

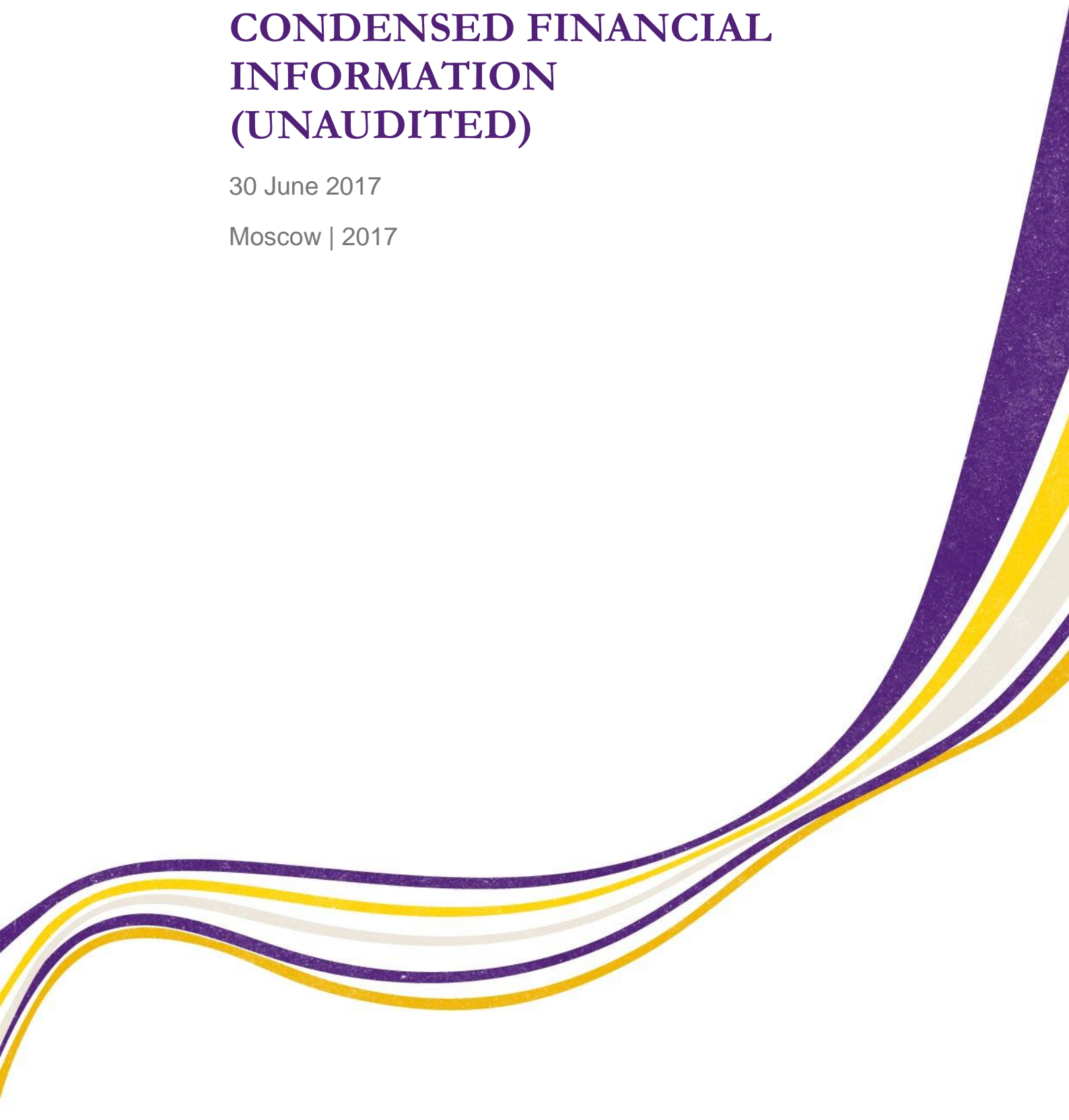
ФБК

PJSC GAZPROM

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

30 June 2017

Moscow | 2017



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Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and the Board of Directors of PJSC Gazprom

Introduction

We have reviewed the accompanying consolidated interim condensed balance sheet of PJSC Gazprom as of 30 June 2017 and the related consolidated interim condensed statements of comprehensive income for the three and six months ended 30 June 2017, the consolidated interim condensed statements of cash flows and changes in equity for the six months ended 30 June 2017 and notes to the consolidated interim condensed financial information. Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Accounting Standard 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

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

Conclusion

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

President of FBK, LLC



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

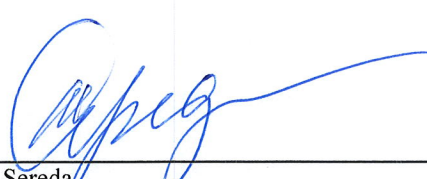
Engagement partner


K.S. Shirikova, ACCA
(Audit Qualification Certificate
01-000712, ORNZ 21606042126)

August 29, 2017
Moscow, Russian Federation

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED BALANCE SHEET (UNAUDITED)
AS OF 30 JUNE 2017
(in millions of Russian Rubles)

| Notes | 30 June 2017 | 31 December 2016 |
|-------------------------------------|-------------------|---------------------|
| Assets | | |
| Current assets | | |
| 6 | 779,999 | 896,728 |
| | 2,294 | 3,471 |
| 21 | 13,571 | 11,481 |
| 7 | 987,600 | 1,084,967 |
| 8 | 657,516 | 711,199 |
| | 119,793 | 195,033 |
| 12 | <u>778,929</u> | <u>331,467</u> |
| | 3,339,702 | 3,234,346 |
| Non-current assets | | |
| 9 | 11,795,518 | 11,502,747 |
| | 105,021 | 105,330 |
| 10 | 857,522 | 730,149 |
| 11 | 675,605 | 710,747 |
| 21 | 255,475 | 294,345 |
| 12 | <u>290,976</u> | <u>341,274</u> |
| | 13,980,117 | 13,684,592 |
| Total assets | 17,319,819 | 16,918,938 |
| Liabilities and equity | | |
| Current liabilities | | |
| | 1,138,563 | 1,197,005 |
| | 11,834 | 62,479 |
| | 229,003 | 215,244 |
| | <u>545,998</u> | <u>447,080</u> |
| | 1,925,398 | 1,921,808 |
| Non-current liabilities | | |
| 13 | 2,526,107 | 2,382,543 |
| 20 | 443,734 | 406,234 |
| 14 | 733,409 | 688,503 |
| | <u>65,867</u> | <u>78,011</u> |
| | 3,769,117 | 3,555,291 |
| Total liabilities | 5,694,515 | 5,477,099 |
| Equity | | |
| 15 | 325,194 | 325,194 |
| 15 | (235,919) | (235,919) |
| | <u>11,170,589</u> | <u>11,005,256</u> |
| | 11,259,864 | 11,094,531 |
| | <u>365,440</u> | <u>347,308</u> |
| Total equity | 11,625,304 | 11,441,839 |
| Total liabilities and equity | 17,319,819 | 16,918,938 |

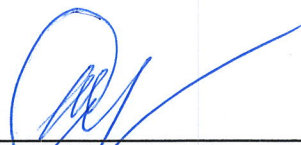

M.L. Sereda
Acting Chairman of the Management Committee
29 August 2017



L.V. Morozova
Acting Chief Accountant
29 August 2017

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

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2017
(in millions of Russian Rubles)

| Notes | Three months ended | | Six months ended | |
|-------|---|--------------------|--------------------|--------------------|
| | 30 June | | 30 June | |
| | 2017 | 2016 | 2017 | 2016 |
| 16 | 1,394,633 | 1,327,008 | 3,209,934 | 3,064,372 |
| | (6,124) | 11,021 | (20,327) | 29,529 |
| 17 | <u>(1,198,211)</u> | <u>(1,226,833)</u> | <u>(2,705,306)</u> | <u>(2,680,732)</u> |
| | 190,298 | 111,196 | 484,301 | 413,169 |
| 18 | 52,912 | 296,929 | 236,044 | 700,268 |
| 18 | (186,939) | (130,835) | (239,627) | (367,387) |
| 10 | 26,414 | 20,921 | 55,969 | 33,766 |
| | 4 | 666 | 50 | 1,021 |
| | 82,689 | 298,877 | 536,737 | 780,837 |
| | (16,082) | (34,271) | (83,162) | (105,785) |
| | <u>(8,940)</u> | <u>(12,542)</u> | <u>(45,521)</u> | <u>(49,647)</u> |
| | (25,022) | (46,813) | (128,683) | (155,432) |
| | 57,667 | 252,064 | 408,054 | 625,405 |
| | Other comprehensive income (loss): | | | |
| | Items that will not be reclassified to profit or loss: | | | |
| 20 | 22,334 | (47,844) | (14,236) | (78,625) |
| | 22,334 | (47,844) | (14,236) | (78,625) |
| | Items that may be reclassified subsequently to profit or loss: | | | |
| | (13,420) | 16,415 | (40,227) | 20,806 |
| | 1,678 | (961) | 2,125 | (4,518) |
| | 104,785 | (88,542) | 23,113 | (186,490) |
| | <u>(2,209)</u> | <u>12,760</u> | <u>(4,423)</u> | <u>39,535</u> |
| | 90,834 | (60,328) | (19,412) | (130,667) |
| | 113,168 | (108,172) | (33,648) | (209,292) |
| | 170,835 | 143,892 | 374,406 | 416,113 |
| | Profit for the period attributable to: | | | |
| | 47,893 | 244,851 | 381,346 | 607,160 |
| | <u>9,774</u> | <u>7,213</u> | <u>26,708</u> | <u>18,245</u> |
| | 57,667 | 252,064 | 408,054 | 625,405 |
| | Total comprehensive income for the period attributable to: | | | |
| | 151,861 | 140,355 | 343,027 | 405,536 |
| | <u>18,974</u> | <u>3,537</u> | <u>31,379</u> | <u>10,577</u> |
| | 170,835 | 143,892 | 374,406 | 416,113 |
| | Basic and diluted earnings per share for profit attributable to the owners of PJSC Gazprom (in Russian Rubles) | | | |
| 19 | 2.17 | 10.67 | 17.26 | 26.45 |

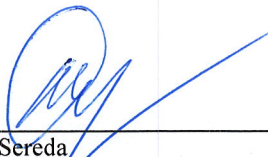

M.L. Sereda
Acting Chairman of the Management Committee
29 August 2017



L.V. Morozova
Acting Chief Accountant
29 August 2017

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PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2017
(in millions of Russian Rubles)

| Notes | Six months ended 30 June | |
|-------|---|------------------|
| | 2017 | 2016 |
| | Cash flows from operating activities | |
| | 536,737 | 780,837 |
| | Profit before profit tax | |
| | Adjustments to profit before profit tax for: | |
| 17 | 303,303 | 282,115 |
| | Depreciation | |
| 18 | 3,583 | (332,881) |
| | Net finance expense (income) | |
| 10 | (55,969) | (33,766) |
| | Share of net income of associates and joint ventures | |
| | 76,280 | 92,102 |
| | Charge for provisions | |
| 17 | (7,351) | 10,203 |
| | Derivatives (gain) loss | |
| | (50) | (1,021) |
| | Gain on disposal of available-for-sale financial assets | |
| | 929 | (27,821) |
| | Other | |
| | <u>320,725</u> | <u>(11,069)</u> |
| | Total effect of adjustments | |
| | 857,462 | 769,768 |
| | Cash flows from operating activities before working capital changes | |
| | (1,847) | (7,310) |
| | Increase in non-current assets | |
| | 19,972 | (20,297) |
| | Increase (decrease) in non-current liabilities | |
| | (251,449) | 272,200 |
| | Changes in working capital | |
| | <u>(177,561)</u> | <u>(82,769)</u> |
| | Profit tax paid | |
| | 446,577 | 931,592 |
| | Net cash from operating activities | |
| | Cash flows from investing activities | |
| | (651,508) | (723,518) |
| | Capital expenditures | |
| 18 | (56,922) | (66,362) |
| | Interest paid and capitalised | |
| | 3,185 | (15,290) |
| | Net change in loans issued | |
| | - | (738) |
| | Acquisition of subsidiaries, net of cash acquired | |
| | (84,366) | (1,101) |
| | Investments in associates and joint ventures | |
| | 31,356 | 86,171 |
| | Interest received | |
| | (296) | 4,843 |
| | Change in available-for-sale long-term financial assets | |
| | 17,640 | 21,326 |
| | Proceeds from associates and joint ventures | |
| | 476 | 22,527 |
| | Proceeds from sales of associates | |
| | - | (100,000) |
| | Placement of long-term bank deposits | |
| | - | 70 |
| | Repayment of long-term bank deposits | |
| | <u>(8,584)</u> | <u>(50,536)</u> |
| | Other | |
| | (749,019) | (822,608) |
| | Net cash used in investing activities | |
| | Cash flows from financing activities | |
| | 540,971 | 308,464 |
| | Proceeds from long-term borrowings | |
| | (340,643) | (338,857) |
| | Repayment of long-term borrowings (including current portion of long-term borrowings) | |
| | 58,700 | 60,983 |
| | Proceeds from short-term borrowings | |
| | (52,615) | (38,865) |
| | Repayment of short-term borrowings | |
| | (5,635) | (2,304) |
| | Dividends paid | |
| 18 | (22,744) | (31,965) |
| | Interest paid | |
| | (124) | (124) |
| | Acquisition of non-controlling interests in subsidiaries | |
| | - | 450 |
| | Issue of shares acquired non-controlling interest | |
| | <u>1,177</u> | <u>(1,913)</u> |
| | Change in restricted cash | |
| | 179,087 | (44,131) |
| | Net cash from (used in) financing activities | |
| | <u>6,626</u> | <u>(102,316)</u> |
| | Effect of foreign exchange rate changes on cash and cash equivalents | |
| | (116,729) | (37,463) |
| | Decrease in cash and cash equivalents | |
| 6 | <u>896,728</u> | <u>1,359,095</u> |
| | Cash and cash equivalents at the beginning of the period | |
| 6 | 779,999 | 1,321,632 |
| | Cash and cash equivalents at the end of the period | |


M.L. Sereda
Acting Chairman of the Management Committee
29 August 2017


L.V. Morozova
Acting Chief Accountant
29 August 2017

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PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2017
(in millions of Russian Rubles)

| Notes | Attributable to the owners of PJSC Gazprom | | | | | | |
|--------------------------------------|--|----------------|------------------|--------------------------------------|-------------------|--------------------------|-------------------|
| | Number of shares outstanding (billions) | Share capital | Treasury shares | Retained earnings and other reserves | Total | Non-controlling interest | Total equity |
| Six months ended 30 June 2016 | | | | | | | |
| | 23.0 | 325,194 | (103,919) | 10,368,311 | 10,589,586 | 325,036 | 10,914,622 |
| | | | | 607,160 | 607,160 | 18,245 | 625,405 |
| 20 | | | | (78,625) | (78,625) | - | (78,625) |
| | | | | 20,801 | 20,801 | 5 | 20,806 |
| | | | | (4,518) | (4,518) | - | (4,518) |
| | | | | (177,574) | (177,574) | (8,916) | (186,490) |
| | | | | 38,292 | 38,292 | 1,243 | 39,535 |
| | | | | 405,536 | 405,536 | 10,577 | 416,113 |
| | | | | - | - | 3,367 | 3,367 |
| | | | | (4) | (4) | - | (4) |
| | | | | (181,083) | (181,083) | (6,600) | (187,683) |
| | 23.0 | 325,194 | (103,919) | 10,592,760 | 10,814,035 | 332,380 | 11,146,415 |
| Six months ended 30 June 2017 | | | | | | | |
| | 22.1 | 325,194 | (235,919) | 11,005,256 | 11,094,531 | 347,308 | 11,441,839 |
| | | | | 381,346 | 381,346 | 26,708 | 408,054 |
| 20 | | | | (14,219) | (14,219) | (17) | (14,236) |
| | | | | (40,227) | (40,227) | - | (40,227) |
| | | | | 2,125 | 2,125 | - | 2,125 |
| | | | | 18,680 | 18,680 | 4,433 | 23,113 |
| | | | | (4,678) | (4,678) | 255 | (4,423) |
| | | | | 343,027 | 343,027 | 31,379 | 374,406 |
| | | | | (14) | (14) | - | (14) |
| | | | | (177,680) | (177,680) | (13,247) | (190,927) |
| | 22.1 | 325,194 | (235,919) | 11,170,589 | 11,259,864 | 365,440 | 11,625,304 |

M.L. Sereda
Acting Chairman of the Management Committee

29 August 2017

L.V. Morozova
Acting Chief Accountant

29 August 2017

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

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 2017
(in millions of Russian Rubles)

1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

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

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

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

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

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

- as of 30 June 2017 – 59.0855 (as of 30 June 2016 – 64.2575);
- as of 31 December 2016 – 60.6569 (as of 31 December 2015 – 72.8827).

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

- as of 30 June 2017 – 67.4993 (as of 30 June 2016 – 71.2102);
- as of 31 December 2016 – 63.8111 (as of 31 December 2015 – 79.6972).

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

3 BASIS OF PRESENTATION

This consolidated interim condensed financial information is prepared in accordance with IAS 34 Interim Financial Reporting. The consolidated interim condensed financial information should be read in

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 2017
(in millions of Russian Rubles)

3 BASIS OF PRESENTATION (continued)

conjunction with the consolidated financial statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards (“IFRS”).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The significant accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2016.

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

Application of amendments to IFRSs

A number of amendments to current IFRSs became effective for the periods beginning on or after 1 January 2017:

- The amendments to IAS 7 Cash Flow Statements (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The revised standard requires disclosing a reconciliation of movements for obligations arising from financing activities.
- The amendments to IAS 12 Income Taxes in the recognition of deferred tax assets for unrealised losses (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).

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

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

Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2018. In particular, the Group has not early adopted the standards and amendments:

- IFRS 9 Financial Instruments (issued in November 2009 and effective for annual periods beginning on or after 1 January 2018). IFRS 9 Financial Instruments replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification and measurement of financial assets. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Revenue from sales of any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognised as an asset and amortised over the period when the benefits of the contract are consumed.
- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. Earlier application of the standard is permitted simultaneously with earlier application of IFRS 15 Revenue from Contracts with Customers.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 2017
(in millions of Russian Rubles)

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

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018) provides requirements for recognising a non-monetary asset or a non-monetary obligation arising from a result of committing or receiving prepayment until the recognition of the related asset, income or expense.
- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.
- The amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IAS 40 Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property.

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

5 SEGMENT INFORMATION

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

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

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

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

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

The inter-segment sales mainly consist of:

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

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.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 2017
(in millions of Russian Rubles)

5 SEGMENT INFORMATION (continued)

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

| | Production of gas | Transportation | Distribution of gas | Gas storage | Production of crude oil and gas condensate | Refining | Electric and heat energy generation and sales | All other segments | Total |
|---|-------------------|----------------|---------------------|---------------|--|----------------|---|--------------------|------------------|
| Six months ended | | | | | | | | | |
| 30 June 2017 | | | | | | | | | |
| Total segment revenues | 466,756 | 525,596 | 1,790,122 | 29,113 | 570,975 | 785,387 | 263,155 | 171,349 | 4,602,453 |
| Inter-segment sales | 455,367 | 408,114 | 137,233 | 27,589 | 297,677 | 4,575 | - | - | 1,330,555 |
| External sales | 11,389 | 117,482 | 1,652,889 | 1,524 | 273,298 | 780,812 | 263,155 | 171,349 | 3,271,898 |
| Segment result | 38,406 | (2,354) | 159,318 | 5,135 | 119,184 | 13,032 | 41,650 | 3,042 | 377,413 |
| Depreciation | 94,063 | 262,127 | 8,532 | 14,294 | 57,979 | 27,801 | 24,483 | 20,845 | 510,124 |
| Share of net income of associates and joint ventures | 3,237 | 9,243 | 467 | 55 | 32,768 | 1,263 | 181 | 8,755 | 55,969 |
| Six months ended | | | | | | | | | |
| 30 June 2016 | | | | | | | | | |
| Total segment revenues | 358,832 | 494,631 | 1,864,252 | 25,151 | 448,853 | 708,179 | 236,292 | 142,209 | 4,278,399 |
| Inter-segment sales | 346,489 | 398,859 | 121,324 | 22,845 | 282,304 | 4,711 | - | - | 1,176,532 |
| External sales | 12,343 | 95,772 | 1,742,928 | 2,306 | 166,549 | 703,468 | 236,292 | 142,209 | 3,101,867 |
| Segment result | 10,345 | 28,976 | 174,440 | 3,373 | 12,127 | 12,154 | 28,532 | 2,531 | 272,478 |
| Depreciation | 85,521 | 227,564 | 9,446 | 11,866 | 56,918 | 15,950 | 22,505 | 18,339 | 448,109 |
| Share of net income of associates and joint ventures | 3,433 | 12,591 | 1,733 | 13 | 9,861 | 2,813 | 66 | 3,256 | 33,766 |
| | 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 |
| Three months ended | | | | | | | | | |
| 30 June 2017 | | | | | | | | | |
| Total segment revenues | 232,207 | 267,678 | 698,046 | 15,428 | 273,674 | 389,214 | 103,165 | 82,676 | 2,062,088 |
| Inter-segment sales | 226,794 | 208,783 | 47,201 | 14,547 | 139,213 | 2,065 | - | - | 638,603 |
| External sales | 5,413 | 58,895 | 650,845 | 881 | 134,461 | 387,149 | 103,165 | 82,676 | 1,423,485 |
| Segment result | 27,057 | 10,046 | 123,818 | 2,786 | 64,919 | 10,786 | 8,899 | (7,666) | 240,645 |
| Depreciation | 47,245 | 132,069 | 4,214 | 7,190 | 29,950 | 13,696 | 12,069 | 11,089 | 257,522 |
| Share of net income of associates and joint ventures | 1,634 | 4,353 | 1,216 | 15 | 13,165 | 734 | 113 | 5,184 | 26,414 |
| Three months ended | | | | | | | | | |
| 30 June 2016 | | | | | | | | | |
| Total segment revenues | 167,423 | 259,810 | 717,035 | 13,005 | 246,201 | 367,619 | 88,722 | 73,679 | 1,933,494 |
| Inter-segment sales | 161,809 | 211,634 | 40,232 | 11,984 | 155,181 | 2,091 | - | - | 582,931 |
| External sales | 5,614 | 48,176 | 676,803 | 1,021 | 91,020 | 365,528 | 88,722 | 73,679 | 1,350,563 |
| Segment result | 10,632 | 26,365 | 4,490 | 1,492 | 9,099 | 13,248 | 3,331 | (3,154) | 65,503 |
| Depreciation | 41,771 | 111,489 | 5,246 | 5,889 | 28,128 | 7,642 | 11,778 | 9,488 | 221,431 |
| Share of net income (loss) of associates and joint ventures | 1,750 | 5,389 | 40 | (184) | 12,153 | 1,505 | (48) | 316 | 20,921 |

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5 SEGMENT INFORMATION (continued)

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

| Notes | Three months ended 30 June | | Six months ended 30 June | |
|---|----------------------------|----------------|--------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| | 248,311 | 68,657 | 374,371 | 269,947 |
| Segment result for reportable segments | | | | |
| Other segments' result | (7,666) | (3,154) | 3,042 | 2,531 |
| Segment result | 240,645 | 65,503 | 377,413 | 272,478 |
| Difference in depreciation ¹ | 103,913 | 81,264 | 206,821 | 165,994 |
| Expenses associated with pension obligations | (4,038) | (5,116) | (6,895) | (9,103) |
| 18 Net finance (expense) income | (134,027) | 166,094 | (3,583) | 332,881 |
| Gain on disposal of available-for-sale financial assets | 4 | 666 | 50 | 1,021 |
| 10 Share of net income of associates and joint ventures | 26,414 | 20,921 | 55,969 | 33,766 |
| Other | (150,222) | (30,455) | (93,038) | (16,200) |
| Profit before profit tax | 82,689 | 298,877 | 536,737 | 780,837 |

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

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

| | Three months ended 30 June | | Six months ended 30 June | |
|---|----------------------------|------------------|--------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| External sales for reportable segments | 1,340,809 | 1,276,884 | 3,100,549 | 2,959,658 |
| External sales for other segments | 82,676 | 73,679 | 171,349 | 142,209 |
| Total external segment sales | 1,423,485 | 1,350,563 | 3,271,898 | 3,101,867 |
| Differences in external sales ¹ | (28,852) | (23,555) | (61,964) | (37,495) |
| Total sales per the consolidated interim condensed statement of comprehensive income | 1,394,633 | 1,327,008 | 3,209,934 | 3,064,372 |

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

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

| | Production of gas | Transportation | Distribution of gas | Gas storage | Production of crude oil and gas condensate | Refining | Electric and heat energy generation and sales | All other segments | Total |
|--|-------------------|----------------|---------------------|-------------|--|-----------|---|--------------------|------------|
| As of 30 June 2017 | | | | | | | | | |
| Segment assets | 2,502,120 | 6,456,602 | 1,378,906 | 383,864 | 2,460,994 | 1,467,385 | 887,922 | 1,026,069 | 16,563,862 |
| Investments in associates and joint ventures | 26,508 | 148,345 | 21,073 | 1,288 | 459,517 | 20,566 | 1,503 | 178,722 | 857,522 |
| Capital additions ¹ | 52,464 | 173,888 | 11,766 | 6,611 | 171,080 | 96,770 | 15,536 | 11,472 | 539,587 |
| As of 31 December 2016 | | | | | | | | | |
| Segment assets | 2,479,386 | 6,596,937 | 1,557,089 | 393,482 | 2,383,892 | 1,361,161 | 988,571 | 937,460 | 16,697,978 |
| Investments in associates and joint ventures | 28,007 | 131,006 | 29,701 | 155 | 427,432 | 22,353 | 1,258 | 90,237 | 730,149 |
| Capital additions ² | 231,530 | 406,828 | 41,785 | 35,542 | 316,823 | 193,243 | 63,485 | 54,926 | 1,344,162 |

¹ Capital additions for the six months ended 30 June 2017.

² Capital additions for the year ended 31 December 2016.

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5 SEGMENT INFORMATION (continued)

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

| Notes | 30 June 2017 | 31 December 2016 |
|--|-------------------------|-----------------------------|
| Segment assets for reportable segments | 15,537,793 | 15,760,518 |
| Other segments' assets | <u>1,026,069</u> | <u>937,460</u> |
| Total segment assets | 16,563,862 | 16,697,978 |
| Differences in property, plant and equipment, net ¹ | (2,142,973) | (2,361,075) |
| Loan interest capitalised | 662,038 | 623,101 |
| Decommissioning costs | 62,987 | 63,639 |
| 6 Cash and cash equivalents | 779,999 | 896,728 |
| Restricted cash | 2,294 | 3,471 |
| 21 Short-term financial assets | 13,571 | 11,481 |
| VAT recoverable | 119,793 | 195,033 |
| Other current assets | 778,929 | 331,467 |
| Goodwill | 105,021 | 105,330 |
| 21 Available-for-sale long-term financial assets | 255,475 | 294,345 |
| Other non-current assets | 290,976 | 341,274 |
| Inter-segment assets | (557,943) | (597,369) |
| Other | <u>385,790</u> | <u>313,535</u> |
| Total assets per the consolidated interim condensed balance sheet | 17,319,819 | 16,918,938 |

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

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

Segment liabilities are provided in the tables below.

| | 30 June 2017 | 31 December 2016 |
|---|-------------------------|-----------------------------|
| Distribution of gas | 573,532 | 608,767 |
| Refining | 272,925 | 337,711 |
| Transportation | 230,174 | 363,691 |
| Production of gas | 108,858 | 168,632 |
| Production of crude oil and gas condensate | 81,379 | 108,619 |
| Electric and heat energy generation and sales | 73,828 | 85,199 |
| Gas storage | 5,421 | 8,401 |
| All other segments | <u>196,193</u> | <u>131,731</u> |
| Total segment liabilities | 1,542,310 | 1,812,751 |

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

| Notes | 30 June 2017 | 31 December 2016 |
|---|-------------------------|-----------------------------|
| Segment liabilities for reportable segments | 1,346,117 | 1,681,020 |
| Other segments' liabilities | <u>196,193</u> | <u>131,731</u> |
| Total segment liabilities | 1,542,310 | 1,812,751 |
| Current profit tax payable | 11,834 | 62,479 |
| Short-term borrowings, promissory notes and current portion of long-term borrowings | 545,998 | 447,080 |
| 13 Long-term borrowings and promissory notes | 2,526,107 | 2,382,543 |
| 20 Long-term provisions for liabilities and charges | 443,734 | 406,234 |
| 14 Deferred tax liabilities | 733,409 | 688,503 |
| Other non-current liabilities | 65,867 | 78,011 |
| Dividends | 190,955 | 3,029 |
| Inter-segment liabilities | (557,943) | (597,369) |
| Other | <u>192,244</u> | <u>193,838</u> |
| Total liabilities per the consolidated interim condensed balance sheet | 5,694,515 | 5,477,099 |

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6 CASH AND CASH EQUIVALENTS

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

| | 30 June 2017 | 31 December 2016 |
|--|-------------------------|-----------------------------|
| Cash on hand and bank balances payable on demand | 613,619 | 793,169 |
| Term deposits with original maturity of three months or less | <u>166,380</u> | <u>103,559</u> |
| Total cash and cash equivalents | 779,999 | 896,728 |

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 30 June 2017 | 31 December 2016 |
|--|-------------------------|-----------------------------|
| Trade receivables | 554,802 | 731,566 |
| Short-term loans | 162,126 | 142,068 |
| Advances given and prepayments | 96,345 | 76,981 |
| Other receivables | <u>174,327</u> | <u>134,352</u> |
| Total accounts receivable and prepayments | 987,600 | 1,084,967 |

Accounts receivable and prepayments are presented net of impairment allowance of RUB 896,930 million and RUB 868,452 million as of 30 June 2017 and 31 December 2016, respectively.

Accounts receivable due from NJSC Naftogaz of Ukraine in relation to gas sales are RUB nil million as of 30 June 2017 and 31 December 2016 net of impairment allowance of RUB 201,004 million and RUB 188,307 million as of 30 June 2017 and 31 December 2016, respectively.

8 INVENTORIES

Inventories are presented net of allowance for obsolescence of RUB 3,900 million and RUB 4,201 million as of 30 June 2017 and 31 December 2016, respectively.

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9 PROPERTY, PLANT AND EQUIPMENT

| | Total operating assets (including production licenses) | Social assets | Assets under construction | Total |
|--|---|--------------------------|--------------------------------------|--------------------|
| As of 31 December 2015 | | | | |
| Cost | 13,319,873 | 96,323 | 2,516,619 | 15,932,815 |
| Accumulated depreciation | <u>(4,890,713)</u> | <u>(38,221)</u> | - | <u>(4,928,934)</u> |
| Net book value as of 31 December 2015 | 8,429,160 | 58,102 | 2,516,619 | 11,003,881 |
| Six months ended 30 June 2016 | | | | |
| Net book value as of 31 December 2015 | 8,429,160 | 58,102 | 2,516,619 | 11,003,881 |
| Depreciation | (276,402) | (903) | - | (277,305) |
| Additions | 25,200 | 340 | 527,672 | 553,212 |
| Translation differences | (79,544) | (53) | (22,792) | (102,389) |
| Transfers | 286,203 | 312 | (286,515) | - |
| Disposals | (13,532) | (1,105) | (21,516) | (36,153) |
| Release for impairment allowance | - | - | <u>126</u> | <u>126</u> |
| Net book value as of 30 June 2016 | 8,371,085 | 56,693 | 2,713,594 | 11,141,372 |
| Six months ended 31 December 2016 | | | | |
| Net book value as of 30 June 2016 | 8,371,085 | 56,693 | 2,713,594 | 11,141,372 |
| Depreciation | (291,845) | (1,711) | - | (293,556) |
| Additions | 85,859 | - | 820,817 | 906,676 |
| Translation differences | (45,476) | (48) | (29,557) | (75,081) |
| Transfers | 806,714 | 1,621 | (808,335) | - |
| Disposals | (39,092) | (2,161) | (55,922) | (97,175) |
| Change of impairment allowance | <u>(16,738)</u> | - | <u>(62,751)</u> | <u>(79,489)</u> |
| Net book value as of 31 December 2016 | 8,870,507 | 54,394 | 2,577,846 | 11,502,747 |
| As of 31 December 2016 | | | | |
| Cost | 14,329,467 | 95,229 | 2,577,846 | 17,002,542 |
| Accumulated depreciation | <u>(5,458,960)</u> | <u>(40,835)</u> | - | <u>(5,499,795)</u> |
| Net book value as of 31 December 2016 | 8,870,507 | 54,394 | 2,577,846 | 11,502,747 |
| Six months ended 30 June 2017 | | | | |
| Net book value as of 31 December 2016 | 8,870,507 | 54,394 | 2,577,846 | 11,502,747 |
| Depreciation | (298,650) | (1,252) | - | (299,902) |
| Additions | 22,265 | 52 | 565,310 | 587,627 |
| Translation differences | 6,810 | 21 | 17,191 | 24,022 |
| Transfers | 136,734 | 80 | (136,814) | - |
| Disposals | (9,044) | - | (4,775) | (13,819) |
| Change of impairment allowance | - | - | <u>(5,157)</u> | <u>(5,157)</u> |
| Net book value as of 30 June 2017 | 8,728,622 | 53,295 | 3,013,601 | 11,795,518 |
| As of 30 June 2017 | | | | |
| Cost | 14,486,232 | 95,382 | 3,013,601 | 17,595,215 |
| Accumulated depreciation | <u>(5,757,610)</u> | <u>(42,087)</u> | - | <u>(5,799,697)</u> |
| Net book value as of 30 June 2017 | 8,728,622 | 53,295 | 3,013,601 | 11,795,518 |

Operating assets are presented net of allowance for impairment of RUB 203,476 million as of 30 June 2017 and 31 December 2016.

Assets under construction are presented net of allowance for impairment of RUB 175,277 million and RUB 167,546 million as of 30 June 2017 and 31 December 2016, respectively. The change in impairment allowance of assets under construction is mainly attributable to impairment allowance charge for objects planned for liquidation and translation differences.

Included in property, plant and equipment are social assets (rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RUB 169 million and RUB 200 million as of 30 June 2017 and 31 December 2016, respectively.

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10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

| Notes | | | Carrying value as of | | Share of net income (loss) of associates and joint ventures for the six months ended 30 June | |
|--------|--|---------------|----------------------|---------------------|--|---------------|
| | | | 30 June 2017 | 31 December 2016 | 2017 | 2016 |
| 22 | Sakhalin Energy Investment Company Ltd. | Associate | 196,781 | 185,013 | 16,095 | (3,452) |
| 22, 23 | Gazprombank (Joint Stock Company) and its subsidiaries ¹ | Associate | 142,014 | 77,109 | 8,961 | 4,267 |
| 22 | OJSC NGK Slavneft and its subsidiaries | Joint venture | 131,646 | 129,082 | 2,526 | 6,810 |
| 22 | LLC Yamal razvitie and its subsidiaries | Joint venture | 94,362 | 86,600 | 7,762 | 6,382 |
| 22 | Nord Stream AG | Joint venture | 72,973 | 63,319 | 7,281 | 9,915 |
| 22 | WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries | Associate | 45,500 | 40,510 | 2,460 | 2,547 |
| 22 | JSC Achimgaz | Joint venture | 33,722 | 32,043 | 4,203 | 4,923 |
| 22, 23 | SGT EuRoPol GAZ S.A. | Associate | 28,488 | 26,387 | (558) | 134 |
| 22 | Wintershall AG | Associate | 15,009 | 14,233 | (1) | 123 |
| 22 | CJSC Northgas | Joint venture | 12,595 | 11,735 | 1,631 | 791 |
| 22 | KazRosGaz LLP | Joint venture | 10,866 | 14,470 | 193 | 1,093 |
| 22 | Wintershall Noordzee B.V. | Joint venture | 6,443 | 6,862 | (100) | (156) |
| 22 | JSC Latvijas Gaze ² | Associate | 4,746 | 6,588 | 303 | 811 |
| | Other (net of allowance for impairment of RUB 14,840 million and RUB 10,755 million as of 30 June 2017 and 31 December 2016, respectively) | | <u>62,377</u> | <u>36,198</u> | <u>5,213</u> | <u>(422)</u> |
| | | | 857,522 | 730,149 | 55,969 | 33,766 |

¹ 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 effective share of the Group in Gazprombank (Joint Stock Company) increased from 37 % to 48 %.

² The Extraordinary Meeting of Shareholders of JSC Latvijas Gaze, held on 2 September 2016, decided to reorganize the company by separation of natural gas transportation 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. As of 30 June 2017 the carrying value of investment in JSC Conexus Baltic Grid amounted at RUB 2,670 million and was included into other investments in associates.

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

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

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

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10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

| | Percent of share capital held | Country of primary operations | As of 30 June 2017 | | Six months ended 30 June 2017 | |
|---|-------------------------------|-------------------------------|--------------------|-------------|-------------------------------|---------------|
| | | | Assets | Liabilities | Revenues | Profit (loss) |
| Gazprombank (Joint Stock Company) and its subsidiaries ¹ | 48 % | Russia | 5,089,898 | 4,623,016 | 103,892 | 27,406 |
| Sakhalin Energy Investment Company Ltd. ² | 50 % | Russia | 976,939 | 583,376 | 153,702 | 32,190 |
| OJSC NGK Slavneft and its subsidiaries | 50 % | Russia | 466,230 | 198,280 | 111,410 | 5,445 |
| Nord Stream AG ³ | 51 % | Russia, Germany | 431,391 | 288,306 | 33,796 | 14,277 |
| LLC Yamal razvitie and its subsidiaries | 50 % | Russia | 398,693 | 235,664 | 67,892 | 16,568 |
| WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries | 50 % | Germany | 239,849 | 146,647 | 17,437 | 2,629 |
| JSC Achimgaz | 50 % | Russia | 79,373 | 11,930 | 14,747 | 8,860 |
| Wintershall AG ⁴ | 49 % | Libya | 71,344 | 49,105 | 4,609 | (2) |
| SGT EuRoPol GAZ S.A. | 48 % | Poland | 65,077 | 5,727 | 6,889 | (1,200) |
| CJSC Northgas | 50 % | Russia | 59,728 | 33,611 | 10,889 | 3,262 |
| Wintershall Noordzee B.V. | 50 % | Netherlands | 49,077 | 37,759 | 4,531 | (200) |
| KazRosGaz LLP | 50 % | Kazakhstan | 32,076 | 10,344 | 21,633 | 386 |
| JSC Latvijas Gaze | 34 % | Latvia | 22,343 | 5,341 | 11,111 | 885 |

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

² Country of incorporation is Bermuda Islands.

³ Country of incorporation is Switzerland.

⁴ Country of incorporation is Germany.

| | Percent of share capital held | Country of primary operations | As of 31 December 2016 | | Six months ended 30 June 2016 | |
|---|-------------------------------|-------------------------------|------------------------|-------------|-------------------------------|---------------|
| | | | Assets | Liabilities | Revenues | Profit (loss) |
| Gazprombank (Joint Stock Company) and its subsidiaries ¹ | 37 % | Russia | 4,757,703 | 4,384,725 | 99,877 | 11,482 |
| Sakhalin Energy Investment Company Ltd. ² | 50 % | Russia | 1,006,345 | 636,320 | 150,691 | 22,981 |
| OJSC NGK Slavneft and its subsidiaries | 50 % | Russia | 431,711 | 169,946 | 104,500 | 14,255 |
| Nord Stream AG ³ | 51 % | Russia, Germany | 416,875 | 292,719 | 42,571 | 17,453 |
| LLC Yamal razvitie and its subsidiaries | 50 % | Russia | 387,516 | 241,054 | 63,568 | 11,637 |
| WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries | 50 % | Germany | 227,154 | 143,680 | 20,683 | 5,319 |
| Wintershall AG ⁴ | 49 % | Libya | 72,134 | 50,551 | - | 251 |
| JSC Achimgaz | 50 % | Russia | 71,778 | 7,693 | 14,409 | 9,846 |
| SGT EuRoPol GAZ S.A. | 48 % | Poland | 62,485 | 7,513 | 10,566 | 549 |
| CJSC Northgas | 50 % | Russia | 56,543 | 32,136 | 12,932 | 1,582 |
| Wintershall Noordzee B.V. | 50 % | Netherlands | 49,008 | 38,088 | 5,844 | (301) |
| KazRosGaz LLP | 50 % | Kazakhstan | 46,158 | 17,220 | 24,003 | 2,184 |
| JSC Latvijas Gaze | 34 % | Latvia | 37,720 | 12,417 | 17,220 | 2,379 |

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

² Country of incorporation is Bermuda Islands.

³ Country of incorporation is Switzerland.

⁴ Country of incorporation is Germany.

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

| | 30 June 2017 | 31 December 2016 |
|-------------------|--------------|------------------|
| JSC Latvijas Gaze | 8,314 | 7,594 |

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11 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 30 June 2017 | 31 December 2016 |
|--|-------------------------|-----------------------------|
| Long-term accounts receivable and prepayments | 198,409 | 198,242 |
| Advances for assets under construction | <u>477,196</u> | <u>512,505</u> |
| Total long-term accounts receivable and prepayments | 675,605 | 710,747 |

Long-term accounts receivable, prepayments and advances for assets under construction are presented net of impairment allowance of RUB 16,076 million and RUB 16,481 million as of 30 June 2017 and 31 December 2016, respectively.

12 OTHER CURRENT AND NON-CURRENT ASSETS

Included within other current assets are prepaid taxes, predominantly VAT in the amount of RUB 172,036 million and RUB 97,869 million and profit tax in the amount of RUB 57,429 million and RUB 12,916 million as of 30 June 2017 and 31 December 2016, respectively. Other current assets include short-term deposits in the amount of RUB 503,453 million and RUB 144,035 million as of 30 June 2017 and 31 December 2016, respectively.

Included within other non-current assets are VAT recoverable related to assets under construction totalling RUB 37,530 million and RUB 35,702 million and long-term deposits in the amount of RUB 983 million and RUB 42,230 million as of 30 June 2017 and 31 December 2016, respectively. Other non-current assets include net pension assets in the amount of RUB 21,943 million and RUB 20,499 million as of 30 June 2017 and 31 December 2016, respectively (see Note 20).

13 LONG-TERM BORROWINGS, PROMISSORY NOTES

| | Currency | Final maturity | 30 June 2017 | 31 December 2016 |
|--|-----------------|---------------------------|-------------------------|-----------------------------|
| Long-term borrowings and promissory notes payable to: | | | | |
| Loan participation notes issued in April 2009 ¹ | US Dollar | 2019 | 135,265 | 138,863 |
| Bank of China Limited, London branch | Euro | 2021 | 134,139 | 126,414 |
| China Construction Bank Corporation, Beijing branch ² | US Dollar | 2020 | 90,236 | 92,627 |
| Loan participation notes issued in September 2012 ³ | US Dollar | 2022 | 89,716 | 92,102 |
| Loan participation notes issued in November 2013 ³ | US Dollar | 2023 | 89,115 | 91,485 |
| Loan participation notes issued in October 2007 ¹ | Euro | 2018 | 83,022 | 81,035 |
| Loan participation notes issued in March 2007 ¹ | US Dollar | 2022 | 78,395 | 80,480 |
| Loan participation notes issued in August 2007 ¹ | US Dollar | 2037 | 75,875 | 77,893 |
| Mizuho Bank Ltd. ² | US Dollar | 2019 | 72,652 | 93,228 |
| Loan participation notes issued in April 2004 ¹ | US Dollar | 2034 | 71,972 | 73,886 |
| Loan participation notes issued in October 2015 ¹ | Euro | 2018 | 69,706 | 64,434 |
| Loan participation notes issued in November 2016 ¹ | Euro | 2023 | 68,152 | 63,353 |
| Loan participation notes issued in March 2013 ¹ | Euro | 2020 | 68,145 | 65,512 |
| Loan participation notes issued in April 2008 ¹ | US Dollar | 2018 | 66,171 | 67,930 |
| | British Pound | | | |
| Loan participation notes issued in April 2017 ¹ | Sterling | 2024 | 66,076 | - |
| Loan participation notes issued in July 2013 ¹ | Euro | 2018 | 62,849 | 58,361 |
| Loan participation notes issued in July 2012 ¹ | US Dollar | 2022 | 60,402 | 62,008 |
| Loan participation notes issued in February 2013 ¹ | US Dollar | 2028 | 54,237 | 55,680 |
| J.P. Morgan Europe Limited ² | Euro | 2020 | 53,317 | - |
| Loan participation notes issued in February 2014 ¹ | Euro | 2021 | 51,249 | 49,317 |
| Loan participation notes issued in April 2013 ³ | Euro | 2018 | 50,888 | 48,817 |
| Loan participation notes issued in February 2013 ¹ | US Dollar | 2020 | 48,001 | 49,278 |
| Credit Agricole CIB | Euro | 2022 | 47,089 | - |
| PJSC Sberbank | US Dollar | 2018 | 44,905 | 46,099 |
| Loan participation notes issued in March 2017 ¹ | US Dollar | 2027 | 44,361 | - |
| PJSC Sberbank | Russian Ruble | 2022 | 42,626 | - |
| PJSC VTB Bank | Russian Ruble | 2022 | 42,283 | - |

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13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

| | Currency | Final maturity | 30 June 2017 | 31 December 2016 |
|--|---------------|----------------|--------------|------------------|
| | British Pound | | | |
| Loan participation notes issued in September 2013 ¹ | Sterling | 2020 | 40,823 | 38,593 |
| Loan participation notes issued in November 2011 ¹ | US Dollar | 2021 | 36,385 | 37,353 |
| Loan participation notes issued in March 2007 ¹ | Euro | 2017 | 34,962 | 32,191 |
| Loan participation notes issued in March 2013 ¹ | Euro | 2025 | 34,161 | 32,997 |
| Loan participation notes issued in November 2016 ¹ | Swiss Franc | 2021 | 31,666 | 29,492 |
| Loan participation notes issued in October 2013 ¹ | Swiss Franc | 2019 | 31,452 | 29,863 |
| Loan participation notes issued in March 2016 ¹ | Swiss Franc | 2018 | 31,252 | 29,513 |
| PJSC VTB Bank | Russian Ruble | 2021 | 29,800 | 29,800 |
| Alfa-Bank (Joint-stock Company) | US Dollar | 2019 | 23,642 | 24,271 |
| UniCredit Bank Austria AG | Euro | 2021 | 23,391 | 19,172 |
| Gazprombank (Joint Stock Company) | US Dollar | 2019 | 21,271 | 21,836 |
| VTB Bank Austria AG | Euro | 2027 | 20,263 | - |
| Gazprombank (Joint Stock Company) | US Dollar | 2019 | 19,498 | 20,017 |
| Gazprombank (Joint Stock Company) | US Dollar | 2019 | 18,317 | 18,804 |
| Bank of America Securities Limited | US Dollar | 2018 | 17,897 | 18,368 |
| Commerzbank International S.A. | US Dollar | 2018 | 17,726 | 24,265 |
| PJSC Sberbank | Euro | 2020 | 16,259 | 15,373 |
| Russian bonds issued in February 2017 ⁴ | Russian Ruble | 2024 | 15,494 | - |
| Russian bonds issued in February 2017 ⁴ | Russian Ruble | 2024 | 15,494 | - |
| Russian bonds issued in March 2016 ³ | Russian Ruble | 2046 | 15,419 | 15,344 |
| Russian bonds issued in April 2017 ³ | Russian Ruble | 2022 | 15,266 | - |
| PJSC Sberbank | Euro | 2017 | 15,219 | 14,388 |
| BNP Paribas S.A. ² | Euro | 2022 | 15,167 | 15,644 |
| Russian bonds issued in November 2013 ⁵ | Russian Ruble | 2043 | 15,078 | 15,111 |
| Russian bonds issued in November 2013 ⁵ | Russian Ruble | 2043 | 15,078 | 15,111 |
| Gazprombank (Joint Stock Company) | Russian Ruble | 2022 | 15,000 | 9,809 |
| PJSC VTB Bank | Russian Ruble | 2021 | 14,650 | 14,654 |
| Wintershall Nederland Transport and Trading B.V. | Euro | 2035 | 14,534 | - |
| OMV Gas Marketing Trading & Finance B.V. | Euro | 2035 | 14,534 | - |
| Shell Exploration and Production (LXXI) B.V. | Euro | 2035 | 14,534 | - |
| Engie Energy Management Holding | | | | |
| Switzerland AG | Euro | 2035 | 14,534 | - |
| Uniper Gas Transportation & Finance B.V. | Euro | 2035 | 14,534 | - |
| UniCredit Bank Austria AG | Euro | 2019 | 12,476 | 14,745 |
| Bank of America Securities Limited | Euro | 2017 | 12,207 | 11,541 |
| UniCredit Bank Austria AG | US Dollar | 2018 | 11,821 | 12,135 |
| PJSC Sberbank | Euro | 2022 | 11,464 | 7,713 |
| J.P. Morgan Europe Limited ² | US Dollar | 2018 | 11,080 | 18,962 |
| Gazprombank (Joint Stock Company) | Russian Ruble | 2019 | 11,000 | - |
| Russian bonds issued in February 2011 ³ | Russian Ruble | 2021 | 10,366 | 10,368 |
| Russian bonds issued in August 2016 ³ | Russian Ruble | 2046 | 10,314 | 10,317 |
| Russian bonds issued in March 2016 ³ | Russian Ruble | 2046 | 10,296 | 10,378 |
| Russian bonds issued in April 2009 ³ | Russian Ruble | 2019 | 10,180 | 10,182 |
| Russian bonds issued in December 2012 ³ | Russian Ruble | 2022 | 10,072 | 10,075 |
| Russian bonds issued in June 2016 ³ | Russian Ruble | 2046 | 10,059 | 10,062 |
| Gazprombank (Joint Stock Company) | Russian Ruble | 2018 | 10,000 | 10,000 |
| Citibank International plc ² | US Dollar | 2021 | 8,697 | 10,042 |
| Loan participation notes issued in July 2012 ¹ | Euro | 2017 | - | 92,019 |
| Loan participation notes issued in November 2006 ¹ | Euro | 2017 | - | 33,185 |
| PJSC Sberbank | Russian Ruble | 2017 | - | 19,802 |
| PJSC Sberbank | Russian Ruble | 2017 | - | 15,068 |
| PJSC Sberbank | Russian Ruble | 2017 | - | 15,067 |
| PJSC Sberbank | Russian Ruble | 2017 | - | 12,511 |

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13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

| | Currency | Final maturity | 30 June 2017 | 31 December 2016 |
|---|-----------------|-----------------------|---------------------|-------------------------|
| PJSC Sberbank | Russian Ruble | 2017 | - | 12,511 |
| Russian bonds issued in February 2013 ⁴ | Russian Ruble | 2017 | - | 10,279 |
| PJSC Sberbank | Russian Ruble | 2017 | - | 10,009 |
| Gazprombank (Joint Stock Company) | Russian Ruble | 2017 | - | 10,000 |
| Other long-term borrowings, promissory notes | Various | Various | <u>321,098</u> | <u>291,249</u> |
| Total long-term borrowings, promissory notes | | | 3,005,274 | 2,768,991 |
| Less: current portion of long-term borrowings | | | <u>(479,167)</u> | <u>(386,448)</u> |
| | | | 2,526,107 | 2,382,543 |

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

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

³ Issuer of these bonds is PJSC Gazprom Neft.

⁴ Issuer of these bonds is Gazprom capital LLC.

⁵ Issuer of these bonds is PJSC Gazprom.

The analysis of due for repayment of borrowings and promissory notes is provided in the table below.

| Due for repayment | 30 June 2017 | 31 December 2016 |
|----------------------------|---------------------|-------------------------|
| between one and two years | 692,072 | 708,355 |
| between two and five years | 990,038 | 956,731 |
| after five years | <u>843,997</u> | <u>717,457</u> |
| | 2,526,107 | 2,382,543 |

The amount of secured borrowings was RUB 60,000 million and RUB nil million as of 30 June 2017 and 31 December 2016, respectively.

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,226,862 million and RUB 2,086,181 million and fair value of RUB 2,429,938 million and RUB 2,209,883 million as of 30 June 2017 and 31 December 2016, respectively.

All other long-term borrowings have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 778,412 million and RUB 682,810 million and fair value is RUB 796,428 million and RUB 702,251 million as of 30 June 2017 and 31 December 2016, respectively.

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.

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

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

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

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

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

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14 PROFIT TAX

Profit tax is recognised based on the estimated average annual effective profit tax rate applied to the profit before tax for the six months ended 30 June 2017. Differences between the recognition criteria in IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the applicable statutory rates, including the prevailing rate of 20 % in the Russian Federation.

| | Differences recognition | | Differences recognition | | | |
|---|------------------------------------|--------------------------|------------------------------------|-------------------------|--------------------------|-----------------------------|
| | 30 June 2017 | and reversals | 31 December 2016 | 30 June 2016 | and reversals | 31 December 2015 |
| Tax effects of taxable temporary differences: | | | | | | |
| Property, plant and equipment | (798,126) | (47,753) | (750,373) | (724,535) | (38,465) | (686,070) |
| Inventories | <u>(7,930)</u> | <u>3,689</u> | <u>(11,619)</u> | <u>(12,213)</u> | <u>2,530</u> | <u>(14,743)</u> |
| | (806,056) | (44,064) | (761,992) | (736,748) | (35,935) | (700,813) |
| Tax effects of deductible temporary differences: | | | | | | |
| Financial assets | 2,281 | 345 | 1,936 | 1,028 | 651 | 377 |
| Tax losses carried forward | 7,044 | 1,385 | 5,659 | 11,230 | (7,126) | 18,356 |
| Retroactive gas price adjustments | 21,215 | (1,542) | 22,757 | 19,711 | (889) | 20,600 |
| Other deductible temporary differences | <u>42,107</u> | <u>(1,030)</u> | <u>43,137</u> | <u>36,100</u> | <u>(6,976)</u> | <u>43,076</u> |
| | <u>72,647</u> | <u>(842)</u> | <u>73,489</u> | <u>68,069</u> | <u>(14,340)</u> | <u>82,409</u> |
| Total net deferred tax liabilities | (733,409) | (44,906) | (688,503) | (668,679) | (50,275) | (618,404) |

Taxable temporary differences recognised for the six months ended 30 June 2017 and 2016 include the effect of depreciation premium on certain property, plant and equipment. A deferred tax liability related to property, plant and equipment was recognised in the amount of RUB 15,373 million and RUB 23,632 million with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the six months ended 30 June 2017 and 2016.

15 EQUITY

Share capital

Share capital authorised, issued and paid totals RUB 325,194 million as of 30 June 2017 and 31 December 2016 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Russian Rubles.

Treasury shares

As of 30 June 2017 and 31 December 2016 subsidiaries of PJSC Gazprom held 1,573 million ordinary shares of PJSC Gazprom, which are accounted for as treasury shares.

On 15 July 2016 the Group acquired from Vnesheconombank 211 million PJSC Gazprom's ordinary shares and American depository receipts representing 639 million PJSC Gazprom's ordinary shares for RUB 132,000 million.

In June 2017 the Group has pledged until 1 November 2018 American depository receipts as security of liabilities in the amount of 506 million PJSC Gazprom's ordinary shares.

Shares of PJSC Gazprom held by the subsidiaries represent 6.6 % of PJSC Gazprom shares as of 30 June 2017 and 31 December 2016.

The management of the Group controls the voting rights of these shares.

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16 SALES

| | Three months ended 30 June | | Six months ended 30 June | |
|---|-------------------------------|-------------------------|-----------------------------|-------------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Gas sales gross of excise tax and customs duties to customers in: | | | | |
| Russian Federation | 154,270 | 128,545 | 466,525 | 420,395 |
| Former Soviet Union (excluding Russian Federation) | 53,509 | 54,205 | 167,194 | 182,139 |
| Europe and other countries | <u>587,005</u> | <u>583,982</u> | <u>1,323,605</u> | <u>1,399,940</u> |
| | 794,784 | 766,732 | 1,957,324 | 2,002,474 |
| Customs duties | (121,116) | (115,679) | (262,951) | (266,707) |
| Excise tax | (10,355) | (7,727) | (22,791) | (20,480) |
| Retroactive gas price adjustments ¹ | <u>(7,055)</u> | <u>39,091</u> | <u>(7,304)</u> | <u>39,984</u> |
| Total gas sales | 656,258 | 682,417 | 1,664,278 | 1,755,271 |
| Sales of refined products to customers in: | | | | |
| Russian Federation | 271,151 | 234,842 | 510,899 | 449,923 |
| Former Soviet Union (excluding Russian Federation) | 21,277 | 21,559 | 42,460 | 42,162 |
| Europe and other countries | <u>94,721</u> | <u>109,127</u> | <u>227,453</u> | <u>211,383</u> |
| Total sales of refined products | 387,149 | 365,528 | 780,812 | 703,468 |
| Sales of crude oil and gas condensate to customers in: | | | | |
| Russian Federation | 18,344 | 18,079 | 41,457 | 35,980 |
| Former Soviet Union (excluding Russian Federation) | 7,099 | 9,031 | 14,255 | 14,131 |
| Europe and other countries | <u>109,018</u> | <u>63,910</u> | <u>217,586</u> | <u>116,438</u> |
| Total sales of crude oil and gas condensate | 134,461 | 91,020 | 273,298 | 166,549 |
| Electric and heat energy sales | 103,165 | 88,722 | 263,155 | 236,292 |
| Gas transportation sales | 58,895 | 48,176 | 117,482 | 95,772 |
| Other revenues | <u>54,705</u> | <u>51,145</u> | <u>110,909</u> | <u>107,020</u> |
| Total sales | <u>1,394,633</u> | <u>1,327,008</u> | <u>3,209,934</u> | <u>3,064,372</u> |

¹ Retroactive gas price adjustments relate to gas deliveries in 2013-2016 for which a discount has been agreed or is in the process of negotiations. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made. The effects of retroactive gas price adjustments on sales for the three and six months ended 30 June 2017 recorded as a decrease of sales by RUB 7,055 million and RUB 7,304 million, respectively. These effects are due to change in related accruals following agreements reached prior to the issuance of the respective consolidated interim condensed financial information. The effects of retroactive gas price adjustments on sales for the three and six months ended 30 June 2016 as an increase of sales by RUB 39,091 million and RUB 39,984 million, respectively, due to recognition of adjustments increasing gas prices for the past periods and due to reverse of related accruals following agreements reached prior to the issuance of the respective consolidated interim condensed financial information.

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17 OPERATING EXPENSES

| | Three months ended 30 June | | Six months ended 30 June | |
|--|-------------------------------|------------------|-----------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Taxes other than on income | 271,152 | 211,835 | 566,177 | 429,493 |
| Purchased gas and oil | 248,695 | 281,318 | 565,600 | 627,258 |
| Staff costs | 171,393 | 163,791 | 341,074 | 333,876 |
| Depreciation | 153,609 | 140,167 | 303,303 | 282,115 |
| Transit of gas, oil and refined products | 140,818 | 137,880 | 287,831 | 303,790 |
| Materials | 64,918 | 69,846 | 124,513 | 129,477 |
| Cost of goods for resale, including refined products | 55,835 | 44,674 | 112,839 | 76,089 |
| Repairs and maintenance | 35,776 | 42,317 | 59,183 | 61,828 |
| Charge for impairment and other provisions | 18,834 | 15,275 | 54,204 | 63,424 |
| Electricity and heating expenses | 22,954 | 21,375 | 53,084 | 44,954 |
| Rental expenses | 10,218 | 9,142 | 20,880 | 18,023 |
| Transportation services | 7,930 | 8,620 | 15,736 | 15,808 |
| Social expenses | 8,620 | 7,972 | 15,220 | 14,418 |
| Insurance expenses | 7,167 | 7,443 | 14,532 | 14,699 |
| Processing services | 3,895 | 3,496 | 7,451 | 7,821 |
| Research and development expenses | 109 | 5,801 | 6,207 | 13,076 |
| Foreign exchange rate differences on operating items | (9,647) | 20,664 | (8,760) | 63,319 |
| Derivatives loss (gain) | 2,670 | 17,978 | (7,351) | 10,203 |
| Other | 68,287 | 87,433 | 177,882 | 150,307 |
| | 1,283,233 | 1,297,027 | 2,709,605 | 2,659,978 |
| Changes in inventories of finished goods, work in progress and other effects | (85,022) | (70,194) | (4,299) | 20,754 |
| Total operating expenses | 1,198,211 | 1,226,833 | 2,705,306 | 2,680,732 |

Staff costs include RUB 11,039 million and RUB 22,076 million of expenses associated with post-employment benefit obligations for the three and six months ended 30 June 2017, respectively, and RUB 11,269 million and RUB 22,480 million of expenses associated with post-employment benefit obligations for the three and six months ended 30 June 2016, respectively (see Note 20).

18 FINANCE INCOME AND EXPENSES

| | Three months ended 30 June | | Six months ended 30 June | |
|------------------------------|-------------------------------|----------------|-----------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Foreign exchange gain | 30,595 | 268,073 | 191,381 | 645,632 |
| Interest income | 22,317 | 28,856 | 44,663 | 54,636 |
| Total finance income | 52,912 | 296,929 | 236,044 | 700,268 |
| Foreign exchange loss | 171,103 | 116,086 | 208,684 | 331,278 |
| Interest expense | 15,836 | 14,749 | 30,943 | 36,109 |
| Total finance expense | 186,939 | 130,835 | 239,627 | 367,387 |

Total interest paid amounted to RUB 31,812 million and RUB 79,666 million for the three and six months ended 30 June 2017, respectively, and RUB 41,065 million and RUB 98,327 million for the three and six months ended 30 June 2016, respectively.

Foreign exchange gain and loss for the six months ended 30 June 2017 and 2016 were recognised as a result of the changes of Euro and US Dollar exchange rates against the Russian Rouble. Gain and loss primarily relate to revaluation of borrowings denominated in foreign currencies.

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

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

There were 22.1 billion weighted average shares outstanding for the three and six months ended 30 June 2017 and 23.0 billion – for the three and six months ended 30 June 2016, respectively.

There are no dilutive financial instruments outstanding in the Group.

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20 PROVISIONS FOR LIABILITIES AND CHARGES

| | 30 June 2017 | 31 December 2016 |
|--|-------------------------|-----------------------------|
| Provision for post-employment benefit obligations | 261,617 | 236,852 |
| Provision for decommissioning and site restoration costs | 169,288 | 161,764 |
| Other | <u>12,829</u> | <u>7,618</u> |
| Total provisions for liabilities and charges | 443,734 | 406,234 |

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

The net pension assets related to benefits, provided by NPF GAZFOND, in the amount of RUB 21,943 million and RUB 20,499 million as of 30 June 2017 and 31 December 2016, respectively, are presented within other non-current assets in the consolidated interim condensed balance sheet.

In accordance with IAS 19 Employee benefits, pension assets are recorded at estimated fair value subject to certain limitations. As of 30 June 2017 and 31 December 2016 management estimated the fair value of these assets at RUB 430,162 million and RUB 393,344 million, respectively. The pension assets comprise shares of PJSC Gazprom, shares of Gazprombank (Joint Stock Company) and other assets held by NPF GAZFOND.

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

| | 30 June 2017 | | 31 December 2016 | |
|--------------------------------------|---|--|---|--|
| | Funded benefits - provided through NPF GAZFOND | Unfunded liabilities - other benefits | Funded benefits - provided through NPF GAZFOND | Unfunded liabilities - other benefits |
| Present value of benefit obligations | (408,219) | (261,617) | (372,845) | (236,852) |
| Fair value of plan assets | <u>430,162</u> | <u>-</u> | <u>393,344</u> | <u>-</u> |
| Net balance asset (liability) | 21,943 | (261,617) | 20,499 | (236,852) |

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

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---------------------------------------|---------------|-------------------------------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| Current service cost | 6,441 | 5,722 | 12,882 | 11,444 |
| Net interest expense | <u>4,598</u> | <u>5,547</u> | <u>9,194</u> | <u>11,036</u> |
| Total expenses included in staff costs | 11,039 | 11,269 | 22,076 | 22,480 |

The principal assumptions used for post-employment benefit obligations for the six months ended 30 June 2017 were the same as those applied for the year ended 31 December 2016 with exception of the discount rate based on the interest rates of government securities. The decrease in the discount rate from 8.5 % to 8.0 % resulted in recognition of an actuarial loss of RUB 31,677 million in other comprehensive income for the six months ended 30 June 2017.

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

| | Three months ended 30 June | | Six months ended 30 June | |
|--|---------------------------------------|-----------------|-------------------------------------|-----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Actuarial losses | (6,991) | (50,343) | (31,677) | (74,579) |
| Return on assets excluding amounts included in net interest income (expense) | 29,693 | 2,289 | 17,648 | (4,378) |
| Translation differences | <u>(368)</u> | <u>210</u> | <u>(207)</u> | <u>332</u> |
| Total | 22,334 | (47,844) | (14,236) | (78,625) |

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21 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

a) Financial instruments in Level 1

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

b) Financial instruments in Level 2

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

c) Financial instruments in Level 3

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

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

As of 30 June 2017 and 31 December 2016 the Group had the following assets and liabilities that are measured at fair value:

| | 30 June 2017 | | | Total |
|--|---|---|---|----------------|
| | Quoted price in an active market (Level 1) | Valuation technique with inputs observable in markets (Level 2) | Valuation technique with significant non- observable inputs (Level 3) | |
| Financial assets held for trading: | | | | |
| Bonds | 13,024 | - | - | 13,024 |
| Equity securities | 447 | - | - | 447 |
| Available-for-sale financial assets: | | | | |
| Promissory notes | - | 100 | - | 100 |
| Total short-term financial assets | 13,471 | 100 | - | 13,571 |
| Available-for-sale financial assets: | | | | |
| Equity securities | 205,807 | 40,584 | 8,767 | 255,158 |
| Promissory notes | - | 317 | - | 317 |
| Total available-for-sale long-term financial assets | 205,807 | 40,901 | 8,767 | 255,475 |
| Derivatives | 9,976 | 43,283 | 520 | 53,779 |
| Total assets | 229,254 | 84,284 | 9,287 | 322,825 |
| Derivatives | 6,138 | 91,828 | 2,150 | 100,116 |
| Total liabilities | 6,138 | 91,828 | 2,150 | 100,116 |

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21 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

| | 31 December 2016 | | | Total |
|--|---|---|---|----------------|
| | Quoted price in an active market (Level 1) | Valuation technique with inputs observable in markets (Level 2) | Valuation technique with significant non- observable inputs (Level 3) | |
| Financial assets held for trading: | | | | |
| Bonds | 10,976 | - | - | 10,976 |
| Equity securities | 387 | - | - | 387 |
| Available-for-sale financial assets: | | | | |
| Promissory notes | - | 118 | - | 118 |
| Total short-term financial assets | 11,363 | 118 | - | 11,481 |
| Available-for-sale financial assets: | | | | |
| Equity securities | 246,866 | 40,584 | 6,584 | 294,034 |
| Promissory notes | - | 311 | - | 311 |
| Total available-for-sale long-term financial assets | 246,866 | 40,895 | 6,584 | 294,345 |
| Derivatives | 16,931 | 81,110 | 3,545 | 101,586 |
| Total assets | 275,160 | 122,123 | 10,129 | 407,412 |
| Derivatives | 11,922 | 135,648 | 2,819 | 150,389 |
| Total liabilities | 11,922 | 135,648 | 2,819 | 150,389 |

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the period. For the three and six months ended 30 June 2017 and 2016 the Group has not reclassified losses arising from decrease in fair value of available-for-sale financial assets from other comprehensive income to profit or loss.

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

Available-for-sale long-term financial assets in the total amount of RUB 255,475 million and RUB 294,345 million are shown net of allowance for impairment of RUB 1,451 million and RUB 1,275 million as of 30 June 2017 and 31 December 2016, respectively.

As of 30 June 2017 and 31 December 2016 long-term available-for-sale financial assets include PJSC NOVATEK shares in the amount of RUB 199,654 million and RUB 238,817 million, respectively.

Carrying value of financial assets and liabilities not measured at fair value are reflected in the balance sheet of the Group in the amount significantly not different from their fair value.

22 RELATED PARTIES

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

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

Government (the Russian Federation)

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

As of 30 June 2017 38.373 % of PJSC Gazprom's issued shares are directly owned by the Government. Another 11.859 % of PJSC Gazprom's issued shares are owned JSC Rosneftegaz and JSC Rosgazifikatsiya controlled by the Government.

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

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22 RELATED PARTIES (continued)

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

Parties under control of the Government

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

As of 30 June 2017 prices of natural gas sales, gas transportation and electricity tariffs in the Russian Federation are regulated by the Federal Antimonopoly Service (“FAS”).

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

As of 30 June 2017 and 31 December 2016 and for the three and six months ended 30 June 2017 and 2016, the Group had the following significant transactions and balances with the Government and parties under control of the Government.

| | As of 30 June 2017 | | Three months ended 30 June 2017 | | Six months ended 30 June 2017 | |
|---|---------------------------|-------------|------------------------------------|----------|----------------------------------|----------|
| | Assets | Liabilities | Income | Expenses | Income | Expenses |
| Transactions and balances with the Government | | | | | | |
| Current profit tax | 56,541 | 3,028 | - | 12,076 | - | 74,997 |
| Insurance contributions | 578 | 10,393 | - | 26,335 | - | 58,216 |
| VAT recoverable / payable | 323,145 | 82,963 | - | - | - | - |
| Customs duties | 24,661 | - | - | - | - | - |
| Other taxes | 1,914 | 117,606 | - | 253,615 | - | 533,974 |
| Transactions and balances with other parties under control of the Government | | | | | | |
| Gas sales | - | - | 18,910 | - | 57,770 | - |
| Electricity and heating sales | - | - | 44,696 | - | 122,032 | - |
| Gas transportation sales | - | - | 12,230 | - | 24,291 | - |
| Other services sales | - | - | 788 | - | 1,736 | - |
| Accounts receivable | 59,657 | - | - | - | - | - |
| Oil and refined products transportation expenses | - | - | - | 31,057 | - | 65,876 |
| Accounts payable | - | 14,594 | - | - | - | - |
| Loans and borrowings | - | 360,977 | - | - | - | - |
| Interest expense | - | - | - | 4,509 | - | 9,698 |
| Short-term financial assets | 10,397 | - | - | - | - | - |
| Available-for-sale long-term financial assets | 6,189 | - | - | - | - | - |
| <hr/> | | | | | | |
| | As of 31 December 2016 | | Three months ended 30 June 2016 | | Six months ended 30 June 2016 | |
| | Assets | Liabilities | Income | Expenses | Income | Expenses |
| Transactions and balances with the Government | | | | | | |
| Current profit tax | 11,608 | 56,695 | - | 33,964 | - | 99,253 |
| Insurance contributions | 720 | 7,795 | - | 27,289 | - | 57,457 |
| VAT recoverable / payable | 322,643 | 72,557 | - | - | - | - |
| Customs duties | 16,183 | - | - | - | - | - |
| Other taxes | 2,457 | 116,769 | - | 209,636 | - | 425,941 |
| Transactions and balances with other parties under control of the Government | | | | | | |
| Gas sales | - | - | 12,861 | - | 40,805 | - |
| Electricity and heating sales | - | - | 37,097 | - | 108,404 | - |
| Gas transportation sales | - | - | 10,712 | - | 22,433 | - |
| Other services sales | - | - | 721 | - | 1,449 | - |
| Accounts receivable | 49,091 | - | - | - | - | - |
| Oil and refined products transportation expenses | - | - | - | 25,565 | - | 57,427 |
| Accounts payable | - | 13,800 | - | - | - | - |
| Loans and borrowings | - | 345,604 | - | - | - | - |
| Interest expense | - | - | - | 2,466 | - | 8,613 |
| Short-term financial assets | 10,136 | - | - | - | - | - |
| Available-for-sale long-term financial assets | 8,087 | - | - | - | - | - |

22 RELATED PARTIES (continued)

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

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

See the consolidated interim condensed statement of changes in equity for returns of social assets to governmental authorities during the six months ended 30 June 2017 and 2016.

See Note 9 for net book values as of 30 June 2017 and 31 December 2016 of social assets vested to the Group at privatisation.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies. Directors, who are government officials, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company.

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

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

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

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

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

Associates and joint ventures

For the three and six months ended 30 June 2017 and 2016 and as of 30 June 2017 and 31 December 2016 the Group had the following significant transactions and balances with associates and joint ventures.

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22 RELATED PARTIES (continued)

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---------------------------------------|-------------|-------------------------------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| | Revenues | | Revenues | |
| Gas sales | | | | |
| Panrusgaz Gas Trading Plc | 10,990 | 9,075 | 22,156 | 18,253 |
| Bosphorus Gaz Corporation A.S. | 2,748 | 1,075 | 9,190 | 8,554 |
| CJSC Gazprom YRGM Trading ¹ | 4,323 | 1,722 | 9,004 | 3,632 |
| JSV Moldovagaz | 2,214 | 3,821 | 8,384 | 14,502 |
| JSC Latvijas Gaze | 3,162 | 1,830 | 7,135 | 4,133 |
| JSC Gazprom YRGM Development ¹ | 3,087 | 1,552 | 6,431 | 3,274 |
| KazRosGas LLP | 433 | 1,137 | 6,364 | 6,149 |
| VEMEX s.r.o. and its subsidiaries | 1,992 | 3,687 | 4,809 | 9,370 |
| Prometheus Gas S.A. | 1,727 | - | 3,475 | - |
| SGT EuRoPol GAZ S.A. | 596 | 1,143 | 1,187 | 2,390 |
| PremiumGas S.p.A | - | 1,731 | 677 | 2,634 |
| Gas transportation sales | | | | |
| CJSC Gazprom YRGM Trading ¹ | 6,187 | 2,747 | 12,886 | 5,794 |
| JSC Gazprom YRGM Development ¹ | 4,419 | 2,476 | 9,204 | 5,222 |
| KazRosGas LLP | 589 | 593 | 1,244 | 1,395 |
| Gas condensate, crude oil and refined products sales | | | | |
| OJSC NGK Slavneft and its subsidiaries | 9,332 | 12,314 | 20,690 | 21,500 |
| CJSC SOVEX | 1,201 | 789 | 2,404 | 1,379 |
| LLC Poliom | 686 | 252 | 1,538 | 770 |
| Sakhalin Energy Investment Company Ltd. | 515 | 332 | 1,376 | 1,260 |
| LLC NPP Neftekhimia | 573 | 411 | 1,146 | 1,149 |
| Operator services sales and other services sales | | | | |
| JSC Messoyakhaneftegaz | 1,185 | 1,120 | 2,616 | 2,821 |
| Gas refining services sales | | | | |
| KazRosGas LLP | 1,997 | 1,837 | 4,222 | 4,098 |

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22 RELATED PARTIES (continued)

| | Three months ended 30 June | | Six months ended 30 June | |
|--|---------------------------------------|-------------|-------------------------------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| | Expenses | | Expenses | |
| Purchased gas | | | | |
| CJSC Gazprom YRGM Trading ¹ | 13,200 | 5,666 | 27,537 | 12,883 |
| LLC SeverEnergiya and its subsidiaries | 12,816 | 13,567 | 21,144 | 25,679 |
| JSC Gazprom YRGM Development ¹ | 9,437 | 5,120 | 19,709 | 11,631 |
| KazRosGas LLP | 8,776 | 8,560 | 14,553 | 16,516 |
| Sakhalin Energy Investment Company Ltd. | 2,328 | 2,520 | 4,339 | 4,868 |
| CJSC Northgas | 1,205 | 2,163 | 1,205 | 4,383 |
| VEMEX s.r.o. and its subsidiaries | 156 | 377 | 214 | 2,676 |
| Purchased transit of gas | | | | |
| Nord Stream AG | 17,267 | 19,653 | 33,978 | 41,416 |
| WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries | 6,405 | 7,990 | 13,648 | 16,024 |
| SGT EuRoPol GAZ S.A. | 2,821 | 3,845 | 5,464 | 8,130 |
| JSV Moldovagaz | 781 | 797 | 1,804 | 1,818 |
| Purchased crude oil and refined products | | | | |
| OJSC NGK Slavneft and its subsidiaries | 23,411 | 25,309 | 49,406 | 44,136 |
| Sakhalin Energy Investment Company Ltd. | 4,163 | 6,178 | 6,587 | 8,431 |
| Purchased services of gas and gas condensate extraction | | | | |
| JSC Achimgaz | 7,924 | 5,121 | 14,747 | 14,409 |
| Purchased processing services | | | | |
| OJSC NGK Slavneft and its subsidiaries | 3,302 | 2,957 | 6,362 | 6,331 |

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

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

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22 **RELATED PARTIES (continued)**

| | As of 30 June 2017 | | As of 31 December 2016 | |
|--|--------------------|-------------|------------------------|-------------|
| | Assets | Liabilities | Assets | Liabilities |
| Short-term accounts receivable and prepayments | | | | |
| Gazprombank (Joint Stock Company) | 86,778 | - | 14,306 | - |
| JSC Messoyakhaneftegaz | 41,998 | - | 40,530 | - |
| OJSC NGK Slavneft and its subsidiaries | 9,469 | - | 8,286 | - |
| Wintershall Noordzee B.V. | 5,791 | - | 5,811 | - |
| Panrusgas Gas Trading Plc | 5,040 | - | 3,175 | - |
| Sakhalin Energy Investment Company Ltd. | 4,033 | - | 2,733 | - |
| CJSC Gazprom YRGM Trading | 3,895 | - | 1,167 | - |
| Wintershall AG | 1,626 | - | 2,125 | - |
| JSC Gazprom YRGM Development | 1,541 | - | 1,052 | - |
| Bosphorus Gaz Corporation A.S. | 1,380 | - | - | - |
| JSC Achimgaz | 1,308 | - | 30 | - |
| KazRosGas LLP | 1,019 | - | 3,287 | - |
| VEMEX s.r.o. and its subsidiaries | 964 | - | 1,518 | - |
| Cash balances | | | | |
| Gazprombank (Joint Stock Company) | 214,176 | - | 518,084 | - |
| Other current assets | | | | |
| Gazprombank (Joint Stock Company) | 470,500 | - | 100,015 | - |
| OJSC Belgazprombank | 8,778 | - | 968 | - |
| Other non-current assets | | | | |
| Gazprombank (Joint Stock Company) | 1 | - | 42,230 | - |
| Long-term accounts receivable and prepayments | | | | |
| JSC Messoyakhaneftegaz | 20,090 | - | 18,962 | - |
| WIGA Transport Beteiligungs-GmbH & Co. KG and its Subsidiaries | 13,494 | - | 12,757 | - |
| LLC Yamal razvitie | 13,042 | - | 15,722 | - |
| OJSC Belgazprombank | 4,957 | - | 4,957 | - |
| Short-term accounts payable | | | | |
| OJSC NGK Slavneft and its subsidiaries | - | 14,043 | - | 4,094 |
| Nord Stream AG | - | 6,055 | - | 5,723 |
| LLC SeverEnergia and its subsidiaries | - | 5,277 | - | 3,436 |
| CJSC Gazprom YRGM Trading | - | 5,075 | - | 4,490 |
| JSC Achimgaz | - | 4,961 | - | 3,025 |
| JSC Gazprom YRGM Development | - | 4,838 | - | 3,682 |
| KazRosGas LLP | - | 3,310 | - | 4,186 |
| Sakhalin Energy Investment Company Ltd. | - | 2,831 | - | 2,948 |
| WIGA Transport Beteiligungs-GmbH & Co. KG and its Subsidiaries | - | 1,127 | - | 124 |
| SGT EuRoPol GAZ S.A. | - | 971 | - | 2,100 |
| JSC Messoyakhaneftegaz | - | 204 | - | 3,694 |
| Short-term borrowings (including current portion of long-term borrowings) | | | | |
| Gazprombank (Joint Stock Company) | - | 8,328 | - | 31,797 |
| Long-term borrowings | | | | |
| Gazprombank (Joint Stock Company) | - | 159,587 | - | 88,850 |

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22 RELATED PARTIES (continued)

Accounts receivable due from Bosphorus Gaz Corporation A.S. are RUB 1,380 million and RUB nil million as of 30 June 2017 and 31 December 2016, respectively, net of impairment allowance of RUB 5,805 million and RUB 7,802 million as of 30 June 2017 and 31 December 2016, respectively.

Accounts receivable for gas due from Overgas Inc. AD are RUB nil million as of 30 June 2017 and 31 December 2016 net of impairment allowance of RUB 6,215 million and RUB 6,380 million as of 30 June 2017 and 31 December 2016, respectively.

Accounts receivable for gas due from JSV Moldovagaz are RUB nil million as of 30 June 2017 and 31 December 2016 net of impairment allowance of RUB 339,386 million and RUB 342,765 million as of 30 June 2017 and 31 December 2016, respectively.

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.

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

Financial guarantees issued by the Group for the associates and joint ventures are disclosed in Note 23.

23 COMMITMENTS AND CONTINGENCIES

Taxation

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 30 June 2017 is appropriate and all of the Group's material tax, currency and customs positions will be sustainable.

Legal proceedings

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

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

On 21 July 2014 both cases were consolidated. Oral hearings of the case were held, the parties provided post-hearing statements on 11 November 2016. The arbitration panel is expected to deliver its ruling until 30 June 2017. On 31 May 2017 the arbitrators delivered an interim (separate) award on certain key legal issues. The final award is to be delivered not later than 30 November 2017.

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

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

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23 COMMITMENTS AND CONTINGENCIES (continued)

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

On 28 November 2014 PJSC Gazprom filed its response to the request of arbitration. On 11 December 2014 the arbitration panel was formed. On 28 January 2015 the arbitration court made a decision not to combine the case with the above ones. On 30 April 2015 NJSC Naftogaz of Ukraine filed a claim, significantly increasing the amount of the claims, according to various estimates, up to USD 11,000-16,000 million. Oral hearings of the case were held, the parties provided post-hearing statements on 11 November 2016, the arbitration panel is expected to deliver its ruling not earlier than the date of deliver its ruling on arbitration with NJSC Naftogaz of Ukraine under the Contract No. KP. On 19 June 2017 the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, decided that the final award in the case is to be delivered not later than 30 November 2017.

On 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders’ agreement with AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5,000 million compensation (at the exchange rate as of 30 June 2017 – RUB 97,746 million). PJSC Gazprom did not agree to the claims and on 9 November 2012 filed with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, response to the request for arbitration. Arbitration panel was formed and hearing on the merits took place from 1 to 9 July 2015. On 30 September 2015 the parties submitted additional written opinions based on the analysis of the hearing materials including witness statement and expert statement. On 22 June 2016 the arbitration court made a final decision which rejects all claims raised by the Ministry of Energy of the Republic of Lithuania, including claims on unfair pricing of gas which PJSC Gazprom supplied to Lithuania in 2006-2015. On 22 September 2016 it became known that the Ministry of Energy of the Republic of Lithuania has filed appeal with the Court of Appeal of Stockholm, Sweden, to cancel the Final arbitration decision of 22 June 2016. On 4 April 2017 PJSC Gazprom officially received this appeal and is preparing a statement to contest it. On 9 June 2017 PJSC Gazprom filed a response to the appeal with the Court of Appeal of Stockholm, Sweden. The Ministry of Energy of the Republic of Lithuania is expected to file a counter-statement before 18 September 2017.

In August 2012 the European Commission launched a formal stage of investigation into a potential breach of the EU antitrust law by PJSC Gazprom. In April 2015 the European Commission adopted a Statement of Objections in the course of the ongoing antitrust investigation of PJSC Gazprom activity in the EU. The adoption by the European Commission the Statement of Objections is one of the stages of the ongoing antitrust investigation and it doesn’t recognise PJSC Gazprom guilty of any violation of the EU antitrust legislation. The European Commission extended the deadline for providing a formal response to the Statement of Objections until September 2015. A formal response to the Statement of Objections of the European Commission was sent by PJSC Gazprom at the end of September 2015. In September 2015 PJSC Gazprom filed its proposal of antitrust investigation settlement to the European Commission. In December 2015 PJSC Gazprom’s representatives and the European Commission took part in closed-door oral hearings where PJSC Gazprom provided arguments which rendered the raised claims groundless. An oral hearing is just one of the stages of the ongoing antitrust investigation. On 27 December 2016 PJSC Gazprom forwarded to the European Commission a formal proposal for the settlement of the investigation (commitments). On 13 March 2017 the European Commission launched a market test process of the commitments upon which it will be able to rightfully accept the commitments and close the investigation without recognising the Gazprom Group guilty of violating the antitrust law of the European Union. On 29 May 2017 the European Commission and PJSC Gazprom officials held a joint meeting where the European party communicated key takeaways of the market test exercise and where the parties agreed to hold a series of working meetings to settle the issues that are, in the EC’s opinion, have not been addressed thus far, drawing on the market test findings. The parties currently are keeping on consulting on technical issues. Currently it’s impossible to assess a potential negative impact of this ongoing investigation on activity of PJSC Gazprom in Europe and on financial position of PJSC Gazprom as a whole.

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23 COMMITMENTS AND CONTINGENCIES (continued)

On 16 December 2015 South Stream Transport B.V., the subsidiary of the Group, was served with an official notification by the Secretariat of the Arbitration Court of the International Chamber of Commerce stating that Saipem S.p.A. submitted a request for arbitration against South Stream Transport B.V. in view of unilateral termination by the latter of the agreement dated 14 March 2014 for the construction of the “South Stream” pipeline. In its notice of arbitration Saipem S.p.A. claimed to receive from South Stream Transport B.V. as a compensation for the work performed reimbursements for the expenses incurred and for the termination of the agreement in the amount of about EUR 760 million plus interest (at the exchange rate as of 30 June 2017 – RUB 51,299 million). On 16 February 2016 South Stream Transport B.V. sent a response to the notice of arbitration of Saipem S.p.A., where it rejected all the claims raised by Saipem S.p.A. and declared its intention to file a counterclaim. On 30 September 2016 Saipem S.p.A. submitted its claim in its entirety with all attachments. The amount of claim of Saipem S.p.A. was reduced to the amount of EUR 679 million (at the exchange rate as of 30 June 2017 – RUB 45,832 million). On 10 March 2017 South Stream Transport B.V. filed a defense on the claim along with testimony and experts’ opinions which underpin the respondent’s argument, and a counter-claim in the amount of about EUR 730 million (at the exchange rate as of 30 June 2017 – RUB 49,274 million). The parties are currently undergoing a mutual information disclosure procedure. The hearings are scheduled for May 2018.

On 25 January 2016 the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of Ukrainian hryvnia 85,966 million (at the exchange rate as of 30 June 2017 – RUB 194,685 million) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed an action with the Kiev Economic Court against the decision of the Antimonopoly Committee of Ukraine. On 13 April 2016 the action was returned unconsidered on formal grounds. On 4 May 2016 PJSC Gazprom filed an appeal with the Kiev Economic Court of Appeal which left the primary court’s award unchanged based on the decision of 18 May 2016. On 7 June 2016 PJSC Gazprom filed a cassation appeal with the Ukraine’s Higher Economic Court. On 13 July 2016 the Ukraine’s Higher Economic Court dismissed the appeal of PJSC Gazprom and affirmed the ruling of the court of first appearance and the decision of appeals instance. On 2 September 2016 PJSC Gazprom filed with the Supreme Court of Ukraine a petition to review the judgements in the case delivered by the lower-level courts. On 13 September 2016 the Supreme Court of Ukraine rejected to move the petition forward to review the judgements delivered in the case by the lower-level courts. On 7 October 2016 the Kiev Economic Court determined to initiate proceedings in the case in view of the application filed by the Antimonopoly Committee of Ukraine along with a claim to impose a penalty in the amount of about USD 3 billion on PJSC Gazprom, a fine in the amount of about USD 3 billion and a demand to enforce PJSC Gazprom to fulfil a portion of its decision which pertains to the performance of the terms and conditions to the fullest extent of the Contract No. TKGU regarding the volumes of gas intended for transit purposes. On 5 December 2016 the Court satisfied the claims of the Antimonopoly Committee of Ukraine to the fullest extent. On 22 February 2017 the Court dismissed the appeal of PJSC Gazprom keeping the first-instance court’s decision in force. On 14 March 2017 PJSC Gazprom filed with the Ukraine’s Higher Economic Court a cassation appeal on the decision of the Kiev Economic Court dated 5 December 2016 and the ruling of the Kiev Economic Court of Appeal dated 22 February 2017. As a result of the Ukraine’s Higher Economic Court sitting session held on 16 May 2017 the cassation appeal of PJSC Gazprom was left unsatisfied. On 11 August 2017 PJSC Gazprom filed with the Supreme Court of Ukraine an appeal with a demand to cancel decisions of lower courts. In April 2017 the Antimonopoly Committee of Ukraine filed a demand with the Department of State Executive Service of the Ministry of Justice of Ukraine for enforced recovery from PJSC Gazprom of an amount of Ukrainian hryvnia 171,932 million (about USD 6 billion). On 12 May 2017 PJSC Gazprom was served via its Kiev-based Representative office an Order of the Department of the State Executive Service of the Ministry of Justice of Ukraine on institution of enforcement proceedings to recover the amount of Ukrainian hryvnia 189,125 million (at the exchange rate as of 30 June 2017 – RUB 428,308 million), including an execution fee of Ukrainian hryvnia 17,193 mln (at the exchange rate as of 30 June 2017 – RUB 38,937 million), the seizure of the accounts of the Kiev-based Branch of PJSC Gazprom, dividends due to PJSC Gazprom from the participation in JSC Gaztransit, the stocks of JSC Gaztransit owned by PJSC Gazprom, the stocks of PJSC YUZHNIIGIPROGAZ Institute, a participation stake in Gazprom sbyt Ukraine Ltd., the International Consortium for the Ukrainian Gas Transmission System Management and Development LLC. PJSC Gazprom is currently challenging the actions under the enforcement proceedings in the Ukrainian courts. PJSC Gazprom is also considering other legal mechanisms to restore its violated rights.

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23 COMMITMENTS AND CONTINGENCIES (continued)

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

On 14 March 2017 the European Commission received a complaint from PGNiG S.A., Poland, stating that PJSC Gazprom and its subsidiary LLC Gazprom export allegedly violate Article 102 of the EU Agreement the European Commission. The complaint specifically states that PJSC Gazprom violates the antitrust law of the EU through:

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

Based on the complaint, the European Commission registered case No. AT.40497. The commencement of the case does not necessarily entail formal proceedings and recognize PJSC Gazprom guilty of violation of the antitrust law of the European Union. These claims relate to issues covered by the European Commission investigation into the activities of PJSC Gazprom and LLC Gazprom export activities in the countries of Central and Eastern Europe, whose formal phase was initiated in 2012. It is currently impossible to assess a potential negative impact of this ongoing investigation on the activities of PJSC Gazprom in Europe and on a financial position of PJSC Gazprom.

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

Sanctions

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

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

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

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

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23 COMMITMENTS AND CONTINGENCIES (continued)

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

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

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

2) purchasing, selling, providing 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), excluding PJSC Gazprom;

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

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

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

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

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

Financial guarantees

| | 30 June 2017 | 31 December 2016 |
|---------------------------------------|-------------------------|-----------------------------|
| Outstanding guarantees issued for: | | |
| Ostchem Holding Limited | 3,430 | 3,427 |
| Blackrock Capital Investments Limited | 3,224 | 4,968 |
| Other | <u>32,765</u> | <u>36,362</u> |
| Total financial guarantees | <u>39,419</u> | <u>44,757</u> |

For the six months ended 30 June 2017 and in 2016 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 55 million and USD 87 million as of 30 June 2017 and 31 December 2016, respectively, as well as amounts denominated in Euros of EUR 75 million and EUR 66 million as of 30 June 2017 and 31 December 2016, respectively.

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23 COMMITMENTS AND CONTINGENCIES (continued)

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) in respect of bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by SGT EuRoPol GAZ S.A. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. In December 2015 loans issued by EM Interfinance Limited were redeemed. As a result as of 30 June 2017 and 31 December 2016 the guarantees issued for Blackrock Capital Investments Limited amounted to RUB 3,224 million (USD 55 million) and RUB 4,968 million (USD 82 million), respectively.

In December 2014 the Group provided a guarantee to Gazprombank (Joint Stock Company) related to debts from Ostchem Holding Limited under the credit facility for financing of operating activities. As of 30 June 2017 and 31 December 2016 the above guarantee amounted to RUB 3,430 million and RUB 3,427 million, respectively, and was fully provided.

Capital commitments

The total investment program related to gas, oil and power assets for 2017 is RUB 1,580,928 million.

24 POST BALANCE SHEET EVENTS

Borrowings and loans

In July 2017 the Group issued Loan Participation Notes in the amount of 500 million of Swiss Franc at an interest rate of 2.25 % due in 2022 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In July 2017 the subsidiary Nord Stream 2 AG issued long-term loans from Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation & Finance B.V. in the amount of EUR 324 million, within the terms of the long-term financing agreement, signed between the parties in April 2017.

In August 2017 the Group issued Russian bonds in the amount of RUB 15,000 million at an interest rate of 8.25 % due in 2024.

Sanctions

On 2 August 2017 the U.S. signed the law that provides for the imposition of further sanctions against the Russian Federation that potentially affects also the interests of the Group. The implications of the law on the activities the Group pursues in Europe and on its international projects depend largely on the acts that will be introduced by the U.S. President and the U.S. Treasury Department for the implementation of the provisions of the Law. The Group is currently assessing the impact of the sanctions on its activities.

PJSC GAZPROM
INVESTORS RELATIONS

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