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To the Shareholders and the Board of Directors of PJSC Gazprom

Opinion

We have audited the accompanying consolidated accounting reports of Public Joint Stock Company "Gazprombank" (PJSC Gazprombank) comprising the consolidated balance sheet as at 31 December 2018, and the consolidated statement of cash flows for 2018, and notes to the consolidated accounting reports.

In our opinion, the accompanying consolidated accounting reports present fairly, in all material respects, the financial position of the Group as at 31 December 2018, its financial performance and its cash flows for 2018 in accordance with the reporting rules established in the Methodology guidelines on preparing consolidated accounting reports approved by PJSC Gazprom on 5 August 2016.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the "Basis for Opinion" section of our report. We are independent of the Group in accordance with the Rules of Independence of the Auditors and Audit Organisations and The Code of Professional Ethics of the Auditors, which are in accordance with International Ethics Standards for Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Accounting Principles

The consolidated accounting reports, which describes accounting principles. The consolidated accounting reports are prepared in accordance with the reporting rules established in the Methodology guidelines. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Revenue recognition

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

We assessed the consistency in the application of the revenue recognition accounting policy applicable to various types of revenue and geographic regions. Our audit procedures in respect of the risk of material misstatement of revenue included, in particular, evaluation of the design of controls and performance of substantive procedures in respect of the sales transactions. Based on the results of our audit procedures, we considered that the amount of the estimated liability recognised as at the end of the reporting period is the best estimate of the expenditure required to settle the present obligation.

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

Information about sales, including information by geographic regions, is disclosed in Note 7 of the consolidated accounting reports.

Revaluation of fixed assets

We consider this area to be one of the most significant audit areas in view of the significant balances of fixed assets. The Group performs regular revaluation of fixed assets to ensure that the value of fixed assets at which they are recognised in consolidated accounting reports does not significantly differ from their current (replacement) cost. No revaluation of fixed assets was performed as at 31 December 2018 in the majority of Group entities because of insignificant change in the current (replacement) cost identified.

We engaged our valuation experts to make a conclusion on the assumptions and methodology applied to testing the necessity for revaluation of fixed assets. Our audit procedures in respect of such testing included sample checking of test models and methods for accuracy.

Based on the results of the audit procedures, we consider that the significant assumptions applied to testing the necessity for revaluation of fixed assets are acceptable and correspond to the current economic environment.

Information about fixed assets is disclosed in Note 7 of the consolidated accounting reports.

Evaluation of bad debt accounts receivable

One of high-risk audit areas is the evaluation of sufficiency of bad debt allowance. We assessed the assessment of the information used by the Group to forecast the ability of its customers to repay their debts. We also performed procedures to evaluate controls over the recognition and repayment of the accounts receivable.

Based on the results of the procedures performed, we considered the criteria and assumptions applied by the management to accrue bad debt allowance to be acceptable.

Information about accounts receivable and bad debt allowance is disclosed in Note 11 %œ& & [!~ ſ & ^ ã ç æ à | ^ + Á c [Á c @^ Á & [} • [| ã á æ c ^ á Á æ& & [~ } c ã } *

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

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

Gazprom Group is a party to a number of significant litigations, including litigations with NJSC Naftogaz of Ukraine. Procedures we performed included analysis of the decisions made in respect of legal proceedings with NJSC Naftogaz of Ukraine, discussions of these and other significant { æ c c ^ ! • Á , ã c @Á c @^ Á Õ! [~] q • né judicial and legal support to the Group in its Á] ! [activities, evaluation and testing of terms underlying the recognition of liabilities, as well as the evaluation of disclosures for sufficiency and completeness. Based on the results of the procedures performed, we considered the estimates and approaches applied by the management, including the disclosures made, to be consistent and acceptable.

Information about estimated and contingent liabilities is disclosed in Note 23 %Commitments and contingencies+ Á c [Á c @^ Á & [} • [| ã á æ c ^ á Á æ& & [~ } c ã } * Á ! ^] [! c • È

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of PJSC Gazprom for 2018, but does not include the consolidated æ& & [~ } c ã } * Á ! ^] [! c • Á æ } á Á [~ ! Á æ ~ á ã c [! q • Á ! ^] [! c Á c @^ ! ^ [] ^ ç] ^ & c ^ á Á c [Á à ^ Á { æ á ^ Á æ ç æ ã | æ à | ^ Á c [Á ~ • Á æ ~ c ^ ! Á c @^ Á á æ c ^ Á

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

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

When we read the Annual report of PJSC Gazprom for 2018, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Accounting Reports

Management is responsible for the preparation and fair presentation of the consolidated accounting reports in accordance with the reporting rules established in the Methodology guidelines, and for such internal control as management determines is necessary to enable the preparation of consolidated accounting reports that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounting reports, management is responsible for assessing the Groupq • Á æ à ã | ã c ^ Á c [Á & [} c ã } ~ ^ Á æ • Á æ Á * [ã } * Á & [} & ^ ! } È Á á ã • concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Reports

Our objectives are to obtain reasonable assurance about whether the consolidated accounting reports as a whole are free from material misstatement, whether due to fraud or error, and to issue an

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 accounting reports.

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

a) identify and assess the risks of material misstatement of the consolidated accounting reports, 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

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conclude that a material uncertainty the related disclosures in the consolidated accounting reports 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 going concern;

e) evaluate the overall presentation, structure and content of the consolidated accounting reports, including the disclosures, and whether the consolidated accounting reports 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 accounting reports. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

PJSC GAZPROM
CONSOLIDATED BALANCE SHEET
as of 31 December 2018
(in millions of Russian Rubles)

Note	ASSETS	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
	I. NON-CURRENT ASSETS			
	Intangible assets, including:	671,871	727,230	779,418
5	goodwill on subsidiaries	635,635	693,106	752,525
	Results of research and development	9,837	7,198	8,161
6	Intangible exploration assets	191,981	168,505	167,651
6	Tangible exploration assets	125,347	108,572	95,952
	Fixed assets, including:	13,194,287	12,370,738	11,977,146
7	Objects of fixed assets, including:	9,280,073	9,343,019	9,705,138
	buildings, constructions, machinery and equipment	8,950,226	9,069,555	9,429,126
8	Construction in progress	3,914,214	3,027,719	2,272,008
9, 20	Financial investments, including:	1,980,653	1,496,335	1,475,787
	investments in subsidiaries	247,793	167,201	153,636
	investments in associates	1,258,939	972,261	857,741
	investments in other companies	370,394	221,800	254,254
	loans issued to companies beyond 12 months	63,407	95,089	129,273
	other financial investments	40,120	39,984	80,883
16	Deferred tax assets	246,678	266,027	178,144
	Other non-current assets	<u>335,964</u>	<u>290,905</u>	<u>197,702</u>
	TOTAL Section I	16,756,618	15,435,510	14,879,961
	II. CURRENT ASSETS			
10	Inventories, including:	979,226	891,710	837,300
	raw materials and other inventories	182,391	210,661	202,313
	work in progress	63,224	32,776	18,945
	finished goods and goods for resale	656,176	632,267	605,855
	goods dispatched	77,435	16,006	10,187
	Value added tax on purchased goods	150,664	119,971	194,084
11	Accounts receivable, including:	1,590,871	1,519,108	1,528,901
	Accounts receivable (payment expected beyond 12 months of the reporting date), including:	76,738	74,111	87,855
	buyers and customers	39,905	10,677	19,761
	advances paid	8,670	5,656	3,161
	other accounts receivable	28,163	57,778	64,933
	Accounts receivable (payment expected within 12 months of the reporting date), including:	1,514,133	1,444,997	1,441,046
	buyers and customers	989,067	803,840	840,759
	advances paid	255,257	307,584	299,129
	other accounts receivable	269,809	333,573	301,158
12	Financial investments (except for cash equivalents), including:	890,386	508,444	298,793
	loans issued to companies due within 12 months	67,311	149,147	142,393
	other financial investments	823,075	359,297	156,400
13	Cash and cash equivalents, including:	861,407	875,020	890,878
	cash on hand	823	1,015	940
	ruble bank accounts	219,125	255,105	462,072
	non-ruble bank accounts	316,890	243,538	328,660
	other monetary assets and cash equivalents	324,569	375,362	99,206
	Other current assets	<u>21,811</u>	<u>11,234</u>	<u>10,724</u>
	TOTAL Section II	4,494,365	3,925,487	3,760,680
	TOTAL ASSETS	21,250,983	19,360,997	18,640,641

PJSC GAZPROM
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS FOR 2018
(in millions of Russian Rubles)

1. GENERAL INFORMATION

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

The Group is involved in the following activities:

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

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

The average number of employees during 2018 and 2017 was 456,508 persons and 458,279 persons, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION IN THE CONSOLIDATED ACCOUNTING REPORTS

Accounting principles

The consolidated accounting reports of the Group have been prepared in accordance with the accounting rules effective in the Russian Federation, in particular, the Federal Law On Accounting dated 6 December 2011 No. 402-FZ and the Regulation on Accounting and Reporting in the Russian Federation adopted by the Order of the Ministry of Finance of the Russian Federation dated 29 July 1998 No. 34n, other statutory accounting and reporting regulatory acts included in the accounting and reporting regulatory system of organisations in the Russian Federation and the Methodology guidelines on preparing consolidated accounting reports, approved by PJSC Gazprom on 5 August 2016 (the “Methodology guidelines”). The Methodology guidelines include principles and methods, comprised in the invalidated Methodology recommendations, approved by the Order of the Ministry of Finance of the Russian Federation dated 30 December 1996 No. 112, and are coherently applied by the Group to consolidated accounting report.

Assets and liabilities are accounted for at actual purchase costs, except for fixed assets that are revalued on a regular basis, investments for which fair value is determinable, provisions carried based on current valuation of the amount that will result in decrease of economic benefits and other assets against which impairment provisions have been formed in accordance with the applicable accounting rules and regulations.

Basis of consolidation

In accordance with the Methodology guidelines the consolidated balance sheet, consolidated statement of financial results, consolidated statement of changes in shareholder’s equity, consolidated statement of cash flows and the notes to the consolidated accounting reports (together, the “consolidated accounting reports”) comprise a consolidation of the statutory accounting reports of PJSC Gazprom and its subsidiaries and associates.

Accounting policy of PJSC Gazprom and its subsidiaries for 2018 is approved by Order No. 923 dated 29 December 2017.

All significant investments in subsidiaries which exercise a significant influence on the financial position and financial results of the Group have been included in the consolidated accounting reports. Investments in companies with 50 % interest and more owned by the Group and in case the Group does not exercise control over these companies are accounted for as investments in associates in the consolidated balance sheet.

Consolidated accounting reports include investments in associates, acquisition price and financial results of which are stated on the equity basis in these consolidated accounting reports.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS FOR 2018
(in millions of Russian Rubles)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION IN THE CONSOLIDATED ACCOUNTING REPORTS (continued)

Assets and liabilities denominated in foreign currency

Business transactions denominated in foreign currencies have been recorded using the official Russian Ruble (RUB) exchange rate determined by the Central Bank of the Russian Federation as of the date of the relevant transaction. Cash on currency and deposit accounts, cash on hand, securities (except for shares) and settlement balances, including loans issued and raised (except for advances received and issued, prepayments and down payments) denominated in foreign currency were recorded using the official Russian Ruble exchange rate as of the reporting date.

As of 31 December 2018 the rates of exchange were: RUB 69.4706 to 1 US Dollar (“USD”) (as of 31 December 2017 – RUB 57.6002; 31 December 2016 – RUB 60.6569) and RUB 79.4605 to 1 Euro (“EUR”) (as of 31 December 2017 – RUB 68.8668; 31 December 2016 – RUB 63.8111).

Translation differences resulting from transactions with assets and liabilities denominated in foreign currency during the year, and from their recalculation as of the reporting date, are included in the consolidated statement of financial results as other income and expenses.

Translation differences arising from the translation of the assets and liabilities of foreign subsidiaries and associates are included into additional capital. Statements of financial results of foreign entities are translated at average exchange rate of relevant foreign currency for the relevant quarter.

Current and non-current assets and liabilities

In the consolidated balance sheet accounts receivable and accounts payable, including loans and borrowings, are treated as current if the term of their circulation (maturity) does not exceed 12 months after the reporting date or is not specified. All other assets and liabilities are treated as non-current.

Investments are classified as current or non-current based on the estimated period of use (circulation, possession or maturity) after the reporting date.

Goodwill on subsidiaries

In the consolidated accounting reports goodwill arising on the acquisition of subsidiary undertakings represents the positive difference between the historic cost of acquired investments in subsidiaries and the nominal value of their shares at the date of acquisition. Goodwill is amortised on a straight-line basis over 20 years starting from the month following the month of acquisition. Amortisation charge of goodwill for the period is represented within the line “Other expenses” of the consolidated statement of financial results.

Results of research and development

The line “Results of research and development” of the consolidated balance sheet includes expenses on completed research and development projects (“R&D”) with delivered results, which are not subject to legal protection under the applicable legislation or subject to legal protection but not properly documented, used for production or management needs of the Group. These expenses are written off on a straight-line basis to costs of production (goods, works and services) during the year from the time they were actually incurred. This line also includes expenses on R&D in progress recognised within investments into non-current assets.

Intangible and tangible exploration assets

Exploration costs accounted within tangible exploration assets include:

- ◁ expenditure on drilling and infrastructure development of prospecting, exploration and advance development wells (drilled at the exploration stage before the commercial practicability of minerals extraction is proved) broken down by fields (areas);
- ◁ acquisition and set-up costs of property, constructions, plant, equipment, vehicles used for prospecting, valuation of minerals fields and minerals exploration.

Tangible exploration assets include wells, property, plant, equipment, constructions, sets, vehicles, metalwork, special gear and tools.

Exploration costs accounted within intangible exploration assets include expenditure on acquisition of the rights to use subsurface resources.

Intangible exploration assets include geological exploration and mining licences; a standalone delivery (report) that summarizes results of performed surveys.

Minerals prospecting and exploration licences are amortized on a straight-line basis during the period of the validity of the licenses.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS FOR 2018
(in millions of Russian Rubles)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION IN THE CONSOLIDATED ACCOUNTING REPORTS (continued)

Combined licences with rights on minerals prospecting, exploration and extraction are not amortised till the commercial practicability of minerals extraction is proved.

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 attributed to cost of geological exploration of an associated field. The Group determines useful lives of exploration assets similarly to determination of fixed assets useful lives.

In case the commercial practicability of minerals extraction in a particular area of the field is proved the exploration assets are tested for impairment and transferred to fixed assets, intangible assets or other non-current assets, which are intended for mining and extraction of minerals.

The Group tests exploration assets for impairment as of 31 December of the reporting year and in case the commercial practicability of minerals extraction in a particular area of a field is proved. The amount of impairment of exploration assets is represented within other expenses for the reporting period.

Fixed assets

Fixed assets include assets which conform to the requirements of the Russian accounting rule “Accounting for Fixed Assets” (RAR 6/01) approved by Order of the Russian Ministry of Finance dated 30 March 2001, No. 26n, accounted for in accordance with the established procedure.

Completed fixed assets, which have been put into operation but documents for the state registration of title for which have not been submitted to the State Register are accounted separately within fixed assets.

In the consolidated accounting reports fixed assets are recorded at replacement cost net of depreciation accumulated for the period of their use.

As of 31 December 2018 the Group revalued land, property, plant and equipment, inventory and other fixed assets at current replacement cost, defined by an independent appraiser. The result of the revaluation is reflected in the consolidated balance sheet as of 31 December 2018.

Certain fixed assets of the certain entities of the Group (including PJSC Gazprom Neft and its subsidiaries, PJCS WGC-2 and its subsidiaries, PJSC TGC-1 and its subsidiaries, PJSC MIPC and its subsidiaries) are reported at historical cost net of depreciation accumulated for the period of their use. The management of PJSC Gazprom does not believe that this has a material impact on the consolidated accounting reports.

Fixed assets recorded on the subsidiaries’ balance sheets include state social assets. The Group’s companies received these assets without title transfer, in the course of restructuring of the unified gas supply system and assets of the state gas concern Gazprom. These assets were accounted for in accordance with the procedures effective at that period by creating the fund of social assets in the amount equal to their net book value. When the subsidiaries were restructured to the subsidiary undertakings of the Group these assets jointly with the fund of social assets were transferred to the Group’s companies. When these assets are transferred to the municipal authorities (or disposed otherwise) their net book value is charged to the above mentioned fund recorded in line “Social government fund” of the consolidated balance sheet. Although this practice represents a deviation from the established procedure, Management of PJSC Gazprom believes that it ensures fair presentation of the Group’s property relations as the assets are used according to their functional purposes and the Group is held liable for their maintenance and safety.

Fixed assets accounted before 1 January 2002 are depreciated based on uniform depreciation rates approved by Decree of the USSR Council of Ministers dated 22 October 1990, No. 1072 “On Uniform Depreciation Rates of Fixed Assets of the USSR National Economy”. Fixed assets acquired after 1 January 2002 are depreciated at rates based on estimated useful lives of these assets. Classification of fixed assets by depreciation groups approved by Government Resolution of the Russian Federation No.1 dated 1 January 2002, is used as one of the sources of information about useful lives of fixed assets. The Group has adopted the following useful lives for fixed asset groups:

PJSC GAZPROM
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS FOR 2018
(in millions of Russian Rubles)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION IN THE CONSOLIDATED ACCOUNTING REPORTS (continued)

	Useful lives of assets recorded on the balance sheet (number of years)	
	before 1 January 2002	after 1 January 2002
Trunk pipelines	33	25
Wells	12 – 15	7 – 25
Machinery and equipment	10 – 18	3 – 22
Buildings and roads	8 – 100	7 – 50
Social assets	5 – 50	5 – 50

All fixed assets are depreciated on a straight-line basis.

The following assets are not depreciated:

- < land;
- < suspended assets (above 3 months);
- < state social assets;
- < fully depreciated assets that are still on the balance sheet;
- < housing assets commissioned prior to 1 January 2006, public amenities and other similar assets. (such assets acquired after 1 January 2006 are depreciated in accordance with the general procedure).

Investments in non-current assets

Investments in non-current assets include projects under construction which are not put into operation, equipment requiring assembly and other investments in non-current assets not accounted within fixed and intangible assets. Equipment requiring assembly which is in storage and which is meant for projects under construction is accounted within construction in progress separately.

Depending on how these assets will be accounted for after the investments into non-current assets are completed the items stated above are represented in lines “Intangible assets”, “Results of research and development”, “Intangible exploration assets”, “Tangible exploration assets” and “Construction in progress”.

Financial investments

Financial investments are recorded at historical cost represented by actual acquisition costs except for financial investments for which market value is determinable and financial investments for which impairment allowance is created.

Financial investments for which market value is determinable are revalued to their market value as of the end of the reporting year. The difference between the assessment of such financial investments at the reporting date and the date of previous assessment is recorded in other income and expenses.

Financial investments for which market value is non-determinable and there are indications as of the reporting date that the decline in their value is significant and constant are recorded in the consolidated balance sheet as of the end of the reporting year at their carrying (book) value net of impairment allowance. The investment impairment allowance is determined annually based on the stock taking results as of 31 December. While determining the allowance, the Group calculates the estimated value of investments, showing significant steady decline, based on available information and creates the investment impairment allowance in the amount by which the carrying value (book) of investments exceeds their estimated value. Changes in allowance introduced based on stock taking results as of 31 December 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 by types in the statutory accounting reports upon disposal under the first in, first out (FIFO) method. Other financial investments (including individually identifiable securities such as promissory notes and certificates of deposit) for which the market value is not determinable are recorded upon disposal at the historical cost of each unit.

Income and expenses related to financial investments are included within other income and expenses.

Inventories and costs

Raw materials are recognised at their actual cost of purchase or production. Dispatch into production or other disposals of inventories are determined using the average cost method.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS FOR 2018
(in millions of Russian Rubles)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION IN THE CONSOLIDATED ACCOUNTING REPORTS (continued)

Oil and gas produced and purchased but unsold and retained in storages and pipelines as of the end of the reporting period are reported in line "Finished goods and goods for resale" of the consolidated balance sheet. Disposals of finished goods and goods for resale are recorded using the average cost method.

Transportation costs related to the transportation of natural gas on the territory of Russia and abroad are allocated between volumes of gas sold and gas in pipelines and storage as of the end of the reporting period. Transit costs for gas, oil and refined products are shown as Cost of sales of the consolidated statement of financial results.

Impairment allowance is created for raw materials and other inventories used in production, works and services, if current market value of those goods, works and services is less than their actual cost as of reporting date.

Work in progress is carried at actual cost of production less general administrative expenses.

Finished goods are carried at the simplified actual cost of production less general administrative expenses.

Accounts receivable

Trade receivables are recorded based on prices contracted between the Group and buyers (customers) taking account of all discounts (markups) provided by the Group. Bad debts are written off when recognised as such.

Doubtful accounts receivable with high probability of nonredemption are represented net of bad debt allowance. Bad debt allowance is recorded within other expenses in the consolidated statement of financial results. Corresponding amount of allowance is recorded in other income (recognised as bad debt) upon repayment of doubtful receivables.

Cash equivalents and representation of cash flows in the consolidated statement of cash flows

Cash equivalents include most liquid financial investments, which are easily convertible into a known amount of cash and are not subject to risk of change in price.

The Group classifies short-term bank deposits with maturity up to 3 months as cash equivalents and represents them in the line "Cash and cash equivalents" in the consolidated balance sheet.

Cash flows of the Group which are not clearly identified as cash flows from operating, investment or financial activities are represented within operating activities in the consolidated statement of cash flow. Such cash flows include tax payments and reimbursement of indirect tax from the state budget.

For cash flow statement purposes cash flows denominated in foreign currency are recalculated using the official Russian Ruble exchange rate set by the Central bank of the Russian Federation as at the date of transaction.

Forex effect, arising from recalculation of cash flows and closing balances of cash and cash equivalents denominated in foreign currency using exchange rates as at date of transaction and reporting date, is included into the line "Impact of changes in Exchange rates" in the consolidated statement of cash flows.

In the consolidated statements of cash flows the following cash flows are netted:

- ◁ cash outflow and cash inflow arising from foreign exchange operations;
- ◁ settlements with commissioner or agent in relation to rendering services (except for commission itself);
- ◁ cash flows with high turnover, large amounts and short pay-back period;
- ◁ indirect taxes within receipts from customers and buyers and payments made to suppliers and contractors;
- ◁ other settlements that relate rather to the activity of counterparties than to the activity of the Group itself.

Loans and borrowings received

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

PJSC Gazprom is the Group's main credit raiser. The majority of the finance acquired are general purpose loans and borrowings. Due to investment process specifics and following the principle of rational accounting the Group does not calculate any interest for inclusion in the cost of investment assets on such loans and borrowings, which are not directly attributable to investing activities.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS FOR 2018
(in millions of Russian Rubles)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION IN THE CONSOLIDATED ACCOUNTING REPORTS (continued)

The Group accounts for loans or credits payable in the amounts actually received.

Provisions and contingent liabilities

The Group recognises the following provisions in accounting:

- ◁ bonus payments at the year end;
- ◁ vacations;
- ◁ retirement benefits payable as a lump sum;
- ◁ fixed assets liquidation and environmental restoration in the context of subsurface use;
- ◁ other provisions.

The amount of provisions for bonus payments at the year end is defined based on the stock-taking results and adopted procedure for accrual of bonus payments at the year end.

The amount of provisions for vacations is defined based on the quantity of days of annual and excess leave earned but not used by employees during the whole period of employment as at reporting date and the average daily salary. It is revised at reporting date.

Provisions for retirement benefits payable as a lump sum are accrued at the date when an employee becomes of pensionable age and are written off six months after this date.

The Group recognised provisions for gas price adjustment arising from the claims of foreign customers based on the contracts terms. The effect of gas price adjustment including corresponding impacts on profit tax are recorded in the consolidated accounting reports when they become probable and a reliable estimate of the amounts can be made.

Provisions are attributed to general expenses and to other expenses in the consolidated statement of financial results.

Provisions for fixed assets liquidation and environmental restoration in the context of subsurface use are recognised within fixed assets value. Increase or decrease of the amount of contingent liability due to change in its value is attributed to other income and other expenses.

Deferred taxes

For the purposes of consolidated accounting reports the Group recognises non-temporary tax assets and non-temporary tax liabilities, deferred tax assets and deferred tax liabilities, i.e. amounts that can affect current profit tax expenses in the current or future reporting periods.

Information about non-temporary and temporary differences is based on the supporting documents. Current profit tax is determined based on theoretical expense (theoretical income) related to profit tax, non-temporary tax assets and liabilities, deferred tax assets and liabilities for accounting purposes. The amount corresponds to current tax according to profit tax return. On the consolidated balance sheet deferred tax assets and deferred tax liabilities are recorded within non-current assets or non-current liabilities on a gross-up basis.

Revenue and other income recognition

Revenues from sales of goods and services rendering are recognised at the moment when goods are shipped (or services rendered) and corresponding settlement documents are submitted to customers. In the consolidated accounting reports revenues are presented net of value added tax, customs duties and other similar mandatory payments.

Other income primarily include transactions related to the sale of foreign currency, positive translation differences arising from foreign currency transactions, income from trading activity.

Expenses recognition

General expenses are those related to production, rendering of work and services, sales of goods.

Administrative expenses are general business expenses which are monthly written off to Cost of sales of the reporting period in full amount.

Other expenses primarily include expenses related to the sale and purchase of foreign currency, negative translation differences arising from foreign currency transactions, expenses from trading activity.

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2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION IN THE CONSOLIDATED ACCOUNTING REPORTS (continued)

In the consolidated statement of financial results other expenses are represented netted in relation to relevant income, if this is directly prescribed or is not prohibited by the accounting regulation and if expenses and related income resulted from the same or similar economic event are not material for financial characteristics of the entity of the Group.

3. CHANGES IN THE ACCOUNTING POLICIES

Changes in the 2018 accounting policies

There were no significant changes in the 2018 accounting policies.

Changes in the 2019 accounting policies

There were no significant changes in the 2019 accounting policies.

4. SEGMENT INFORMATION

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

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

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

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

Other activities have been included within “All other segments”.

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

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

Internal transfer prices, mostly for Production of gas, 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. Prices are determined based on principle “cost plus normal profit”.

The Governing bodies of the Group assess the performance, assets and liabilities of the reportable segments included on the basis of the internal financial reporting. Segment revenues of the Group are generated from transactions with customers. Profit tax expense and other similar mandatory payments, interest income and expense, income from investments in other companies are not included in the segment profit (loss). Other income and expenses are not allocated by segments because it is deemed impracticable and as the required allocation base is not available.

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4. SEGMENT INFORMATION (continued)

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
For 2018									
Revenues of segments	1,017,044	1,125,638	4,490,804	58,025	1,566,941	2,186,191	521,532	359,682	11,325,857
Inter-segment sales	990,737	946,002	291,382	54,211	711,119	7,398	-	-	3,000,849
External sales	26,307	179,636	4,199,422	3,814	855,822	2,178,793	521,532	359,682	8,325,008
Financial result of segments	13,222	19,615	995,826	5,555	341,439	161,629	65,486	32,424	1,635,196
Depreciation	181,237	495,485	16,805	28,168	156,031	54,916	49,770	39,156	1,021,568
Capitalised profit of associates	9,226	25,248	1,630	64	173,563	5,411	65	38,221	253,428
For 2017									
Revenues of segments	989,961	1,115,497	3,633,942	55,681	1,163,477	1,697,966	503,540	371,428	9,531,492
Inter-segment sales	965,839	926,113	268,957	51,997	546,375	8,115	-	-	2,767,396
External sales	24,122	189,384	3,364,985	3,684	617,102	1,689,851	503,540	371,428	6,764,096
Financial result of segments	56,835	23,392	387,136	5,629	180,594	88,236	54,955	40,001	836,778
Depreciation	192,785	513,294	18,157	26,507	154,613	54,643	49,956	35,928	1,045,883
Capitalised profit of associates	6,525	21,388	1,898	1,213	79,599	3,593	116	16,059	130,391

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

Note	For 2018	For 2017
Financial result of segments	1,635,196	836,778
Income from investments in other companies	20,237	20,923
Interest income	72,654	85,521
Interest expense	(157,784)	(156,262)
19 Other income	7,112,982	4,991,681
19 Other expenses	(7,576,109)	(5,645,755)
9 Capitalised profit of associates	<u>253,428</u>	<u>130,391</u>
Profit before profit tax	1,360,604	263,277

Assets of segments include primarily tangible and intangible exploration assets, fixed assets, construction in progress, inventory, work in progress, accounts receivable and other non-current assets. Investments in unconsolidated subsidiaries, associates, equity investments in other companies and joint activity are allocated to the reportable segments on the basis of primary activity of an entity, in which corresponding investments were made. Goodwill, deferred tax assets, value added tax, cash and cash equivalents, other financial investments, as well as loans issued to the entities are not included in assets of segments as they are not directly related to the reportable segments and the required allocation base is not available.

Inter-segment operations represent the balance of intercompany transactions.

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4. SEGMENT INFORMATION (continued)

Segments' capital expenditures include capital investments in fixed assets of the corresponding periods.

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
As of 31 December 2018									
Assets of segments	3,018,468	7,091,676	1,742,180	385,683	2,492,664	1,852,217	845,572	1,640,413	19,068,873
Investments in associates	25,320	233,590	27,248	10,501	646,855	25,301	1,517	288,607	1,258,939
Capital expenditures ¹	276,920	639,919	39,078	19,028	270,874	299,386	69,384	188,037	1,802,626
As of 31 December 2017									
Assets of segments	2,797,730	6,791,929	1,668,822	341,021	2,057,134	1,531,002	778,773	1,310,357	17,276,768
Investments in associates	25,819	188,203	23,511	9,543	472,749	24,155	1,422	226,859	972,261
Capital expenditures ²	192,430	498,550	51,675	36,446	207,535	227,346	53,675	152,002	1,419,659
As of 31 December 2016									
Assets of segments	2,816,262	6,689,478	1,534,193	383,594	1,954,444	1,218,814	787,979	1,145,339	16,530,103
Investments in associates	28,007	171,969	36,625	4,980	455,531	23,889	1,258	135,482	857,741
Capital expenditures ³	196,394	406,828	41,785	29,536	240,944	185,013	59,679	60,440	1,220,619

¹ Capital expenditures for the year ended 31 December 2018.

² Capital expenditures for the year ended 31 December 2017.

³ Capital expenditures for the year ended 31 December 2016.

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

Note	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Assets of reportable segments	17,428,460	15,966,411	15,384,764
Assets of other segments	<u>1,640,413</u>	<u>1,310,357</u>	<u>1,145,339</u>
Total assets of segments	19,068,873	17,276,768	16,530,103
5 Goodwill on subsidiaries	635,635	693,106	752,525
Loans issued to companies beyond 12 months	63,407	95,089	129,273
9 Other long-term financial investments	40,120	39,984	80,883
Deferred tax assets	246,678	266,027	178,144
Value added tax on purchased goods	150,664	119,971	194,084
Loans issued to companies due within 12 months	67,311	149,147	142,393
12 Other short-term financial investments	823,075	359,297	156,400
Cash and cash equivalents	861,407	875,020	890,878
Inter-segment assets	(959,571)	(745,446)	(599,130)
Other	<u>253,384</u>	<u>232,034</u>	<u>185,088</u>
Total assets in the consolidated balance sheet	21,250,983	19,360,997	18,640,641

Segment liabilities mainly comprise accounts payable arising in the course of operating activities and long-term provision for decommissioning and site restoration costs related to subsurface use. Current profit tax payable and other taxes payable for which there is no basis for allocation, deferred tax liabilities, borrowings and other non-current liabilities are not allocated to the reportable segments and managed on a central basis.

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
As of 31 December 2018									
Liabilities of segments	317,995	305,350	889,950	23,172	250,229	532,672	104,593	326,238	2,750,199
As of 31 December 2017									
Liabilities of segments	332,689	305,957	828,385	22,563	229,729	345,995	88,294	287,382	2,440,994
As of 31 December 2016									
Liabilities of segments	280,852	335,910	628,175	18,948	134,031	317,293	86,636	145,030	1,946,875

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4. SEGMENT INFORMATION (continued)

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

Note	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Liabilities of reportable segments	2,423,961	2,153,612	1,801,845
Liabilities of other segments	326,238	287,382	145,030
Total liabilities of segments	2,750,199	2,440,994	1,946,875
15 Long-term loans and borrowings	3,286,565	2,386,241	2,392,696
Deferred tax liabilities	569,664	567,408	539,221
15 Short-term loans and borrowings and current portion of long-term loans and borrowings	578,860	880,065	446,859
Dividends payable	7,620	5,105	3,028
Income of future periods	4,569	6,990	3,592
Inter-segment liabilities	(959,571)	(745,446)	(599,130)
Other	212,734	174,951	209,760
Total liabilities in the consolidated balance sheet	6,450,640	5,716,308	4,942,901

Information on sales by geographical regions is presented in Note 17. Information on assets by geographical regions is not disclosed as assets of the Group are mainly located on the territory of the Russian Federation.

Cash flows from operating, investing and financial activities for reportable segments are provided below.

	Production of gas	Transpor- tation	Distribu- tion of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
For 2018									
Cash flows from operating activities									
Total cash received	30,757	180,393	4,788,521	1,457	830,544	2,051,990	513,222	309,607	8,706,491
Unallocated cash flows	-	-	-	-	-	-	-	-	283,979
Total cash paid	(799,662)	(638,511)	(1,905,417)	(20,357)	(985,413)	(1,333,530)	(332,061)	(264,725)	(6,279,676)
Unallocated cash flows	-	-	-	-	-	-	-	-	(555,291)
Cash flows from investing activities									
Total cash received	15,621	1,710	1,798	-	293	1,270	3,948	31,825	56,465
Unallocated cash flows	-	-	-	-	-	-	-	-	1,007,820
Total cash paid	(259,008)	(707,110)	(50,215)	(6,610)	(182,580)	(305,820)	(77,926)	(121,990)	(1,711,259)
Unallocated cash flows	-	-	-	-	-	-	-	-	(1,519,129)
Cash flows from financial activities									
Total cash received	-	-	-	-	10	3,042	3	449	3,504
Unallocated cash flows	-	-	-	-	-	-	-	-	1,304,002
Total cash paid	(121)	(9)	(96)	-	-	(292)	(74)	(3,285)	(3,877)
Unallocated cash flows	-	-	-	-	-	-	-	-	(1,383,470)

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4. SEGMENT INFORMATION (continued)

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
For 2017									
Cash flows from operating activities									
Total cash received	28,697	193,466	3,769,316	1,846	662,012	1,748,469	506,461	359,272	7,269,539
Unallocated cash flows	-	-	-	-	-	-	-	-	300,421
Total cash paid	(733,568)	(596,640)	(1,656,225)	(16,695)	(659,362)	(1,257,100)	(330,396)	(234,238)	(5,484,224)
Unallocated cash flows	-	-	-	-	-	-	-	-	(496,862)
Cash flows from investing activities									
Total cash received	51	902	4,288	-	2,214	1,036	1,373	25,430	35,294
Unallocated cash flows	-	-	-	-	-	-	-	-	383,655
Total cash paid	(200,637)	(640,440)	(14,708)	(7,738)	(170,604)	(360,813)	(51,698)	(124,685)	(1,571,323)
Unallocated cash flows	-	-	-	-	-	-	-	-	(628,280)
Cash flows from financial activities									
Total cash received	-	-	-	-	108	2,373	-	49	2,530
Unallocated cash flows	-	-	-	-	-	-	-	-	1,001,412
Total cash paid	(243)	(1,158)	(336)	-	(17)	(3,950)	(304)	(2,120)	(8,128)
Unallocated cash flows	-	-	-	-	-	-	-	-	(823,335)

5. GOODWILL ON SUBSIDIARIES

Note	Gross book value	Accumulated amortisation	Net book value
As of 31 December 2016			
PJSC Gazprom Neft	539,720	(277,895)	261,825
OJSC Gazprom transgaz Belarus	146,316	(36,580)	109,736
JSC Gazpromneft - MNPZ	113,046	(39,759)	73,287
PJSC WGC-2	87,263	(37,243)	50,020
LLC Gazprom neftekhim Salavat	70,882	(15,952)	54,930
PJSC MIPC	70,014	(11,373)	58,641
PJSC Mosenergo	46,612	(21,979)	24,633
LLC Gazprom neft shelf	37,302	(22,029)	15,273
PJSC TGC-1	35,518	(12,432)	23,086
WIBG GmbH	26,619	(1,664)	24,955
JSC Gazprom gazoraspredelenie Sever	23,314	(5,525)	17,789
JSC Daltransgaz	6,990	(2,676)	4,314
JSC Yuzhuralneftegaz	6,815	(1,733)	5,082
Others	42,732	(13,778)	28,954
Total	1,253,143	(500,618)	752,525
Additions for 2017			
Others	2,080	-	2,080
Total	2,080	-	2,080
Disposals for 2017			
Others	(353)	19	(334)
Total	(353)	19	(334)

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5. GOODWILL ON SUBSIDIARIES (continued)

Note	Gross book value	Accumulated amortisation	Net book value
Translation differences for 2018			
WIBG GmbH	4,419	(612)	3,807
Others	<u>7</u>	<u>-</u>	<u>7</u>
Total	4,426	(612)	3,814
As of 31 December 2018			
PJSC Gazprom Neft	539,720	(331,868)	207,852
OJSC Gazprom transgaz Belarus	146,316	(51,212)	95,104
JSC Gazpromneft - MNPZ	113,046	(51,063)	61,983
PJSC WGC-2	87,263	(45,961)	41,302
LLC Gazprom neftekhim Salavat	70,882	(23,040)	47,842
PJSC MIPC	70,014	(18,374)	51,640
PJSC Mosenergo	46,612	(26,642)	19,970
LLC Gazprom нефт shelf	37,302	(25,759)	11,543
PJSC TGC-1	35,518	(15,984)	19,534
WIBG GmbH	33,147	(5,386)	27,761
JSC Gazprom gazoraspredelenie Sever	23,314	(7,855)	15,459
JSC Daltransgaz	6,990	(3,375)	3,615
JSC Yuzhuralneftegaz	6,815	(2,415)	4,400
Others	<u>46,080</u>	<u>(18,450)</u>	<u>27,630</u>
Total	1,263,019	(627,384)	635,635

6. EXPLORATION ASSETS

	As of 31 December 2017	Changes for 2018					As of 31 December 2018
		Additions	Disposals	Intra- group	Depreciation charge	Translation differences	
Intangible exploration assets – total,	168,505	22,970	(3,852)	-	-	4,358	191,981
including:							
licences on minerals prospecting, estimation, exploration and extraction	140,766	4,604	(521)	44	-	1,223	146,116
expenditure on obtaining rights on subsurface use, expenditure on geological knowledge	27,739	18,366	(3,331)	(44)	-	3,135	45,865
Tangible exploration assets – total,	108,572	37,537	(23,282)	-	-	2,520	125,347
including:							
wells	67,656	29,991	(12,657) ¹	17,026	-	835	102,851
exploration expenses classified as tangible exploration assets	40,916	7,546	(10,625)	(17,026)	-	1,685	22,496

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

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6. EXPLORATION ASSETS (continued)

	As of 31 December 2016	Changes for 2017			Intra- group	Depreciation charge	Translation differences	As of 31 December 2017
		Additions	Disposals					
Intangible exploration assets – total,	167,651	15,452	(14,021)		-	-	(577)	168,505
including:								
licences on minerals prospecting, estimation, exploration and extraction	146,844	4,046	(9,799)		-	-	(325)	140,766
expenditure on obtaining rights on subsurface use, expenditure on geological knowledge	20,807	11,406	(4,222)		-	-	(252)	27,739
Tangible exploration assets – total,	95,952	51,642	(38,663)		-	-	(359)	108,572
including:								
wells	63,657	27,341	(22,933) ¹		-	-	(409)	67,656
exploration expenses classified as tangible exploration assets	32,295	24,301	(15,730)		-	-	50	40,916

¹ Including an impairment allowance in the amount of RUB 6,041 million.

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7. FIXED ASSETS

Note	Trunk pipelines	Wells	Machinery and equipment	Buildings and roads	Other	Total
As of 31 December 2016						
	13,504,576	2,659,599	4,843,186	2,462,622	3,954,569	27,424,552
	(9,861,465)	(1,880,160)	(3,333,359)	(1,004,489)	(1,639,941)	(17,719,414)
	3,643,111	779,439	1,509,827	1,458,133	2,314,628	9,705,138
Changes for 2017						
Historical (replacement) cost						
	91,442	125,568	194,444	53,045	220,564	685,063
	(6,059)	(22,379)	(41,124)	(13,164)	(29,380)	(112,106)
	2,237	5,745	15,326	16,465	22,003	61,776
	(1,879)	1,399	11,597	6,520	(911)	16,726
Accumulated depreciation						
4	(341,416)	(147,760)	(273,210)	(79,137)	(204,360)	(1,045,883)
	5,520	9,927	35,634	4,385	20,827	76,293
	(1,728)	(5,184)	(11,529)	(8,269)	(14,634)	(41,344)
	1,219	721	(4,527)	(1,460)	1,403	(2,644)
	3,392,447	747,476	1,436,438	1,436,518	2,330,140	9,343,019
	13,590,317	2,769,932	5,023,429	2,525,488	4,166,845	28,076,011
	(10,197,870)	(2,022,456)	(3,586,991)	(1,088,970)	(1,836,705)	(18,732,992)
	3,392,447	747,476	1,436,438	1,436,518	2,330,140	9,343,019
Changes for 2018						
Historical (replacement) cost						
	122,629	117,570	295,563	82,381	343,568	961,711
	(10,462)	(11,814)	(60,508)	(8,789)	(125,268)	(216,841)
	6,527	2,959	44,549	15,497	25,629	95,161
	4,682	26,593	41,000	13,585	11,059	96,919
Accumulated depreciation						
4	(326,854)	(140,839)	(272,559)	(80,794)	(200,522)	(1,021,568)
	9,668	9,992	56,274	7,417	31,892	115,243
	(4,362)	(2,323)	(28,499)	(6,541)	(15,450)	(57,175)
	(2,898)	(6,533)	(19,504)	(3,643)	(3,818)	(36,396)
	3,191,377	743,081	1,492,754	1,455,631	2,397,230	9,280,073
	13,713,693	2,905,240	5,344,033	2,628,162	4,421,833	29,012,961
	(10,522,316)	(2,162,159)	(3,851,279)	(1,172,531)	(2,024,603)	(19,732,888)
	3,191,377	743,081	1,492,754	1,455,631	2,397,230	9,280,073

The Group entities transfer social assets which were obtained in the course of privatization to local authorities (see Note 2). The transferred assets amounted to RUB 50 million in 2018 (in 2017 – RUB 15 million).

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8. CONSTRUCTION IN PROGRESS

	Construction in progress	Equipment for installation	Total
As of 31 December 2016	1,962,721	309,287	2,272,008
Changes for 2017			
Capital expenditures	1,272,138	147,521	1,419,659
Translation differences	24,598	(45)	24,553
Transfer of equipment for installation	90,603	(90,603)	-
Transfer to fixed assets	(660,729)	-	(660,729)
Other disposals (including write-off)	(26,094)	(1,678)	(27,772)
As of 31 December 2017	2,663,237	364,482	3,027,719
Changes for 2018			
Capital expenditures	1,591,021	213,727	1,804,748
Translation differences	99,383	78	99,461
Transfer of equipment for installation	211,176	(211,176)	-
Transfer to fixed assets	(957,420)	-	(957,420)
Other disposals (including write-off)	(56,016)	(4,278)	(60,294)
As of 31 December 2018	3,551,381	362,833	3,914,214

Construction in progress mostly consists of construction of transport infrastructure, including the implementation of projects on construction of the gas pipeline Bovanenkovo–Ukhta, Power of Siberia, Nord Stream 2, TurkStream, construction of Novourenгой gas chemical complex (Novourenгойsky GCC), development of Bovanenkovskoye field, construction of the oil rim Botuoba Chayandinskoye deposits of oil and gas field as well as construction of Amur gas processing plant.

9. FINANCIAL INVESTMENTS

Long-term financial investments

Investments in subsidiaries

Data in the line “Investments in subsidiaries” of the consolidated balance sheet are stated net of impairment allowance of financial investments in the amount of RUB 15,084 million, RUB 12,503 million and RUB 11,787 million as of 31 December 2018, 2017 and 2016, respectively. The impairment allowance primarily relates to non-core investments in subsidiaries.

Investments in associates

Note		Carrying value			Capitalised profit / (loss)	
		As of 31 December 2018	As of 31 December 2017	As of 31 December 2016	For 2018	For 2017
21, 23	Sakhalin Energy Investment Company Ltd.	196,916	169,925	186,447	64,071	43,846
21	JSC Arcticgas ¹	146,246	41,281	41,281	40,451	-
21, 23	Gazprombank (Joint-stock Company) ²	136,063	136,999	72,209	2,580	8,188
21	PJSC NGK Slavneft and its subsidiaries	126,124	111,098	96,480	15,026	10,347
21, 23	Nord Stream AG	112,190	92,613	79,888	17,547	14,867
21	JSC Tomskneft VNK and its subsidiaries	108,899	103,111	109,409	14,552	9,575
	WIGA Transport Beteiligungs-GmbH & Co.					
21	KG and its subsidiaries	55,807	45,402	40,510	6,694	5,552
21	JSC Achimgaz	37,310	33,509	32,043	13,399	8,768
21	JSC Messoyakhaneftegas	36,161	17,289	-	28,172	9,650
21, 23	JSC EUROPOL GAZ	33,894	29,588	26,387	734	(506)
21	JSC NPF GAZFOND ³	28,861	-	-	28,861	-
21	Wintershall AG	18,026	15,645	14,233	(4)	256
21, 23	Blue Stream Pipeline Company B.V.	15,730	15,728	24,341	(36)	4
21	KazRosGas LLP	12,623	9,435	14,470	1,318	1,544
21	JSC Latvijas Gaze and its subsidiaries ^{4, 5}	8,999	7,752	13,941	770	572
	JSC Conexus Baltic Grid ⁴	8,890	7,719	-	493	2,748
21	CJSC Northgas	7,986	12,786	11,735	3,700	3,434
21	LLC Yuzhno-Priobsky GPZ	7,456	7,160	6,863	347	322

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9. FINANCIAL INVESTMENTS (continued)

Note		Carrying value			Capitalised profit / (loss)	
		As of 31 December 2018	As of 31 December 2017	As of 31 December 2016	For 2018	For 2017
21	Salym Petroleum Development N.V.	-	834	2,136	5,115	1,649
	Others	<u>160,758</u>	<u>114,387</u>	<u>85,368</u>	<u>9,638</u>	<u>9,575</u>
	Total	1,258,939	972,261	857,741	253,428	130,391

¹ In January 2018 LLC Yamal razvitie and its subsidiary LLC SeverEnergy were reorganised in the form of the merger with JSC Arcticgas (a former subsidiary of LLC SeverEnergy). As of 31 December 2017 and 31 December 2016 the investment in this line in the amount of RUB 41,281 million includes investments in LLC Yamal razvitie.

² On 28 June 2017 the Group acquired 16 % ordinary shares of Gazprombank (Joint-stock Company) as a result of additional share issue for the amount of RUB 60,000 million. As a result of this transaction the ownership interest of the Group in Gazprombank (Joint-stock Company) increased from 36 % to 46 %.

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

⁴ The Extraordinary Meeting of Shareholders of JSC Latvijas Gaze, held on 2 September 2016, decided to reorganize the company by separation of natural gas transmission and storage activities via establishing JSC Conexus Baltic Grid (the Group's equity interest is 34 %). JSC Conexus Baltic Grid was registered on 2 January 2017.

⁵ To complete the liberalisation process of the Latvian gas market shareholders of JSC Latvijas Gaze at the foundation meeting on 22 November 2017 made a decision to reorganise the company by dismemberance of JSC Gaso, a 100 % subsidiary, to which natural gas distribution business was transferred.

Data in the line "Investments in associates" of the consolidated balance sheet are stated net of impairment allowance of financial investments in the amount of RUB 24,115 million, RUB 19,887 million and RUB 8,982 million as of 31 December 2018, 2017 and 2016, respectively.

Investments in other companies

The line "Investments in other companies" of the consolidated balance sheet includes the investment in share capital of PJSC NOVATEK in the amount of 9.99 % of shares with carrying value amounting to RUB 360,336 million, RUB 210,010 million and RUB 238,817 million as of 31 December 2018, 2017 and 2016 respectively.

The line "Investments in other companies" of the consolidated balance sheet also includes the Group's investments in shares of energy companies, with total carrying value amounting to RUB 4,757 million, RUB 5,709 million and RUB 8,034 million as of 31 December 2018, 2017 and 2016, respectively.

Data in the line "Investments in other companies" of the consolidated balance sheet are stated net of impairment allowance of financial investments in the amount of RUB 468 million, RUB 467 million and RUB 1,512 million as of 31 December 2018, 2017 and 2016, respectively. The impairment allowance primarily relates to non-core investments in other companies.

Loans issued to companies beyond 12 months

The line "Loans issued to companies beyond 12 months" of the consolidated balance sheet includes the loan to JSC Arcticgas, denominated in Russian Rubles, in the amount of RUB nil million, RUB 13,187 million and RUB 31,301 million as of 31 December 2018, 2017 and 2016, respectively.

Data in the line "Loans issued to companies beyond 12 months" of the consolidated balance sheet are stated net of impairment allowance of financial investments in the amount of RUB 601 million, RUB 594 million and RUB 1,694 million as of 31 December 2018, 2017 and 2016, respectively.

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9. FINANCIAL INVESTMENTS (continued)

Other financial investments

	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Joint activity, including:	38,609	38,322	37,978
development of oil and gas fields on the continental shelf of the Socialist Republic of Vietnam (operator – JSC Gazprom zarubezhneftegaz)	34,397	33,928	33,422
development of a satellite communication system (operator – JSC Gazprom Space Systems)	3,481	3,481	3,480
Other, including:	1,511	1,662	42,905
long-term deposits	1,432	1,559	42,230
third party promissory notes	3	10	120
South Pars project (oil and gas field in Iran)	-	-	370
Total	40,120	39,984	80,883

Data in the line “Other financial investments“ of the consolidated balance sheet are stated net of impairment allowance of financial investments in the amount of RUB 249 million, RUB 258 million and RUB 541 million as of 31 December 2018, 2017 and 2016, respectively.

10. INVENTORIES

Raw materials and other inventories

In the consolidated balance sheet values of raw materials and other inventories in the amount of RUB 182,391 million, RUB 210,661 million and RUB 202,313 million are disclosed net of obsolete allowance in the amount of RUB 3,886 million, RUB 4,142 million and RUB 2,733 million as of 31 December 2018, 2017 and 2016, respectively.

Finished goods and goods for resale

In the consolidated balance sheet values of finished goods and goods for resale in the amount of RUB 656,176 million, RUB 632,267 million and RUB 605,855 million are disclosed net of obsolete allowance in the amount of RUB 1,120 million, RUB 1,036 million and RUB 840 million as of 31 December 2018, 2017 and 2016, respectively.

	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Gas in pipelines and storages	537,993	527,104	508,463
Oil, gas condensate and refined products	87,078	72,239	63,471
Goods for resale	31,105	32,924	33,921
Total	656,176	632,267	605,855

11. ACCOUNTS RECEIVABLE

Accounts receivable payment expected beyond 12 months of the reporting date

The line “Accounts receivable from buyers and customers” of the consolidated balance sheet includes long-term receivables for gas in the amount of RUB 8,518 million, RUB 621 million and RUB 1,978 million as of 31 December 2018, 2017 and 2016, respectively.

The line “Other receivables” of the consolidated balance sheet includes receivables, issued for capital construction purposes in the amount of RUB 5,905 million, RUB 6,039 million and RUB 31,643 million as of 31 December 2018, 2017 and 2016, respectively.

Accounts receivable payment expected within 12 months of the reporting date

The line “Accounts receivable from buyers and customers” of the consolidated balance sheet as of 31 December 2018, 2017 and 2016 includes the following:

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11. ACCOUNTS RECEIVABLE (continued)

	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Receivables of customers from Europe and other countries for gas, crude oil, gas condensate and refined products	505,360	400,060	333,967
Receivables of Domestic customers for gas, crude oil, gas condensate and refined products	211,939	200,223	207,166
Receivables of customers from Former Soviet Union countries (excluding Russian Federation) for gas, crude oil, gas condensate and refined products	29,718	26,750	57,788
Receivables of customers for electric and heat energy	108,492	79,265	81,829
Other trade debtors	<u>133,558</u>	<u>97,542</u>	<u>160,009</u>
Total	989,067	803,840	840,759

As of 31 December 2018, 2017 and 2016 accounts receivable in the line “Accounts receivable from buyers and customers” are stated net of bad debt allowance of RUB 952,637 million, RUB 752,321 million and RUB 832,910 million, respectively. The bad debt allowance has been calculated net of deferred excise tax on natural gas of RUB 89 million as of 31 December 2018, 2017 and 2016.

As of 31 December 2018, 2017 and 2016 the line “Advances issued” of the consolidated balance sheet includes advances issued to suppliers and contractors for capital construction purposes in the amount of RUB 199,178 million, RUB 249,181 million and RUB 240,036 million, respectively.

As of 31 December 2018, 2017 and 2016 the line “Other accounts receivable” of the consolidated balance sheet includes the following:

	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Overpayment of taxes to the budget	128,900	159,589	113,783
Settlements on custom duties	11,181	16,241	13,707
Settlements on claims	4,153	2,540	2,534
Other	<u>125,575</u>	<u>155,203</u>	<u>171,134</u>
Total	269,809	333,573	301,158

The line “Other accounts receivable” is stated net of the bad debt allowance amounting to RUB 57,189 million, RUB 48,538 million and RUB 44,819 million as of 31 December 2018, 2017 and 2016, respectively.

12. FINANCIAL INVESTMENTS (EXCEPT FOR CASH EQUIVALENTS)

Loans issued to companies due within 12 months

Data in the line “Loans issued to companies due within 12 months” of the consolidated balance sheet are stated net of the impairment allowance of financial investments in the amount of RUB 4,399 million, RUB 8,186 million and RUB 9,263 million as of 31 December 2018, 2017 and 2016, respectively.

Other financial investments

	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Short-term deposits	795,542	327,293	144,035
Shares, bonds and participatory interests	26,826	30,964	11,363
Third party promissory notes	30	102	20
Other	<u>677</u>	<u>938</u>	<u>982</u>
Total	823,075	359,297	156,400

Data in the line “Other financial investments” of the consolidated balance sheet are stated net of impairment allowance of financial investments in the amount of RUB 1,133 million, RUB 953 million and RUB 760 million as of 31 December 2018, 2017 and 2016, respectively.

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13. CASH AND CASH EQUIVALENTS

In the line “Other monetary assets and cash equivalents” of the consolidated balance sheet as of 31 December 2018, 2017 and 2016 there are no cash balances on bank accounts which are restricted as to withdrawal under the terms of certain loans and borrowings.

14. EQUITY

PJSC Gazprom’s share capital amounted to RUB 118,368 million. The number of PJSC Gazprom’s ordinary shares issued and paid did not change in 2018 and amounted to 23,674 million with nominal value of 5 Russian Rubles each.

Treasury shares are recorded in the consolidated balance sheet at their purchase cost. As of 31 December 2018, 2017 and 2016 subsidiaries of PJSC Gazprom held 1,573 million ordinary shares of PJSC Gazprom including American depositary receipts in the amount of 639 million PJSC Gazprom’s ordinary shares, which are accounted for as treasury shares.

In June 2017 the Group pledged American depositary receipts as security of liabilities in the amount of 506 million PJSC Gazprom’s ordinary shares. On 1 November 2018 the pledge was terminated due to the repayment of liabilities secured by the pledge.

The shares including American depositary receipts held by PJSC Gazprom’s subsidiaries represent 6.6 % of the total number of PJSC Gazprom’s shares as of 31 December 2018, 2017 and 2016.

Shares held by subsidiaries of the Group are not taken into account in calculation of earnings per share (see Note 22).

The Group retains control over all treasury shares of PJSC Gazprom held by its subsidiaries.

In accordance with the decision of the General shareholders meeting, based on the 2017 results of PJSC Gazprom, dividends in the amount of 8.04 Russian Rubles per ordinary share were accrued and paid in 2018. Based on the 2016 results of PJSC Gazprom, dividends in the amount of 8.04 Russian Rubles per ordinary share were accrued and paid in 2017.

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15. BORROWINGS

Bank borrowings

Lender	Currency	Final maturity	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Bank of China Limited, London branch	Euro	2021	114,817	138,992	128,789
Intesa Sanpaolo Bank Luxembourg S.A.	Euro	2023	95,705	-	-
J.P.Morgan Europe Limited ¹	Euro	2023	87,729	-	-
J.P.Morgan Europe Limited ¹	Euro	2022	79,510	68,913	-
China Construction Bank Corporation, Beijing branch ¹	US dollar	2020	61,151	75,699	92,627
Credit Agricole CIB	Euro	2022	56,070	48,595	-
UniCredit S.p.A.	Euro	2025	55,933	-	-
UniCredit S.p.A.	Euro	2022	55,677	27,574	-
Credit Agricole CIB	Euro	2023	47,782	-	-
J.P.Morgan Europe Limited ¹	Euro	2020	42,416	55,141	-
Citibank Europe plc ¹	Euro	2023	33,792	-	-
ING Bank, a branch of ING-DiBa AG	Euro	2023	31,834	-	-
PJSC Sberbank	Euro	2023	29,876	-	-
AO «ALFA-BANK»	US dollar	2021	27,803	23,052	24,271
Gazprombank (Joint-stock Company)	US dollar	2019	25,009	20,736	21,836
Gazprombank (Joint-stock Company)	US dollar	2019	22,925	19,008	20,017
UniCredit Bank Austria AG	Euro	2021	21,429	24,156	19,492
VTB Bank (Europe) SE	Euro	2027	20,280	19,644	-
PJSC Sberbank	Euro	2022	19,149	15,736	7,713
PJSC Sberbank	Euro	2020	19,143	16,591	15,373
Mizuho Bank Ltd. ¹	US dollar	2019	17,339	53,130	93,228
Deutsche Bank Luxembourg S.A.	Euro	2022	15,943	13,818	-
BANK ROSSIYA	Russian Ruble	2022	15,281	15,012	-
Gazprombank (Joint-stock Company)	Russian Ruble	2025	15,000	15,001	9,809
Gazprombank (Joint-stock Company)	Russian Ruble	2021	15,000	-	-
BNP Paribas S.A. ¹	Euro	2022	12,986	14,069	15,644
AO «ALFA-BANK»	Russian Ruble	2023	10,007	-	-
Citibank International plc ¹	US dollar	2021	6,403	7,420	10,042
UniCredit Bank Austria AG	Euro	2019	3,672	9,548	14,745
Gazprombank (Joint-stock Company)	US dollar	2019	585	17,856	18,804
PJSC Sberbank	US dollar	2018	-	43,776	46,099
Bank of America Securities Limited	US dollar	2018	-	17,453	18,368
UniCredit Bank Austria AG	US dollar	2018	-	11,526	12,135
Commerzbank International S.A.	US dollar	2018	-	11,522	24,265
Gazprombank (Joint-stock Company)	Russian Ruble	2018	-	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2018	-	10,000	-
J.P.Morgan Europe Limited ¹	US dollar	2018	-	3,601	18,962
PJSC VTB Bank	Russian Ruble	2017	-	-	29,800
PJSC Sberbank	Russian Ruble	2017	-	-	19,802
PJSC Sberbank	Russian Ruble	2017	-	-	15,068
PJSC Sberbank	Russian Ruble	2017	-	-	15,067
PJSC VTB Bank	Russian Ruble	2017	-	-	14,654
PJSC Sberbank	Euro	2017	-	-	14,388
PJSC Sberbank	Russian Ruble	2017	-	-	12,511
PJSC Sberbank	Russian Ruble	2017	-	-	12,511
Bank of America Securities Limited	Euro	2017	-	-	11,541
PJSC Sberbank	Russian Ruble	2017	-	-	10,009
Gazprombank (Joint-stock Company)	Russian Ruble	2017	-	-	10,000
Other	Various	Various	457,503	364,188	292,527
Total, including			1,517,749	1,171,757	1,080,097
due within one year, including current portion of long-term borrowings			281,011	338,347	218,016

¹ Loans received from consortiums of banks, named lender is the bank-agent.

Long-term foreign currency denominated borrowings had fixed interest rates ranging from 2.10 % to 9.50 % and from 2.20 % to 10.00 % in 2018 and 2017, respectively. Also in 2018-2017 long-term foreign currency denominated borrowings had variable interest rates generally linked to LIBOR and EURIBOR.

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15. BORROWINGS (continued)

Long-term borrowings denominated in Russian Rubles had fixed interest rates ranging from 7.10 % to 12.55 % and from 7.90 % to 15.50 % in 2018 and 2017, respectively.

Interest rates on short-term foreign currency denominated borrowings ranged from 6.00 % to 8.50 % and from 2.00 % to 9.50 %, in 2018 and 2017, respectively. Also in 2018 and 2017 short-term foreign currency denominated borrowings had variable interest rates linked to EURIBOR and LIBOR.

Short-term borrowings denominated in Russian Rubles had fixed interest rates ranging from 7.25 % to 16.00 % and from 7.90 % to 16.00 % in 2018 and 2017, respectively.

Loans

Borrowing / Creditors	Currency	Final maturity	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Loan participation notes issued in April 2009 ¹	US dollar	2019	159,040	131,865	138,863
Loan participation notes issued in September 2012 ²	US dollar	2022	105,485	87,461	92,102
Loan participation notes issued in November 2013 ²	US dollar	2023	104,779	86,875	91,485
Loan participation notes issued in March 2007 ¹	US dollar	2022	92,174	76,424	80,480
Loan participation notes issued in August 2007 ¹	US dollar	2037	89,212	73,968	77,893
Loan participation notes issued in April 2004 ¹	US dollar	2034	84,622	70,163	73,886
Loan participation notes issued in March 2013 ¹	Euro	2020	81,578	70,702	65,512
Loan participation notes issued in November 2016 ¹	Euro	2023	79,767	69,132	64,057
Loan participation notes issued in November 2018 ¹	Euro	2024	79,756	-	-
Loan participation notes issued in April 2017 ^{1, 3}	British Pound Sterling	2024	78,498	68,033	-
Loan participation notes issued in July 2012 ¹	US dollar	2022	71,018	58,883	62,008
Loan participation notes issued in February 2013 ¹	US dollar	2028	63,770	52,874	55,680
Loan participation notes issued in February 2014 ¹	Euro	2021	61,412	53,224	49,317
Loan participation notes issued in March 2018 ¹	Euro	2026	60,763	-	-
Loan participation notes issued in November 2017 ¹	Euro	2024	59,742	51,777	-
Loan participation notes issued in February 2013 ¹	US dollar	2020	56,438	46,795	49,278
Loan participation notes issued in March 2018 ¹	Swiss Franc	2023	53,563	-	-
Loan participation notes issued in March 2017 ¹	US dollar	2027	52,805	43,782	-

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15. BORROWINGS (continued)

Borrowing / Creditors	Currency	Final maturity	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Loan participation notes issued in September 2013 ^{1,3}	British Pound Sterling	2020	48,058	41,651	38,593
Loan participation notes issued in November 2011 ¹	US dollar	2021	42,780	35,470	37,353
Loan participation notes issued in March 2013 ¹	Euro	2025	41,089	35,611	32,997
Loan issued in December 2018 ⁴	Japanese yen	2028	40,963	-	-
Loan participation notes issued in November 2016 ^{1,3}	Swiss Franc	2021	37,141	32,189	29,826
Loan participation notes issued in July 2017 ^{1,3}	Swiss Franc	2022	36,468	31,606	-
Loan participation notes issued in October 2013 ¹	Swiss Franc	2019	35,474	29,641	29,863
Wintershall Nederland Transport and Trading B.V. ⁵	Euro	2035	26,978	20,555	-
Uniper Gas Transportation & Finance B.V. ⁵	Euro	2035	26,978	20,555	-
OMV Gas Marketing Trading & Finance B.V. ⁵	Euro	2035	26,975	20,554	-
Shell Exploration and Production (LXXI) B.V. ⁵	Euro	2035	26,975	20,554	-
Engie Energy Management Holding Switzerland AG ⁵	Euro	2035	26,975	20,554	-
Wintershall Nederland Transport and Trading B.V. ⁵	Euro	2019	26,245	3,119	-
OMV Gas Marketing Trading & Finance B.V. ⁵	Euro	2019	26,245	3,119	-
Shell Exploration and Production (LXXI) B.V. ⁵	Euro	2019	26,245	3,119	-
Uniper Gas Transportation & Finance B.V. ⁵	Euro	2019	26,245	3,119	-
Engie Energy Management Holding Switzerland AG ⁵	Euro	2019	26,243	3,119	-
Russian bonds issued in March 2018 ²	Russian Ruble	2024	25,538	-	-
Russian bonds issued in October 2017 ²	Russian Ruble	2022	25,376	25,371	-
Russian bonds issued in July 2018 ⁶	Russian Ruble	2048	15,509	-	-
Russian bonds issued in July 2018 ⁶	Russian Ruble	2048	15,509	-	-
Russian bonds issued in February 2017 ⁷	Russian Ruble	2027	15,505	15,501	-
Russian bonds issued in February 2017 ⁷	Russian Ruble	2027	15,505	15,501	-
Russian bonds issued in August 2017 ²	Russian Ruble	2024	15,495	15,492	-
Russian bonds issued in April 2017 ²	Russian Ruble	2022	15,293	15,290	-
Russian bonds issued in November 2013 ⁶	Russian Ruble	2043	15,074	15,059	15,111
Russian bonds issued in November 2013 ⁶	Russian Ruble	2043	15,074	15,059	15,111
Russian bonds issued in July 2018 ⁶	Russian Ruble	2033	10,340	-	-
Russian bonds issued in August 2016 ²	Russian Ruble	2046	10,322	10,319	10,317
Russian bonds issued in February 2011 ²	Russian Ruble	2021	10,319	10,371	10,368

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15. BORROWINGS (continued)

Borrowing / Creditors	Currency	Final maturity	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Russian bonds issued in February 2018 ⁷	Russian Ruble	2028	10,245	-	-
Russian bonds issued in February 2018 ⁷	Russian Ruble	2028	10,245	-	-
Russian bonds issued in June 2016 ²	Russian Ruble	2046	10,067	10,064	10,062
Russian bonds issued in December 2017 ²	Russian Ruble	2024	10,023	10,021	-
JSC Tomskneft VNC	Russian Ruble	2020	9,955	5,291	12,812
Russian bonds issued in April 2009 ²	Russian Ruble	2019	118	10,184	10,182
Loan participation notes issued in October 2007 ¹	Euro	2018	-	87,456	81,035
Loan participation notes issued in October 2015 ¹	Euro	2018	-	69,539	64,434
Loan participation notes issued in April 2008 ¹	US dollar	2018	-	64,507	67,930
Loan participation notes issued in July 2013 ¹	Euro	2018	-	62,985	58,361
Loan participation notes issued in April 2013 ²	Euro	2018	-	52,684	48,817
Loan participation notes issued in March 2016 ¹	Swiss Franc	2018	-	29,573	29,794
Russian bonds issued in March 2016 ²	Russian Ruble	2018	-	15,427	15,344
Russian bonds issued in March 2016 ²	Russian Ruble	2018	-	10,303	10,378
Loan participation notes issued in July 2012 ¹	Euro	2017	-	-	92,019
Loan participation notes issued in November 2006 ¹	Euro	2017	-	-	33,185
Loan participation notes issued in March 2007 ¹	Euro	2017	-	-	32,191
Russian bonds series 05 issued in February 2013 ⁷	Russian Ruble	2017	-	-	10,279
Russian bonds issued in December 2012 ²	Russian Ruble	2017	-	-	10,075
Other loans	Various	Various	<u>109,665</u>	<u>162,059</u>	<u>52,460</u>
Total, including			2,347,676	2,094,549	1,759,458
due within one year, including current portion of long-term borrowings			297,849	541,718	228,843

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

² Issuer of these bonds is PJSC Gazprom Neft.

³ According to the signed agreements between the bond issuer Gas Capital S.A. and the banks, settlements for the bonds are made in Euro (up to achieve of a coefficient based on the ratio of exchange rates set in the agreements).

⁴ Issuer of these bonds is GazAsia Capital S.A.

⁵ Borrowings were obtained for financing of the Nord Stream 2 project.

⁶ Issuer of these bonds is PJSC Gazprom.

⁷ Issuer of these bonds is Gazprom Capital LLC.

As of 31 December 2018 and 31 December 2017 according to the agreements signed within the framework of financing the Nord Stream 2 project with Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation & Finance B.V., 100 % of shares of Nord Stream 2 AG held by PJSC Gazprom were pledged until a full settlement of the secured obligations.

Under the terms of the Russian bonds with the nominal value of RUB 15,000 million issued by PJSC Gazprom in July 2018 due in 2048 the issuer can execute the right of early redemption in July 2025.

Under the terms of the Russian bonds with the nominal value of RUB 15,000 million issued by PJSC Gazprom in July 2018 due in 2048 the issuer can execute the right of early redemption in July 2025.

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15. BORROWINGS (continued)

Under the terms of the Russian bonds with the nominal value of RUB 10,000 million issued by PJSC Gazprom in July 2018 due in 2033 the issuer can execute the right of early redemption in July 2025.

Under the terms of the Russian bonds with the nominal value of RUB 30,000 million issued by Gazprom Capital LLC in February 2018 due in 2028 issuer can execute the right of early redemption in February 2025.

Under the terms of the Russian bonds with the nominal value of RUB 30,000 million issued by Gazprom Capital LLC in February 2017 due in 2027 issuer can execute the right of early redemption in February 2024.

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

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

Fixed interest rates on long-term foreign currency denominated loans ranged from 1.01 % to 13.30 % and from 2.15 % to 13.30 % in 2018 and 2017, respectively.

Fixed interest rates on long-term loans denominated in Russian Rubles ranged from 1.00 % to 14.40 % in 2018 and 2017, respectively.

In 2018 and 2017 fixed interest rates on short-term loans denominated in Russian Rubles ranged from 5.45 % to 14.00 % and from 6.50 % to 14.00 %, respectively.

16. TAXATION

Profit tax

In 2018 and 2017 theoretical profit tax expense determined based on accounting profit and statutory rates amounted to RUB 268,054 million and RUB 53,094 million, respectively. According to the tax returns the profit tax in 2018 and 2017 included within the line "Current profit tax" of the consolidated statement of financial results amounted to RUB 273,049 million and RUB 232,106 million, respectively.

According to updated tax returns submitted in 2018 the income tax payable amounted to RUB 612 million. According to updated tax returns submitted in 2017 the income tax recoverable amounted to RUB 3,063 million.

In 2018 permanent differences which increase the taxable profit exceeded permanent differences which decrease the taxable profit by RUB 182,320 million (in 2017 by RUB 604,768 million). The permanent differences principally arise from non-deductible expenses, such as excess of depreciation charge in respect of fixed assets revalued for accounting purposes as compared to depreciation charge of such fixed assets for tax purposes, non-production costs, social expenses, charitable donations, and expenses exceeding limits prescribed by the law.

In 2018 and 2017 incurred deductible temporary differences which impacted the difference between the theoretical profit tax expense and profit tax according to tax records (the current profit tax expense) amounted to RUB 742,080 million and RUB 882,862 million, respectively.

Deductible temporary differences incurred in 2018 principally arise from accrual of provisions for gas price adjustment, longer useful lives of certain fixed asset items for tax purposes as compared to useful lives of these items for accounting purposes, the difference in bad debt allowance for accounting and tax purposes, the fact that expenses for geological exploration are deductible for tax purposes later than for accounting purposes, and elimination in accounting records of unrealised profit from intergroup transactions.

Deductible temporary differences settled in 2018 and 2017 totaled RUB 840,989 million and RUB 445,730 million, respectively. Settlement of these differences in 2018 is principally due to the change in the tax base of the current tax period by the amount of the provision for the revision of gas prices, differences in bad debt allowance for accounting and tax purposes, decrease of the current period tax base by the amount of depreciation charge, accrued on certain fixed assets items, useful lives of which for tax purposes are longer than for accounting purposes, during prior tax periods, and recognition of the profit that was formerly excluded as unrealised profit from intergroup transactions for accounting purposes in the current period.

In 2018 and 2017 incurred taxable temporary differences which impacted the difference between the theoretical profit tax expense and profit tax according to tax records (the current profit tax expense) amounted to RUB 417,574 million and RUB 535,248 million, respectively. Taxable temporary differences in 2018 principally arise from longer useful lives of certain fixed asset items for accounting purposes as compared to

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16. TAXATION (continued)

useful lives of these items for tax purposes, application of a tax depreciation premium of 10 % (30 % to fixed assets of the third-seventh depreciation groups), and recognition for tax purposes of storage costs included in the cost of finished goods for accounting purposes.

Taxable temporary differences settled in 2018 and 2017 totaled RUB 423,260 million and RUB 296,700 million, respectively. Settlement of these differences in 2018 is principally due to increase of the current period tax base by the amount of depreciation charge, accrued on certain fixed assets items, useful lives of which for accounting purposes are longer than for tax purposes, during prior tax periods, as well as by the amount of costs of storage included in the cost of finished goods recognised in prior period for accounting purposes.

Starting from 1 January 2012 the Group has established the Consolidated Group of Taxpayers (the “CGT”), the liable partner of which is PJSC Gazprom. On 20 April 2012 the Interdistrict Inspectorate of the Federal Tax Service for Major Taxpayers No. 2 registered the agreement on establishment of CGT of the Group with 56 participants.

In December 2012 the Interdistrict Inspectorate of the Federal Tax Service for Major Taxpayers No. 2 registered an amendment to the agreement on establishment of CGT of the Group which increased the number of participants up to 65 starting from 1 January 2013.

In 2013 the Interdistrict Inspectorate of the Federal Tax Service for Major Taxpayers No. 2 registered an Additional agreement No. 2 dated 26 November 2013 to the agreement on establishment of CGT of the Group which increased the number of participants up to 69 starting from 1 January 2014.

In 2014 the Interdistrict Inspectorate of the Federal Tax Service for Major Taxpayers No. 2 registered an amendment No. 3 dated 26 November 2014 to the agreement on establishment of CGT of the Group which decreased the number of participants to 65 starting from 1 January 2015.

In 2015 the Interdistrict Inspectorate of the Federal Tax Service for Major Taxpayers No. 2 registered an amendment No. 4 dated 26 November 2015 to the agreement on establishment of CGT of the Group which increased the number of participants to 67 starting from 1 January 2016.

In 2017 the Interdistrict Inspectorate of the Federal Tax Service for Major Taxpayers No. 2 registered an amendment No. 5 dated 28 November 2017 to the agreement on establishment of CGT of the Group which decreased the number of participants to 65 starting from 1 January 2018.

The profit tax expense of CGT for 2018 and 2017 amounted to RUB 190,687 million and RUB 164,756 million, respectively.

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17. SALES

	For 2018	For 2017
Gas sales (net of VAT, excise tax and other similar mandatory payments)		
Russian Federation	925,847	846,130
Former Soviet Union countries (excluding Russian Federation)	348,625	292,777
Europe and other countries	<u>2,951,257</u>	<u>2,250,200</u>
Total sales of gas	4,225,729	3,389,107
Sales of refined products (net of VAT and other similar mandatory payments)		
Russian Federation	1,393,072	1,117,885
Former Soviet Union countries (excluding Russian Federation)	144,659	117,635
Europe and other countries	<u>641,062</u>	<u>454,331</u>
Total sales of refined products	2,178,793	1,689,851
Sales of crude oil and gas condensate (net of VAT and other similar mandatory payments)		
Russian Federation	184,841	148,579
Former Soviet Union countries (excluding Russian Federation)	39,421	29,770
Europe and other countries	<u>631,560</u>	<u>438,753</u>
Total sales of crude oil and gas condensate	855,822	617,102
Sales of electric and heat energy (net of VAT)		
Russian Federation	500,799	487,005
Former Soviet Union countries (excluding Russian Federation)	5,090	2,937
Europe and other countries	<u>15,643</u>	<u>13,598</u>
Total sales of electric and heat energy	521,532	503,540
Sales of gas transportation services (net of VAT)		
Russian Federation	176,876	185,882
Former Soviet Union countries (excluding Russian Federation)	2,758	2,433
Europe and other countries	<u>2</u>	<u>1,069</u>
Total sales of gas transportation services	179,636	189,384
Other sales (net of VAT)		
Russian Federation	316,157	335,570
Former Soviet Union countries (excluding Russian Federation)	8,063	6,211
Europe and other countries	<u>39,276</u>	<u>33,331</u>
Total other sales	363,496	375,112
Total	8,325,008	6,764,096

Sales of gas increased by 25 % in 2018 compared to 2017. This change was mainly due to the increase in average prices on gas sales to customers in Europe and other countries.

The increase in sales of refined products by 29 % in 2018 compared to 2017 was due to the increase in average prices in all geographic regions as well as to the increase in sales volumes of Gazprom Neft Group to customers in Russian Federation, Europe and other countries.

The increase in sales of crude oil and gas condensate by 39% in 2018 compared to 2017 was mainly due to the increase in average prices.

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18. COST OF SALES, COMMERCIAL AND ADMINISTRATIVE EXPENSES

	For 2018	For 2017
Taxes included in cost of sales	1,395,461	1,172,351
Depreciation and amortization	1,044,245	1,049,938
Purchased gas	868,531	778,229
Purchased oil	762,659	546,515
Staff costs and social expenses	662,571	619,082
Transit costs for gas, oil and refined products	654,572	594,412
Cost of goods for resale	345,796	311,222
Materials	263,479	264,288
Repairs and maintenance	138,870	155,841
Energy	110,499	105,623
Insurance	48,437	46,162
Rent, lease payments	40,661	38,340
Other	396,458	367,994
Changes in balances of finished goods, work in progress and other effects	<u>(42,427)</u>	<u>(122,679)</u>
Total cost of goods sold, products, works and services, commercial and administrative expenses	<u>6,689,812</u>	<u>5,927,318</u>

The increase in cost of purchased gas and oil was mainly related to the increase in average prices.

Mineral Extraction Tax within the line "Taxes included in cost of sales" amounted to RUB 1,072,197 million and RUB 853,119 million for 2018 and 2017, respectively.

Other expenses primarily included transportation services, software services and maintenance, refining costs, advertisement, legal and consulting fees, cost of geologic and other services.

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19. OTHER INCOME AND EXPENSES

Note	For 2018		For 2017	
	Income	Expenses	Income	Expenses
	5,601,709	5,583,694	3,873,921	3,890,273
	829,608	1,033,984	584,455	619,447
	292,746	290,633	262,649	262,673
	-	216,437	64,370	-
5	-	62,896	-	63,083
	-	40,849	-	35,874
	38,365	30,246	10,586	8,719
23	38,464	22,668	6,729	93,660
	6,525	17,787	52,879	277,763
	69,132	15,942	40,984	68,526
	10,300	11,452	9,374	7,954
	6,872	6,882	5,731	5,861
	-	4,505	-	4,042
	1,171	2,890	2,043	2,750
	-	1,716	-	3,187
	-	1,147	-	684
	150,650	863	490	31,153
	333	591	15,775	25,072
Other	<u>67,107</u>	<u>230,927</u>	<u>61,695</u>	<u>245,034</u>
Total	7,112,982	7,576,109	4,991,681	5,645,755

The Group recognised provision regarding possible gas price adjustment derived from foreign customers' claims based on the contract terms. The provisions as of 31 December 2018 and 2017 in the amount of RUB 33,228 million and RUB 111,607 million respectively did not include possible correction of customs duties accrued formerly (see Note 23).

The line "Profits and losses of previous years identified in the reporting year" for 2018 includes positive effect of corrections regarding gas price adjustments in the amount of RUB 12,272 million. For 2017 negative effect of corrections regarding gas price adjustments was RUB 47,796 million. These corrections refer to the price adjustments of gas delivered in previous periods for which adjustments were agreed in 2018 and 2017, respectively.

Other income and expenses related to accrual (release) of bad debts and investment impairment allowances are presented in net form.

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20. CONSOLIDATED SUBSIDIARIES AND ASSOCIATES

Principal subsidiaries as of 31 December 2018

Company	Ownership interest, % ¹	Type of activity	Location
LLC Aviapredpriyatie Gazprom avia	100	Air transportation services	Russia
WIBG GmbH	100	Construction and maintenance of gas pipelines, purchase, transportation, storage and distribution of natural gas	Germany
WIEE Hungary Kft.	100	Gas sales	Hungary
WIEH GmbH	100	Gas sales	Germany
WINGAS GmbH	100	Investing, asset management, gas sales	Germany
OJSC Vostokgazprom	100	Gas production	Russia
CJSC Gazprom Armenia	100	Transportation and gas sales	Armenia
JSC Gazprom gazorasredelenie	100	Gas network operation	Russia
LLC Gazprom geologorazvedka	100	Exploration, geophysics	Russia
GAZPROM Germania GmbH	100	Gas sales	Germany
Gazprom Gerosgaz Holdings B.V.	100	Investing	Netherlands
LLC Gazprom dobycha Astrakhan	100	Production and processing of hydrocarbons	Russia
LLC Gazprom dobycha Krasnodar	100	Gas production	Russia
LLC Gazprom dobycha Nadym	100	Production of hydrocarbons	Russia
LLC Gazprom dobycha Noyabrsk	100	Production of hydrocarbons	Russia
LLC Gazprom dobycha Orenburg	100	Production, processing and transportation of hydrocarbons	Russia
LLC Gazprom dobycha Urengoy	100	Production of hydrocarbons	Russia
LLC Gazprom dobycha shelf Yuzhno-Sakhalinsk	100	Development of hydrocarbon fields	Russia
LLC Gazprom dobycha Yamburg	100	Production of hydrocarbons	Russia
LLC Gazprom invest	100	Construction	Russia
LLC Gazprom invest RGK	100	Information, consulting and transportation services	Russia
LLC Gazprom investgazifikatsiia	100	Contractor's function on the construction of engineering systems for gas supply	Russia
LLC Gazprom komplektatsiya	100	Trading	Russia
JSC Gazprom Space Systems	80	Satellite communication	Russia
Gazprom Marketing and Trading Ltd.	100	Gas sales	United Kingdom
Gazprom Marketing and Trading Retail Ltd.	100	Gas sales	United Kingdom
LLC Gazprom mezhregiongaz	100	Gas sales	Russia
LLC Gazprom mezhregiongaz Moskva	100	Gas sales	Russia
JSC Gazprom mezhregiongaz Nizhny Novgorod	51	Gas sales	Russia
LLC Gazprom mezhregiongaz Sankt-Peterburg	100	Gas sales	Russia
LLC Gazprom neftekhim Salavat	100	Processing and sales of refined products	Russia
PJSC Gazprom Neft	96	Production, processing and sales of crude oil	Russia
Gazprom Neft Badra B.V.	100	Oil and gas production	Netherlands
LLC Gazprom neft shelf	100	Development of oil and gas fields	Russia
LLC Gazprom pererabotka	100	Processing of hydrocarbons	Russia
LLC Gazprom pererabotka Blagoveshchensk	100	Construction of Amur gas processing plant	Russia
LLC Gazprom PKhG	100	Gas storage	Russia
Gazprom Sakhalin Holdings B.V.	100	Foreign investing	Netherlands
OJSC Gazprom transgaz Belarus	100	Transportation and gas distribution	Belorussia
LLC Gazprom transgaz Volgograd	100	Gas transportation	Russia
LLC Gazprom transgaz Ekaterinburg	100	Gas transportation	Russia

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20. CONSOLIDATED SUBSIDIARIES AND ASSOCIATES (continued)

Company	Ownership interest, % ¹	Type of activity	Location
LLC Gazprom transgaz Kazan	100	Gas transportation	Russia
LLC Gazprom transgaz Krasnodar	100	Gas transportation	Russia
LLC Gazprom transgaz Moskva	100	Gas transportation	Russia
LLC Gazprom transgaz Nizhny Novgorod	100	Gas transportation	Russia
LLC Gazprom transgaz Samara	100	Gas transportation	Russia
LLC Gazprom transgaz Sankt-Peterburg	100	Gas transportation	Russia
LLC Gazprom transgaz Saratov	100	Gas transportation	Russia
LLC Gazprom transgaz Stavropol	100	Gas transportation	Russia
LLC Gazprom transgaz Surgut	100	Gas transportation	Russia
LLC Gazprom transgaz Tomsk	100	Gas transportation	Russia
LLC Gazprom transgaz Ufa	100	Gas transportation	Russia
LLC Gazprom transgaz Ukhta	100	Gas transportation	Russia
LLC Gazprom transgaz Tchaikovsky	100	Gas transportation	Russia
LLC Gazprom transgaz Yugorsk	100	Gas transportation	Russia
Gazprom Finance B.V.	100	Investing	Netherlands
Gazprom Holding Cooperatie U.A.	100	Investing, asset management	Netherlands
LLC Gazprom tsentrremont	100	Agency services on technical maintenance and repairs	Russia
GAZPROM Schweiz AG	100	Gas sales	Switzerland
LLC Gazprom export	100	Foreign trade	Russia
JSC Gazprom energosbyt	58	Sales of electric energy	Russia
LLC Gazprom energoholding	100	Investing, asset management	Russia
Gazprom EP International B.V.	100	Investing, asset management	Netherlands
JSC Gazprom YRGM Development ²	100	Raw hydrocarbons sales	Russia
CJSC Gazprom YRGM Trading ²	100	Raw hydrocarbons sales	Russia
LLC Gazpromneft Marine Bunker	100	Oil products trading	Russia
JSC Gazpromneft-Aero	100	Oil products trading	Russia
LLC Gazpromneft-Vostok	51	Oil and gas production	Russia
LLC Gazpromneft Corporate Sales	100	Oil products trading	Russia
JSC Gazpromneft - MNPZ	100	Processing and sales of refined products	Russia
JSC Gazpromneft-Noyabrskneftegaz	100	Oil and gas production	Russia
JSC Gazpromneft - ONPZ	100	Processing of oil	Russia
LLC Gazpromneft-Orenburg	100	Production and sales of oil and petroleum gas	Russia
LLC Gazpromneft Regional Sales	100	Oil products trading	Russia
LLC Gazpromneft-Khantos	100	Oil and gas production	Russia
LLC Gazpromneft-Centr	100	Oil products trading	Russia
LLC Gazpromneft-Yamal	100	Oil and associate gas production	Russia
LLC Gazpromtrans	100	Forwarding services	Russia
OJSC Gazpromtrubinvest	100	Production and sales of pipes	Russia
Gazfin Cyprus Limited	100	Investing	Cyprus
LLC GPN-Invest	100	Investing	Russia
LLC GPN-Finans	100	Investing	Russia
PJSC Mosenergo ²	54	Generation of electric and heat power, electric power supply services	Russia
PJSC MIPC ²	99	Generation, purchase and supply of heat energy	Russia
Naftna Industrija Srbije a.d.	56	Production and processing of oil, sales of refined products	Serbia
LLC Novourengoysky gazohimicheskii kompleks	100	Construction of gas chemical complex	Russia
Nord Stream 2 AG	100	Design, construction and operation of off-shore pipelines	Switzerland
PJSC WGC-2 ²	80	Generation and sales of electric and heat energy	Russia
Rosingaz Limited	100	Investing	Cyprus

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20. CONSOLIDATED SUBSIDIARIES AND ASSOCIATES (continued)

Company	Ownership interest, % ¹	Type of activity	Location
South Stream Transport B.V.	100	Construction, gas transportation	Netherlands
OJSC Severneftegazprom ²	50	Production, processing and sales of gas and gas condensate	Russia
LLC Sibmetakhim	100	Production and sales of petrochemicals	Russia
PJSC TGC-1	52	Generation and sales of electric and heat energy	Russia
JSC Teploset Sankt-Peterburga	75	Transportation and distribution of heat energy	Russia
OJSC Tomskgazprom	100	Production of natural gas, gas condensate and oil	Russia
LLC Faktoring-Finance	100	Investing	Russia
PJSC Centerenergoholding	100	Investing	Russia

¹ Cumulative share of the Group in share capital of investees.

² Share in voting shares.

Principal associates as of 31 December 2018

Company	Ownership interest, % ¹	Type of activity	Location
JSC Arcticgas	50	Production of oil and petroleum gas	Russia
JSC Achimgaz	50	Exploration and production of gas and gas condensate	Russia
Blue Stream Pipeline Company B.V.	50	Gas transportation	Netherlands
WIGA Transport Beteiligungs-GmbH & Co. KG	50	Gas transportation	Germany
Wintershall AG	49	Production of oil and gas sales	Germany
Gaz Project Development Central Asia AG	50	Gas production	Switzerland
Gazprombank (Joint-stock Company) ²	46	Banking	Russia
JSC NPF GAZFOND ²	42	Non-state pension provision	Russia
JSC EUROPOL GAZ	48	Transportation and gas sales	Poland
KazRosGas LLP	50	Gas processing and sales of gas and refined products	Kazakhstan
JSC Conexus Baltic Grid	34	Transportation and storage of natural gas	Latvia
JSC Latvijas Gaze	34	Sale and distribution of gas	Latvia
JSC Messoyakhaneftegas	50	Production of oil and petroleum gas	Russia
JSV Moldovagaz	50	Transportation and gas sales	Moldova
Nord Stream AG ³	51	Gas transportation	Switzerland
CJSC Northgas	50	Production and sales of gas and gas condensate	Russia
Panrusgas Co.	40	Gas sales	Hungary
Prometheus Gas S.A.	50	Gas sales, construction	Greece
Salym Petroleum Development N.V.	50	Production of oil	Netherlands
Sakhalin Energy Investment Company Ltd.	50	Production of oil, LNG	Bermuda Islands
PJSC NGK Slavneft	50	Production, processing and sales of oil	Russia
JSC Tomskneft VNK	50	Production of oil	Russia
LLC Yuzhno-Priobsky GPZ	50	Processing of petroleum gas	Russia

¹ Cumulative share of the Group in share capital of investees.

² Share in voting shares.

³ Investment in the company is accounted under the equity method of accounting, as the Group did not obtain control due to its corporate governance structure.

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21. RELATED PARTIES OPERATIONS

As defined by RAR 11/2008 “Related parties”, parties are considered to be related if one party has the ability to control another party or exercise significant influence over another party in making financial and operational decisions, or parties are engaged in joint activity. A non-state pension fund acting in favor of entity’s employees is also considered a related party.

Associates and other major related parties

In 2018 and 2017 the Group had following operations with major associates and other related parties:

	For 2018	For 2017
Revenue (net of VAT and other similar mandatory payments)		
Gas sales		
Panrusgas Co.	62,906	46,715
JSV Moldovagaz	29,421	18,063
JSC Latvijas Gaze	16,095	14,608
Prometheus Gas S.A.	10,439	7,454
Bosphorus Gaz Corporation A.S.	8,784	15,128
KazRosGas LLP	7,762	11,118
VEMEX s.r.o. and its subsidiaries	2,978	8,654
JSC EUROPOL GAZ	2,715	2,347
Gas transportation services		
KazRosGas LLP	2,758	2,432
Crude oil, gas condensate and refined products sales		
PJSC NGK Slavneft and its subsidiaries	45,541	39,597
JSC SOVEX	6,761	5,377
LLC NPP Neftekhimia	4,915	2,732
LLC Poliom	4,796	2,931
Sakhalin Energy Investment Company Ltd.	3,078	2,118
Operator services sales and other services sales		
JSC Messoykhaneftegas	3,632	4,389
PJSC NGK Slavneft and its subsidiaries	2,612	4,486
Gas refining services		
KazRosGas LLP	10,075	8,137
Interest income		
Gazprombank (Joint-stock Company) and its subsidiaries	37,795	39,822
JSC Messoykhaneftegas	551	6,352
Other income (rental income)		
Sakhalin Energy Investment Company Ltd.	3,301	3,834
Purchases		
Gas purchases		
JSC Arcticgas	30,438	43,980
KazRosGas LLP	30,025	30,264
Sakhalin Energy Investment Company Ltd.	18,741	17,525
CJSC Northgaz	6,256	2,732
Gas transportation services		
Nord Stream AG	79,568	71,047
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	37,258	30,699
JSC EUROPOL GAZ	13,959	12,572
Blue Stream Pipeline Company B.V.	3,871	3,475
JSV Moldovagaz	3,301	3,499
Oil and refined products purchases		
PJSC NGK Slavneft and its subsidiaries	156,363	114,674
JSC Tomskneft VNK and its subsidiaries	90,375	67,519

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21. RELATED PARTIES OPERATIONS (continued)	For 2018	For 2017
JSC Messoyakhaneftegas	62,747	29,699
Salym Petroleum Development N.V.	61,102	43,575
Sakhalin Energy Investment Company Ltd.	10,400	18,380
Purchased services of gas and gas condensate products		
JSC Achimgaz	40,018	31,027
Purchased refining services		
PJSC NGK Slavneft and its subsidiaries	14,594	13,719
Purchased transit of crude oil and oil refinery products		
PJSC NGK Slavneft and its subsidiaries	5,432	6,252
JSC Messoyakhaneftegas	3,811	3,863
Interest expense		
Gazprombank (Joint-stock Company) and its subsidiaries	11,129	11,736
Pension fund contributions		
JSC NPF GAZFOND	21,437	19,181

Under the agreement of subordinated loan the Group provided cash to Gazprombank (Joint-stock Company) in the amount of RUB 25,542 million and RUB 9,458 for 2018 and 2017 respectively.

In Russia the Group sold gas to associates mainly using tariffs set by the Federal Antimonopoly Service. Export sales of gas are based on long-term contracts with prices linked to world energy commodity prices. The Group purchases oil and gas from associates in the ordinary course of business at prices close to average market prices.

The following balances of accounts receivable and accounts payable with major associates and other related parties were recorded on the consolidated balance sheet of the Group as of 31 December 2018, 2017 and 2016:

	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Accounts receivable			
Accounts receivable (payment expected within 12 months of the reporting date)			
JSC Gazstroyprom ¹	46,746	-	-
Gazprombank (Joint-stock Company)	14,774	17,380	14,312
Panrusgas Co.	5,990	4,023	3,175
PJSC NGK Slavneft and its subsidiaries	4,929	5,304	8,286
KazRosGas LLP	2,186	5,457	3,287
Prometheus Gas S.A.	1,468	9	439
Sakhalin Energy Investment Company Ltd.	1,450	1,045	2,733
Blue Stream Pipeline Company B.V.	1,321	2,785	-
JSC Messoyakhaneftegas	1,080	796	8,190
JSC Arcticgas	116	3,459	-
Bosphorus Gaz Corporation A.S.	-	2,603	-
VEMEX s.r.o. and its subsidiaries	-	521	1,422
Accounts receivable (payment expected beyond 12 months of the reporting date)			
JSC Messoyakhaneftegas	-	12,154	1,329
JSC Arcticgas	-	4,483	8,913
Other long-term financial investments			
Gazprombank (Joint-stock Company)	-	-	42,230
Other short-term financial investments			
Gazprombank (Joint-stock Company) and its subsidiaries	705,968	290,322	100,015
OJSC Belgazprombank	11,610	7,436	968
Cash balances			
Gazprombank (Joint-stock Company) and its subsidiaries	453,019	392,587	518,697
OJSC Belgazprombank	14,446	19,319	917

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21. RELATED PARTIES OPERATIONS (continued)

	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Accounts payable			
Short-term accounts payable			
PJSC NGK Slavneft and its subsidiaries	52,601	31,164	4,094
JSC Messoyakhaneftegaz	35,371	6,928	3,694
Nord Stream AG	7,100	6,172	5,723
JSC Achimgaz	5,054	3,195	3,025
Sakhalin Energy Investment Company Ltd.	4,746	5,710	2,948
Salym Petroleum Development N.V.	4,414	5,477	4,368
LLC Yuzhno-Priobsky GPZ	2,451	2,008	1,339
KazRosGas LLP	2,362	2,079	4,186
WIGA Transport Beteiligungs - GmbH & Co. KG and its subsidiaries	2,345	1,957	-
JSC EUROPOL GAZ	2,258	2,078	2,100
JSC Arcticgas	403	2,963	3,436

¹ Accounts receivable refers to a transaction for the sale of promissory notes, the income and expenses of which are summarised in the consolidated statement of financial results on a net basis.

As of 31 December 2018 the Group sold the investment in the associate Bosphorus Gaz Corporation A.S. As of 31 December 2017 and 2016 accounts receivable due from Bosphorus Gaz Corporation A.S. are RUB 2,603 million and RUB nil million, respectively, net of bad debt allowance in the amount of RUB 5,935 million and RUB 7,802 million as of 31 December 2017 and 2016, respectively.

Accounts receivable for gas due from Overgas Inc. AD are RUB nil million as of 31 December 2018, 2017, 2016 net of bad debt allowance in the amount of RUB 7,307 million, RUB 6,058 million and RUB 6,380 million as of 31 December 2018, 2017 and 2016, respectively.

Accounts receivable due from JSV Moldovagaz are RUB nil million as of 31 December 2018, 2017 and 2016 net of bad debt allowance in the amount of RUB 447,174 million, RUB 354,995 million and RUB 358,279 million as of 31 December 2018, 2017 and 2016, respectively.

Loans issued to major associates and promissory notes received from major associates as of 31 December 2018, 2017 and 2016 are presented as follows:

	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Loans and promissory notes due for repayment beyond 12 months of the reporting date			
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	15,886	13,768	12,757
Erdgasspeicher Peissen GmbH	8,423	7,300	6,764
Wintershall Noordzee B.V.	3,897	5,595	-
OJSC Belgazprombank	2,479	4,957	4,957
JSC Evroteck-Yugra	2,364	1,514	-
JSC Arcticgas	-	13,187	31,301
JSC Messoyakhaneftegaz	-	12,260	17,633

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21. RELATED PARTIES OPERATIONS (continued)

Loans received from major associates as of 31 December 2018, 2017 and 2016 are presented as follows:

	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Loans and promissory notes due for repayment within 12 months of the reporting date			
JSC Arcticgas	-	10,540	-
JSC Messoyakhaneftegaz	-	-	32,340
Wintershall Noordzee B.V.	-	-	5,811
Wintershall AG	-	-	1,811
Borrowings due for repayment beyond 12 months of the reporting date			
Gazprombank (Joint-stock Company)	37,905	87,511	88,850
JSC Tomskneft VNK	-	-	12,812
Borrowings due for repayment within 12 months of the reporting date (including current portion of long-term liabilities)			
Gazprombank (Joint-stock Company) and its subsidiaries	55,475	80,807	31,797
JSC Tomskneft VNK	9,955	5,291	-

Borrowings from Gazprombank (Joint-stock company) and its subsidiaries are obtained on terms not substantially different from those on financial instruments with similar characteristics and are subject to influence of changes in economic or other factors. The amount of secured borrowings was RUB nil million as of 31 December 2018, RUB 60,000 million as of 31 December 2017 and RUB nil million as of 31 December 2016.

The Group received loans and borrowings from its major associates in Russian Rubles at rates ranging from 7.48 % to 10.25 % in 2018. The similar rates ranging in 2017 was from 7.84 % to 11.75 %.

Besides, the Group received loans nominated in foreign currency at the rates ranging from 4.25 % to 9.50 % in 2018. The similar rates ranging in 2017 was from 4.25 % to 9.50 %.

Compensation to key management personnel

Key management personnel's (the members of the Board of Directors and Management Committee of PJSC Gazprom) short-term compensation, including salary, bonuses and compensation for serving in the management bodies of PJSC Gazprom and its subsidiaries, amounted to RUB 4,312 million and RUB 4,537 million for 2018 and 2017, respectively.

Government representatives serving in the Board of Directors do not receive any compensation from PJSC Gazprom and its subsidiaries. Compensation of members of the Board of Directors is approved by the annual meeting of shareholders. Compensation of key management personnel (other than compensation of the Board of Directors) paid by PJSC Gazprom and its subsidiaries 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.

PJSC Gazprom provided medical insurance and liability insurance to key management personnel. Voluntary medical insurance amounted to RUB 12 million for 2018 (RUB 13 million for 2017).

22. EARNINGS PER SHARE

Basic earnings per share attributable to the owners of PJSC Gazprom have been calculated by dividing the net profit for the reporting period by the annual weighted average number of ordinary shares outstanding, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 14).

The weighted average number of ordinary shares outstanding, excluding the weighted average number of treasury shares amounted to 22.1 billion shares for 2018 and 2017.

Diluted earnings per share have not been calculated due to the absence of dilutive securities in PJSC Gazprom at the beginning and the end of the reporting period.

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23. COMMITMENTS AND CONTINGENCIES

Provisions

	<u>As of</u> <u>31 December 2017</u>	<u>Accrued</u>	<u>Utilised</u>	<u>Recovered</u>	<u>As of</u> <u>31 December 2018</u>
Provision for bonus payments at the year end	56,811	61,870	(69,768)	(2,238)	46,675
Provision for vacations	33,512	63,497	(61,509)	(356)	35,144
Provision for retirement benefits payable as a lump sum	26,304	15,508	(16,589)	(1,460)	23,763
Provision for decommissioning and site restoration costs related to subsurface use	194,864	29,495	(4,757)	(62,835)	156,767
Other provisions, including: <i>provision regarding gas price adjustment</i>	156,067	47,175	(61,343)	(43,630)	98,269
	<u>111,607</u>	<u>14,907</u>	<u>(54,822)</u>	<u>(38,464)</u>	<u>33,228</u>
Total, including:	467,558	217,545	(213,966)	(110,519)	360,618
with maturity up to one year	265,497	180,643	(207,978)	(45,114)	193,048

	<u>As of</u> <u>31 December 2016</u>	<u>Accrued</u>	<u>Utilised</u>	<u>Recovered</u>	<u>As of</u> <u>31 December 2017</u>
Provision for bonus payments at the year end	39,389	68,436	(47,275)	(3,739)	56,811
Provision for vacations	31,008	61,113	(57,965)	(644)	33,512
Provision for retirement benefits payable as a lump sum	25,456	13,725	(11,910)	(967)	26,304
Provision for decommissioning and site restoration costs related to subsurface use	154,573	43,669	(3,155)	(223)	194,864
Other provisions, including: <i>provision regarding gas price adjustment</i>	161,679	51,175	(36,673)	(20,114)	156,067
	<u>112,256</u>	<u>26,934</u>	<u>(24,491)</u>	<u>(3,092)</u>	<u>111,607</u>
<i>guarantees issued</i>	<u>3,427</u>	<u>3</u>	<u>(3,365)</u>	<u>(65)</u>	<u>-</u>
Total, including:	412,105	238,118	(156,978)	(25,687)	467,558
with maturity up to one year	245,222	185,103	(153,523)	(11,305)	265,497

Pension obligations

Due to the fact that regulation of accrual of pension obligations in the accounting is not foreseen by the existing regulatory documents, calculation of pension obligations and assets of pension program is provided in the Notes to the Gazprom Group' IFRS consolidated financial statements (www.gazprom.ru).

Guarantees issued

The following guarantees were issued by the Group to third parties on behalf of other entities:

	<u>As of</u> <u>31 December 2018</u>	<u>As of</u> <u>31 December 2017</u>	<u>As of</u> <u>31 December 2016</u>
Guarantees issued for:			
Nord Stream AG	136,086	128,913	131,309
LLC Stroygazconsulting	87,094	70,013	-
Sakhalin Energy Investment Company Ltd.	66,317	78,563	103,857
Blackrock Capital Investments Limited	-	1,572	4,968
Ostchem Holding Limited	-	-	3,427
Other	<u>31,171</u>	<u>24,781</u>	<u>36,412</u>
Total	320,668	303,842	279,973

In March 2010 the Group pledged the shares of Nord Stream AG to the bank-agent Societe Generale under the obligations of Nord Stream AG under the project financing agreement. As of 31 December 2018, 2017 and 2016 the amount of Nord Stream AG obligations up to the amount of the Group's share (51 %) amounted to RUB 136,086 million (EUR 1,713 million), RUB 128,913 million (EUR 1,872 million) and RUB 131,309 million (EUR 2,058 million), respectively.

Since December 2017 the Group provided guarantees to Gazprombank (Joint-stock Company) for LLC Stroygazconsulting under its loan obligations. As of 31 December 2018 and 31 December 2017 the guarantees amounted to RUB 87,094 million and RUB 70,013 million, respectively.

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23. COMMITMENTS AND CONTINGENCIES (continued)

In June 2008 the Group pledged the shares of Sakhalin Energy Investment Company Ltd. to the bank-agent Mizuho Bank Ltd. under the loan obligations of Sakhalin Energy Investment Company Ltd. As of 31 December 2018, 2017 and 2016 the amount of Sakhalin Energy Investment Company Ltd. obligations up to the amount of the Group's share (50 %) amounted to RUB 66,317 million (USD 955 million), RUB 78,563 million (USD 1,364 million) and RUB 103,857 million (USD 1,712 million), respectively.

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) 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) in regard to bonds issued with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by JSC EUROPOL GAZ. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. In December 2015 loans issued by EM Interfinance Limited were redeemed. As a result the guarantees issued to Asset Repackaging Trust Five B.V. on behalf of Blackrock Capital Investments Limited amounted to RUB nil million, RUB 1,572 million and RUB 4,968 million as of 31 December 2018, 2017 and 2016, 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 2018, 2017 and 2016 the above guarantee amounted to RUB nil million, RUB nil million and RUB 3,427 million, respectively, and was fully provided. As of 31 December 2017 the guarantee agreement was terminated.

Legal proceedings

On 16 June 2014 PJSC Gazprom submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against NJSC Naftogaz of Ukraine to recover unpaid debt for gas supplied under Contract No. KP dated 19 January 2009 regarding the sale and purchase of natural gas in 2009-2019 ("Contract No. KP"), and related interest charged. On 12 June 2015 PJSC Gazprom submitted to arbitration a defence to the claim from NJSC Naftogaz of Ukraine and a counter-claim, in which it specified its claims totalling USD 29,200 million. On 9 October 2015 NJSC Naftogaz of Ukraine filed a defence to the claim from PJSC Gazprom. On 14 March 2016 PJSC Gazprom filed a reply to the defence of NJSC Naftogaz of Ukraine. The corrected amount of claim of PJSC Gazprom against NJSC Naftogaz of Ukraine exceeded USD 37,000 million. This amount includes the outstanding payment for the gas supplied in May-June 2014, and take-or-pay obligations for 2012-2016, and penalty interest for late payment for the gas supplied.

At the same time on 16 June 2014 NJSC Naftogaz of Ukraine submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom seeking a retroactive revision of the price of natural gas under Contract No. KP, compensation of all overpaid amounts starting from 20 May 2011 and cancellation of the provision of Contract No. KP which provided for the prohibition on reexport of natural gas out of Ukraine. The clarified claims of NJSC Naftogaz of Ukraine to PJSC Gazprom amounted to over USD 14,230 million.

On 21 July 2014 both cases were consolidated. Oral hearings in the case were held, the parties provided post-hearing statements on 11 November 2016.

On 31 May 2017 the arbitrators rendered an interim (separate) award on certain key legal issues. On 7 November 2017 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to challenge stated interim (separate) award and to annul it partially. The final decision on the case was rendered on 22 December 2017. The arbitrators recognised that the basic provisions of Contract No. KP were valid and satisfied the majority of the claims filed by PJSC Gazprom seeking payment for the gas supplied, which initiated the proceedings, and obliged NJSC Naftogaz of Ukraine:

- 1) to pay PJSC Gazprom the overdue debt for the gas supplied amounting to USD 2,019 million, and interest for the period from 22 December 2017 to the date of such payment at the rate of 0.03 % for each day of delay;
- 2) starting from 2018 to buy and pay for 5 billion cubic meters of gas annually or in case of the failure to buy this quantity to pay for 80 % of this volume.

On 17 January 2018 the arbitrators adjusted the amount owed by NJSC Naftogaz of Ukraine to PJSC Gazprom by increasing it up to USD 2,030 million.

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23. COMMITMENTS AND CONTINGENCIES (continued)

On 21 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to challenge stated final decision of 22 December 2017 and to annul it partially. In accordance with the preliminary schedule compiled by the Swedish court following the procedural hearings, court sittings in the case on challenging the separate arbitration award on the supply are scheduled for October 2019. Court sittings in the case on challenging the final arbitration award on the supply are scheduled for February 2020.

On 13 October 2014 NJSC Naftogaz of Ukraine submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom, seeking:

1) to acknowledge that rights and obligations of NJSC Naftogaz of Ukraine under Contract No. TKGU dated 19 January 2009 (“Contract No. TKGU”) on volumes and terms of gas transportation through Ukraine in 2009-2019 should be transferred to PJSC Ukrtransgaz;

2) to acknowledge that certain provisions of Contract No. TKGU, which will be subsequently updated, are invalid and / or inoperative and should be supplemented with or substituted by provisions which will be updated in line with the energy and anti-monopoly legislation of Ukraine and the European Union (“the EU”);

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

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

On 28 November 2014 PJSC Gazprom filed its response to the request for arbitration. On 11 December 2014 the arbitration panel was formed. On 28 January 2015 the arbitration court made a decision not to combine the case with the above ones. On 30 April 2015 NJSC Naftogaz of Ukraine filed a claim, significantly increasing the amount of the claims, according to various estimates, up to USD 11,000-16,000 million. Oral hearings in the case were held, the parties provided post-hearing statements on 11 November 2016. On 2 February 2018 NJSC Naftogaz of Ukraine submitted the corrected amount of claim to the arbitration court, including a claim to recover damages for the failure to provide gas for transit and underpayment of the transit tariff for the second half of 2016 and 2017. Total amount of the claim filed by NJSC Naftogaz of Ukraine (without interest) was USD 14,865 million. On 16 February 2018 PJSC Gazprom submitted to the arbitration court a defence to this claim and a claim to refund the overpaid transit tariff for the period from April 2014 to December 2017 due to the change in the gas price under Contract No. KP for the purchase and sale of natural gas in 2009 - 2019 totaling USD 44 million without interest. The final award in the case was issued on 28 February 2018. The arbitration court rejected the request of NJSC Naftogaz of Ukraine to change the gas transit tariff, recognised almost all provisions of Contract No. TKGU as valid and refused application of the anti-monopoly legislation of Ukraine and the EU to the Contract. The arbitration court rejected the request of NJSC Naftogaz of Ukraine to transfer its rights and obligations under Contract No. TKGU to PJSC Ukrtransgaz or to another gas transportation system operator. The arbitration court satisfied the request of NJSC Naftogaz of Ukraine in the amount of USD 4,673 million for having provided less gas for transit to European consumers than stipulated in the Contract. With consideration for the amount awarded to PJSC Gazprom under the supply contract, the arbitration court set off counter-claims, as a result of which PJSC Gazprom is obliged to pay USD 2,560 million to NJSC Naftogaz of Ukraine. The amount of liabilities under the award is presented in the line “Accounts payable” in the consolidated balance sheet. On 29 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to challenge stated final award of 28 February 2018 and to annul it partially. On 13 June 2018 the court rendered the decision to suspend execution of the arbitration award and on 28 June 2018 the court confirmed its decision to suspend execution of the arbitration award in relation to recovery from PJSC Gazprom of the amount of USD 2,560 million awarded by the arbitrators. On 13 September 2018 upon a motion from NJSC Naftogaz of Ukraine the court annulled its decision to suspend execution of the arbitration award. Hearings in the case on challenging the arbitration award in the transit case have not been scheduled yet.

On 29 May 2018 PJSC Gazprom became aware of the fact that NJSC Naftogaz of Ukraine was taking actions to enforce the arbitration award in Switzerland. In particular, an injunction was issued seizing PJSC Gazprom’s receivables from Nord Stream AG and Nord Stream 2 AG. Payments from these companies to PJSC Gazprom should be directed to the bailiff. PJSC Gazprom has not received any

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23. COMMITMENTS AND CONTINGENCIES (continued)

official notifications on this issue. On 2 August 2018 PJSC Gazprom filed a reasoned objection to the injunction to the Swiss court. On 16 January 2019 the Swiss court rendered a decision to fully annul the injunction seizing PJSC Gazprom's assets issued on 29 May 2018. Based on this court decision the shares of Nord Stream AG and Nord Stream 2 AG in Switzerland and PJSC Gazprom's receivables from these companies are no longer seized. On 5 June 2018 PJSC Gazprom became aware of the fact that NJSC Naftogaz of Ukraine was taking similar actions in the Netherlands. In particular on 30 May 2018 the shares in Blue Stream Pipeline Company B.V., the operator of the Blue Stream pipeline, owned by PJSC Gazprom and the receivables payable to PJSC Gazprom (with such receivables remaining at the disposal of the Dutch Group's companies) were seized pursuant to the decision of the District Court of Amsterdam.

On 17 September 2018 NJSC Naftogaz of Ukraine filed a motion in the Netherlands to recognise and enforce the arbitration award in the transit case.

On 22 June 2018 PJSC Gazprom received an order of the High Court of Justice (the United Kingdom) dated 18 June 2018 for the seizure of PJSC Gazprom's assets in the United Kingdom as requested by NJSC Naftogaz of Ukraine as part of its efforts to enforce the above mentioned arbitration award and the decision of the court of first instance dated 8 June 2018 on the enforcement of this decision. On 13 September 2018 the High Court of England and Wales cancelled its order dated 18 June 2018 to seize PJSC Gazprom's assets in England and Wales. The condition for the cancellation was the obligation undertaken by PJSC Gazprom not to alienate shares of Nord Stream AG before the end of the hearings in the English court in the case on recognition and execution of the decision of the Stockholm arbitration court in the transit case dated 28 February 2018. The hearings in the case were held on 12-13 February 2019. On 15 March 2019 the English court suspended the proceedings in the case on recognition and execution in England and Wales of the decision of the Stockholm arbitration court in the transit case dated 28 February 2018 until the end of the proceedings in the Court of Appeal of Svea (Sweden).

On 15 February 2018 NJSC Naftogaz of Ukraine sent to Luxembourg branches of the major banks and Gaz Capital S.A. a notification on the seizure of any liabilities and assets of PJSC Gazprom in Luxembourg. On 15 April 2019 PJSC Gazprom filed with the court of Luxembourg a petition to challenge the seizure and intervene in order to defend its rights.

On 5 March 2018 PJSC Gazprom notified NJSC Naftogaz of Ukraine about the need to restore the balance of interests between the parties under gas supply and transit contracts disrupted by earlier awards of the Stockholm arbitration court and suggested negotiating this issue. Negotiations were unsuccessful, therefore, on 20 April 2018 PJSC Gazprom filed to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a request for arbitration seeking amendment or termination of contracts with NJSC Naftogaz of Ukraine for gas supply and gas transit through Ukraine in order to restore the balance between contractual obligations and eliminate disproportions in terms of parties' contractual liabilities. On 22 May 2018 NJSC Naftogaz of Ukraine filed in response to this a request for arbitration and counter-claims in respect of the gas supply and transit contracts. On 6 September 2018 the Stockholm Chamber of Commerce, Sweden, rendered a decision upon PJSC Gazprom's petition to consolidate these proceedings with the proceedings related to the request of NJSC Naftogaz of Ukraine to change the gas transit tariff. On 28 December 2018 the arbitration panel was formed. The hearings in the case are scheduled for April-May 2021.

On 10 July 2018 NJSC Naftogaz of Ukraine filed to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a request for arbitration for changing of the tariff for gas transit through Ukraine starting from 18 March 2018 and for enforced recovery from PJSC Gazprom of USD 11,580 million for the period from 18 March 2018 until the expiration date of the effective gas transit contract (until 31 December 2019). PJSC Gazprom filed a response to this request for arbitration on 14 August 2018. On 6 September 2018 upon a motion from PJSC Gazprom the Stockholm Chamber of Commerce, Sweden, decided to consolidate this proceeding and those initiated to consider PJSC Gazprom's request to amend or terminate contracts with NJSC Naftogaz of Ukraine for gas supply and gas transit through Ukraine in order to restore the balance between contractual obligations and eliminate disproportions in terms of the parties' contractual liabilities. On 28 December 2018 the arbitration panel was formed. The hearings in the case are scheduled for April-May 2021.

On 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, 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

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23. COMMITMENTS AND CONTINGENCIES (continued)

for LTL 5,000 million compensation (at the exchange rate as of 31 December 2018 – RUB 115,067 million). PJSC Gazprom did not agree to the claims and on 9 November 2012 filed with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a response to the request for arbitration. The hearing on the merits took place from 1 to 9 July 2015. On 30 September 2015 the parties submitted additional written opinions based on the analysis of the hearing materials including witness and expert statements. On 22 June 2016 the arbitration court issued a final award which rejects all claims raised by the Ministry of Energy of the Republic of Lithuania, including the claims on unfair pricing of the gas which PJSC Gazprom supplied to Lithuania in 2006-2015. On 22 September 2016 it became known that the Ministry of Energy of the Republic of Lithuania had filed a motion with the Court of Appeal of Stockholm, Sweden, to annul the Final arbitration award of 22 June 2016. On 4 April 2017 PJSC Gazprom was officially served with this motion. On 9 June 2017 PJSC Gazprom filed a defence to the claim with the Court of Appeal of Stockholm, Sweden. The Ministry of Energy of the Republic of Lithuania submitted its detailed written opinions on the case on 10 October 2017. PJSC Gazprom is keeping on analysing received documents and is preparing its legal position. The hearings in the case are scheduled for May 2019.

In December 2015 South Stream Transport B.V., a subsidiary of the Group, was served with an official notification by the Secretariat of the International Court of Arbitration of the International Chamber of Commerce stating that Saipem S.p.A. had submitted a request for arbitration against South Stream Transport B.V. in view of unilateral termination by South Stream Transport B.V. of the agreement dated 14 March 2014 for the construction of the “South Stream” pipeline. The amount of current claims of Saipem S.p.A. to South Stream Transport B.V. is about EUR 615 million (at the exchange rate as of 31 December 2018 – RUB 48,868 million). On 18 April 2019 Saipem S.p.A. and South Stream Transport B.V. agreed to terminate the legal proceedings initiated in December 2015 by signing a settlement agreement.

On 22 January 2016 the Antimonopoly Committee of Ukraine rendered a decision to impose a fine on PJSC Gazprom in the amount of 85,966 million Ukrainian hryvnia (at the exchange rate as of 31 December 2018 – RUB 215,522 million) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed a claim with the Kiev Economic Court to challenge the decision of the Antimonopoly Committee of Ukraine. In April 2017 the Antimonopoly Committee of Ukraine filed a request with the Department of State Executive Service of the Ministry of Justice of Ukraine for enforced recovery from PJSC Gazprom of an amount of 171,932 million Ukrainian hryvnia (about USD 6 billion). On 12 May 2017 PJSC Gazprom was served via its Kiev-based Representative office Order of the Department of the State Executive Service of the Ministry of Justice of Ukraine on institution of enforcement proceedings to recover an amount of 189,125 million Ukrainian hryvnia (at the exchange rate as of 31 December 2018 – RUB 474,148 million), including an execution fee of 17,193 million Ukrainian hryvnia (at the exchange rate as of 31 December 2018 – RUB 43,104 million), and on the seizure of the bank accounts of the Kiev-based Representative office of PJSC Gazprom, dividends due to PJSC Gazprom for the participation in JSC Gaztranzit, the shares of JSC Gaztranzit owned by PJSC Gazprom, the shares of PJSC YUZHNIIGIPROGAZ Institute, equity interests in LLC Gazprom sbyt Ukraine, and LLC International Consortium for the Ukrainian Gas Transmission System Management and Development. PJSC Gazprom is currently challenging the actions under the enforcement proceedings in the Ukrainian courts. PJSC Gazprom is also considering other legal remedies to restore its violated rights.

The shares of PJSC YUZHNIIGIPROGAZ Institute with a nominal value of 651,500 Ukrainian hryvnia (at the exchange rate as of 31 December 2018 – RUB 2 million) (estimated value – 6,241,386 Ukrainian hryvnia, at the exchange rate as of 31 December 2018 – RUB 16 million) were sold on 22 August 2018 in a forced sale auction.

The shares of JSC Gaztranzit with a nominal value of 33.3 million Ukrainian hryvnia (at the exchange rate as of 31 December 2018 – RUB 83 million) (estimated value – 44.22 million Ukrainian hryvnia, at the exchange rate as of 31 December 2018 – RUB 111 million) were sold on 29 January 2019 in a forced sale auction.

On 26 October 2018 pursuant to the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL) PJSC Gazprom commenced an arbitration against Ukraine to protect its investments in Ukraine due to the fact that Ukraine represented by the Antimonopoly Committee of Ukraine had imposed an unjustified and unfair fine on PJSC Gazprom, which means that it violated PJSC Gazprom’s rights guaranteed by the Agreement between the Government of the Russian Federation and the Cabinet of Ministers of Ukraine on the Encouragement and Mutual Protection of Investments dated 27 November 1998. The procedural schedule has not currently been compiled.

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23. COMMITMENTS AND CONTINGENCIES (continued)

On 15 October 2018 PGNiG S.A., Poland, filed a claim with the General Court of the EU for cancellation of the decision of the European Commission on the pro-competition commitments which completed the antitrust investigation against alleged breach of the EU antitrust law by PJSC Gazprom and its subsidiary LLC Gazprom export within the activity in EU member countries from the Central and Eastern Europe. The pro-competition commitments came into effect on 28 May 2018 when PJSC Gazprom was officially served with the adopted decision. The decision on the pro-competition commitments was published by the European Commission on 17 July 2018.

On 14 March 2017 the European Commission received a complaint from PGNiG S.A., Poland, stating that PJSC Gazprom and LLC Gazprom export allegedly violated Article 102 of the Treaty on the Functioning of the EU. In this complaint PGNiG S.A. states that PJSC Gazprom and LLC Gazprom export violate the antitrust law of the EU through:

- 1) applying unfair pricing policy with respect to PGNiG S.A.;
- 2) preventing cross-border gas sale;
- 3) tying commercial issues with infrastructure.

Based on this complaint, the European Commission registered case No. AT.40497. The commencement of the case does not necessarily entail formal investigation and constitute an accusation of PJSC Gazprom and LLC Gazprom export in violating the antitrust law of the EU. These claims relate to issues covered by the European Commission investigation of PJSC Gazprom and LLC Gazprom export's operation in the countries of Central and Eastern Europe, which formal phase was initiated in 2012 and finalised in 2018. It is currently impossible to assess a potential negative impact of this ongoing investigation on Gazprom Group's operation in Europe and on the financial position of Gazprom Group as a whole.

On 4 May 2018 PJSC Gazprom received a notice from Poland's antimonopoly authority on initiation of proceedings over alleged concentration exercised by PJSC Gazprom and foreign investors when implementing the Nord Stream 2 project (on the basis of "the establishment of a joint venture without obtaining the prior consent of the President of the Polish Office of Competition and Consumer Protection"). The notice states that in accordance with the Polish legislation the President of the Polish Office of Competition and Consumer Protection has the right to impose certain sanctions on companies that, in his opinion, exercise concentration without obtaining the consent of the Polish Office of Competition and Consumer Protection (in particular, to impose a fine of up to 10 % annual turnover of the company). On 15 June 2018 PJSC Gazprom filed its objections to the position declared by Poland's antimonopoly authority and a motion to terminate the antitrust investigation.

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

Sanctions

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

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

- 1) transacting in, providing financing for, or otherwise dealing with new debt of longer than 90 days maturity (from 28 November 2017 – 60 days maturity) or newly issued share capital, property or rights to property in respect of a number of energy companies, including PJSC Gazprom Neft;
- 2) transacting in, providing financing for, or otherwise dealing with new debt of longer than 30 days maturity (from 28 November 2017 – 14 days maturity) or newly issued share capital, property or rights to property in respect of a number of Russian companies of the banking sector, including Gazprombank (Joint-stock Company) (PJSC Gazprom is not on the list of restricted entities in this respect);

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23. COMMITMENTS AND CONTINGENCIES (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, inland or in territorial waters claimed by the Russian Federation with participation of Russian companies, including PJSC Gazprom and PJSC Gazprom Neft. Since 7 August 2015 restriction has included the Yuzhno-Kirinskoye field located in the Sea of Okhotsk. According to the changes of 31 October 2017 the scope of the stated restriction is extended for projects that meet three criteria at the same time:

- projects start after 29 January 2018;
- projects relate to oil production around the world;
- Russian companies included in the Sectoral Sanctions Identifications List, including PJSC Gazprom and PJSC Gazprom Neft and their subsidiaries, own a share of 33 % and more in such project or control the majority of voting rights.

On 2 August 2017 the U.S. President signed the Countering America's Adversaries Through Sanctions Act (the "Act of 2 August 2017"), which expanded the U.S. sanctions regime against the Russian Federation. The Act of 2 August 2017, inter alia, gives the U.S. President the right to impose certain sanctions in interaction (coordination) with the U.S. allies against any person who after the adoption of the Act of 2 August 2017 consciously made investments or sold goods, supplied technologies or provided services to the Russian Federation (for the amount exceeding USD 1 million, or during the year – totally exceeding USD 5 million) in the construction and maintenance of Russian energy export pipelines. The implementation of these sanctions can create risks for the development of new prospective gas transportation projects of PJSC Gazprom.

The Act of 2 August 2017 creates the risk of extraterritorial application of certain U.S. sanctions and may adversely affect the participation of foreigners in certain new projects of PJSC Gazprom. At the same time, the provisions of the Act of 2 August 2017 should be applied along with the explanations of the U.S. Department of the Treasury and the U.S. Department of State.

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

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

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

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

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

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

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

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23. COMMITMENTS AND CONTINGENCIES (continued)

These EU sanctions also apply to any entity if 50 percent or more in its capital is owned, directly or indirectly, by entities that are subject to sanctions.

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

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

Taxation

The Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. As of 31 December 2018 the relevant provisions of the legislation are interpreted correctly, and the position of the Group's, in terms of tax, currency and customs legislation, will be stable.

The Russian legislation on transfer pricing grants the right to a taxpayer justify the observance of the "outstretched hands" principles at prices in controlled transactions by generating documentation for tax control purposes.

The management of the Group believes that the Group sets market prices in its transactions and internal controls procedures were introduced to comply with tax legislative requirements on transfer pricing.

Currently the legal practice has not been established yet, consequences of the trials with tax authorities cannot be estimated reliably, however they can have significant impact on financial results and activities of the Group.

24. ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

The political and economic instability in Ukraine, the current situation with sanctions, uncertainty and volatility of financial and trade markets and other risks have had and may continue to have effect on the Russian economy. During 2018 the official Russian Ruble to US dollar and Euro foreign exchange rates fluctuated between 55.717 and 69.9744 Russian Rubles and 67.8841 and 81.3942 Russian Rubles per US dollar and Euro, respectively. In addition during 2018 the key interest rate determined by the Central Bank of the Russian Federation varied in range of 7.25% to 7.75% and actual inflation 4.3%.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government of the Russian Federation to sustain growth, and to change the tax, legal and regulatory frameworks. 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.

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25. OPERATING RISKS

Risk management of the Group is conducted within the framework of an unified corporate system and is defined as a continuous cycle of management decision making and implementation composed of risk identification, estimation and valuation, risk response, efficiency control, planning of risk management and monitoring activities. This process is integrated into general governance, focused on risk optimisation as consistent with the Group interests and spreads to all its activities.

The market position of the Group including trends of the corresponding market segment, adaptation to the market conditions, business priorities and perspectives as well as the Group's key business risk factors are disclosed on the website www.gazprom.com.

