based on a formula linked to oil product prices, which in turn are linked to crude oil prices.

The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2016, if the average gas prices related to the export market had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 248,285 million for 2016. As of 31 December 2015, if the average gas prices related to the export market had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 262,164 million for 2015.

The Russian gas tariffs are regulated by the FAS and are as such less subject to significant price fluctuations.

The Group assesses on regular basis the potential scenarios of future fluctuation in commodity prices and their impacts on operational and investment decisions. However, in the current environment management estimates may materially differ from actual impact on the Group's financial position.

#### (d) Securities price risk

The Group is exposed to movements in the equity securities prices because of financial assets held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss (see Notes 9 and 17).

As of 31 December 2016 and 31 December 2015, if London Stock Exchange equity index, which affects the major part of Group's equity securities, had decreased by 20 % with all other variables held constant, assuming the Group's equity instruments moved according to the historically high correlation with the index, Group's total comprehensive income for the year would have been RUB 58,743 million and RUB 47,016 million lower, respectively.

### 38. Financial risk factors (continued)

The Group is also exposed to equity securities prices used to assess the fair value of pension plan assets held by NPF GAZFOND (see Note 24).

#### Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations. The maximum exposure to credit risk is the value of the assets which might be lost.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable. Credit risks related to accounts receivable are systematically monitored, taking into account customer's financial position, past experience and other factors.

Management systematically reviews ageing analysis of receivables and uses this information for calculation of impairment provision (see Note 10, 16). Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customers default risk and country risk. Group operates with various customers and substantial part of sales relates to major customers.

Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash and cash equivalents are deposited only with banks that are considered by the Group to have a minimal risk of default.

The Group's maximum exposure to credit risk is presented in the table below.

Notes	31 December	
	2016	2015
8 Cash and cash equivalents	896,728	1,359,095
9 Debt securities	11,094	10,235
10, 16 Long-term and short-term trade and other accounts receivable	1,185,481	1,223,088
36 Financial guarantees	44,757	107,351
<b>Total maximum exposure to credit risk</b>	<b>2,138,060</b>	<b>2,699,769</b>

#### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group liquidity is managed centrally. The management of the Group monitors the planned cash inflow and outflow.

Important factor in the Group's liquidity risk management is an access to a wide range of funding through capital markets and banks. Management aims is to maintain flexibility in financing sources by having committed facilities available.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

### 38. Financial risk factors (continued)

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>As of 31 December 2016</b>					
Short-term and long-term loans and borrowings and promissory notes	348,178	247,864	829,565	1,172,128	1,022,573
Accounts payable and accrued charges (excluding derivative financial instruments and provision under financial guarantees)	907,675	71,449	—	—	—
Financial guarantees	7,162	7,528	8,877	13,147	8,043
<b>As of 31 December 2015</b>					
Short-term and long-term loans and borrowings and promissory notes	437,493	389,112	627,330	1,726,618	1,285,790
Accounts payable and accrued charges (excluding derivative financial instruments and provision under financial guarantees)	875,809	86,717	—	—	—
Financial guarantees	69,090	2,229	5,915	14,927	15,190

The Group's borrowing facilities do not usually include financial covenants which could trigger accelerated reimbursement of financing facilities. For those borrowing facilities where the Group has financial covenants, the Group is in compliance. If the financial covenants are not met, the Group reclassifies long-term borrowing facilities into short-term.

#### Capital risk management

The Group considers equity and debt to be the principal elements of capital management. The Group's objectives when managing capital are to safeguard the Group's position as a leading global energy company by further increasing the reliability of natural gas supplies and diversifying activities in the energy sector, both in the domestic and foreign markets.

In order to maintain or adjust the capital structure, the Group may revise its investment program, attract new or repay existing loans and borrowings or sell certain non-core assets.

The Group considers its target debt to equity ratio at the level of not more than 40 %.

On the Group level capital is monitored on the basis of the net debt to adjusted EBITDA ratio. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt (short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable) less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

Adjusted EBITDA is calculated as operating profit less depreciation and less provision for impairment of assets and other provisions (excluding provisions for accounts receivable and prepayments).

The net debt to adjusted EBITDA ratios at 31 December 2016 and 31 December 2015 were as follows:

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Total debt	2,829,623	3,442,215
Less: cash and cash equivalents	(896,728)	(1,359,095)
Net debt	1,932,895	2,083,120
Adjusted EBITDA	1,322,199	1,874,726
<b>Net debt / Adjusted EBITDA ratio</b>	<b>1.46</b>	<b>1.11</b>

### 38. Financial risk factors (continued)

PJSC Gazprom has an investment grade credit rating of BB+ (stable outlook) by Standard & Poor's and BBB- (stable outlook) by Fitch Ratings as of 31 December 2016.

### 39. Fair value of financial instruments

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

#### a) Financial instruments in Level 1

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

#### b) Financial instruments in Level 2

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

#### c) Financial instruments in Level 3

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

Long-term accounts receivables are fair valued at Level 3 (see Note 16), long-term borrowings – Level 2 (see Note 21).

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

Notes	31 December 2016			
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
9 <b>Financial assets held for trading:</b>				
Bonds	10,976	–	–	10,976
Equity securities	387	–	–	387
9 <b>Available-for-sale financial assets:</b>				
Promissory notes	–	118	–	118
<b>Total short-term financial assets</b>	<b>11,363</b>	<b>118</b>	<b>–</b>	<b>11,481</b>
17 <b>Available-for-sale financial assets:</b>				
Equity securities	246,866	40,584	6,584	294,034
Promissory notes	–	311	–	311
<b>Total available-for-sale long-term financial assets</b>	<b>246,866</b>	<b>40,895</b>	<b>6,584</b>	<b>294,345</b>
23 <b>Derivative financial instruments</b>	<b>16,931</b>	<b>81,110</b>	<b>3,545</b>	<b>101,586</b>
<b>Total assets</b>	<b>275,160</b>	<b>122,123</b>	<b>10,129</b>	<b>407,412</b>
23 <b>Derivative financial instruments</b>	<b>11,922</b>	<b>135,648</b>	<b>2,819</b>	<b>150,389</b>
<b>Total liabilities</b>	<b>11,922</b>	<b>135,648</b>	<b>2,819</b>	<b>150,389</b>
9 <b>Financial assets held for trading:</b>				
Bonds	9,673	–	–	9,673
Equity securities	303	–	–	303



### 39. Fair value of financial instruments (continued)

Notes	31 December 2016			
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
9	<b>Available-for-sale financial assets:</b>			
	Equity securities	2,032	–	2,032
	Bonds	146	–	146
	Promissory notes	–	416	416
	<b>Total short-term financial assets</b>	<b>12,154</b>	<b>416</b>	<b>12,570</b>
17	<b>Available-for-sale financial assets:</b>			
	Equity securities	188,142	40,584	235,436
	Promissory notes	–	171	171
	<b>Total available-for-sale long-term financial assets</b>	<b>188,142</b>	<b>40,755</b>	<b>235,607</b>
23	Derivative financial instruments	7,079	167,630	179,640
	<b>Total assets</b>	<b>207,375</b>	<b>208,801</b>	<b>427,817</b>
23	Derivative financial instruments	16,135	259,391	279,308
	<b>Total liabilities</b>	<b>16,135</b>	<b>259,391</b>	<b>279,308</b>

The derivative financial instruments include natural gas purchase and sale contracts and are categorised in Levels 1, 2 and 3 of the fair value hierarchy. The contracts in Level 1 are valued using active market price of identical assets and liabilities. Due to absence of quoted prices or other observable, market-corroborated data the contracts in Level 2 are valued using models internally developed by the Group. These models include inputs such as: quoted forward prices, time value, volatility factors, current market prices, contractual prices and expected volumes of the underlying instruments. Where necessary, the price curves are extrapolated to the expiry of the contracts using all available external pricing information, historic and long-term pricing relationships. These valuations are categorised in Level 3.

Foreign currency hedge contracts are categorised in Level 2. The Group uses estimation of fair value of foreign currency hedge contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Group management. No significant ineffectiveness occurred during the reporting year.

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the period. For the year ended 31 December 2016 and 31 December 2015 the Group has reclassified available-for-sale investments losses from other comprehensive income into the profit or loss in the amount of RUB nil million and RUB 37 million, respectively.

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

### 40. Offsetting financial assets and financial liabilities

In connection with its derivative activities, the Group generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Group with the right to, in the event of a default by the counterparty (such as bankruptcy), net counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty.



#### 40. Offsetting financial assets and financial liabilities (continued)

The following financial assets and liabilities are subject to offsetting, enforceable master netting agreements and similar agreements:

	Gross amounts before offsetting	Amounts offset	Net amounts after offsetting in the consolidated balance sheet	Amounts subject to netting agreements
<b>As of 31 December 2016</b>				
<b>Financial assets</b>				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	2,152,468	309,718	1,842,750	41,835
Derivative financial instruments	580,355	478,769	101,586	60,855
<b>Financial liabilities</b>				
Accounts payable and accrued charges (excluding derivative financial instruments)	703,739	309,718	394,021	41,835
Derivative financial instruments	629,158	478,769	150,389	60,855
<b>As of 31 December 2015</b>				
<b>Financial assets</b>				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,377,852	156,312	1,221,540	–
Derivative financial instruments	733,689	554,049	179,640	26,284
<b>Financial liabilities</b>				
Accounts payable and accrued charges (excluding derivative financial instruments)	1,180,319	156,312	1,024,007	–
Derivative financial instruments	833,357	554,049	279,308	26,284

#### 41. Post balance sheet events

##### Borrowings

In February 2017 the Group obtained a long-term loan from a consortium of banks in the total amount of EUR 800 million at an interest rate of EURIBOR + 2.6 % due in 2020 under the agreement concluded in December 2016. J.P. Morgan Europe Limited was appointed as a bank agent.

In February 2017 the Group issued Russian bonds in the total amount of RUB 30,000 million at an interest rate of 9.10 % due in 2024.

In March 2017 the Group obtained a long-term loan from Credit Agricole CIB in the amount of EUR 700 million at an interest rate of EURIBOR + 2.5 % due in 2022.

In March 2017 the Group obtained a long-term loan from Gazprombank (Joint-stock Company) in the amount of RUB 15,000 million at an interest rate of 10.25 % due in 2021.

In March 2017 the Group issued Loan Participation Notes in the amount of USD 750 million at an interest rate of 4.95 % due in 2027 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In April 2017 the Group issued Loan Participation Notes in the amount of 850 million of British Pounds Sterling at an interest rate of 4.25 % due in 2024 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In April 2017 the Group issued Russian bonds in the amount of RUB 15,000 million at an interest rate of 8.70 % due in 2022.

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