IMPORTANT: You must read the following before continuing. The following applies to the base prospectus (the "**base prospectus**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the base prospectus. In accessing the base prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

This base prospectus has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein. The base prospectus has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC, as amended. Copies of the base prospectus are available to the public in accordance with the applicable rules.

THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS BASE PROSPECTUS MAY ONLY BE DISTRIBUTED TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITHIN THE UNITED STATES TO QIBs WHO ARE ALSO QUALIFIED PURCHASERS (EACH AS DEFINED BELOW). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.NOTHING IN THIS BASE PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THIS BASE PROSPECTUS (THE "**NOTES**") HAVE NOT BEEN, AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE U.S. SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") THAT IS ALSO A QUALIFIED PURCHASER AS DEFINED IN SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 (A "**QUALIFIED PURCHASER**") THAT (A) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (B) IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (C) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN GAZ CAPITAL S.A. (THE "**ISSUER**"), (D) IS ACQUIRING THE NOTES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QUALIFIED PURCHASER, IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN U.S.$200,000, (E) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (F) WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE, OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

THE NOTES ISSUED PURSUANT TO THE PROGRAMME ARE NOT, AND WILL NOT BE, QUALIFIED FOR SALE UNDER THE SECURITIES LAWS OF ANY PROVINCE OR TERRITORY OF CANADA. THE NOTES MAY NOT BE, AND ARE NOT BEING, OFFERED, SOLD, OR DELIVERED, AND NO OFFER TO PURCHASE THE NOTES MAY BE, IS, OR WILL BE SOLICITED, DIRECTLY OR INDIRECTLY, IN CANADA OR TO, OR FOR THE BENEFIT OF, ANY CANADIAN PERSON. THIS BASE PROSPECTUS OR ANY OTHER OFFERING MATERIAL RELATING TO THE NOTES MAY NOT BE, HAS NOT BEEN, AND WILL NOT BE, DISTRIBUTED, IN CANADA OR TO, OR FOR THE BENEFIT OF, CANADIAN PERSONS. IN ADDITION, CANADIAN PERSONS ARE RESTRICTED FROM DEALING IN ANY WAY, DIRECTLY OR INDIRECTLY, IN THE NOTES, PURSUANT TO THE SPECIAL ECONOMIC MEASURES (RUSSIA) REGULATIONS.

"**CANADIAN PERSON**" MEANS ANY PERSON IN CANADA OR ANY CANADIAN OUTSIDE CANADA, WHERE "**PERSON**" MEANS AN INDIVIDUAL OR A BODY CORPORATE, TRUST, PARTNERSHIP, FUND, AN UNINCORPORATED ASSOCIATION OR ORGANIZATION; AND "**CANADIAN**" MEANS AN INDIVIDUAL WHO IS A CITIZEN WITHIN THE MEANING OF THE CITIZENSHIP ACT (CANADA), OR A BODY CORPORATE FORMED UNDER THE LAWS OF CANADA OR A CANADIAN PROVINCE.

Confirmation of your Representation: In order to be eligible to view this base prospectus or make an investment decision with respect to the Notes, you must be (i) a person other than a U.S. person (within the meaning of Regulation S under the Securities Act) or (ii) a QIB who is a Qualified Purchaser. By accepting the e-mail and accessing this base prospectus, you shall be deemed to have represented to us (a) that you are not a U.S. person or that you are a QIB that is a Qualified Purchaser that can represent as set out in (A)-(F) above and (b) that you consent to delivery of such base prospectus by electronic transmission.

You are reminded that this base prospectus has been delivered to you on the basis that you are a person into whose possession this base prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, and

you may not, nor are you authorized to, deliver, forward or distribute this base prospectus (or any reproduction of this base prospectus) to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any jurisdiction or place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers (as defined herein) or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, any offering of Notes shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any jurisdiction or place where offers or solicitations are not permitted by law. Recipients of this base prospectus who intend to subscribe for or purchase any securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the base prospectus and the series prospectus. This base prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

Information contained in this base prospectus may not correspond to the risk profile of a particular investor, does not take into account one's personal preferences and expectations on risk and/or profitability and therefore does not constitute an individual investment recommendation for the purposes of Russian law.

This base prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Dealers nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the base prospectus distributed to you in electronic format and the hard copy version available to you on request from the Dealers.

Public Joint Stock Company Gazprom

Programme for the Issuance of Loan Participation Notes

issued by, but with limited recourse to,

Gaz Capital S.A., for the sole purpose of financing a loan to

Public Joint Stock Company Gazprom

Under the Programme for the Issuance of Loan Participation Notes described in this Base Prospectus (the "**Programme**"), Gaz Capital S.A., a public limited liability company (*société anonyme*), incorporated under the laws of the Grand Duchy of Luxembourg ("**Luxembourg**"), having its registered office at 14, rue Edward Steichen, L-2540 Luxembourg and registered with the Luxembourg trade and companies register *(Registre de commerce et des sociétés, Luxembourg)* under number B 95071 (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue loan participation notes (the "**Notes**") on the terms set out herein, as completed by a final terms document (each, "**Final Terms**") or a series prospectus (each, "**Series Prospectus**") setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed U.S.$40,000,000,000 (or the equivalent in other currencies). This Base Prospectus supersedes any previous base prospectus, offering circular or supplement thereto relating to the Programme. Any Notes issued under the Programme on or after the date of this Base Prospectus are issued subject to the provisions herein. This Base Prospectus does not affect any Notes issued prior to the date hereof.

Notes will be issued in Series (as defined in "**Overview of the Programme**") and the sole purpose of issuing each Series will be to finance loans (each a "**Loan**") to Public Joint Stock Company Gazprom (the "**Borrower**," "**Gazprom**" or the "**Company**") as borrower, on the terms of an amended and restated facility agreement between the Issuer and the Borrower dated December 7, 2005 (the "**Facility Agreement**"), as amended on October 28, 2014 and supplemented by a loan supplement to be entered into in respect of each Loan on each Issue Date (each a "**Loan Supplement**" and, together with the Facility Agreement, each a "**Loan Agreement**") between the Issuer and the Borrower. Subject as provided in the Trust Deed (as defined herein) the Issuer will charge by way of first fixed charge as security for its payment obligations in respect of each Series of Notes and under the Trust Deed (a) its right to principal, interest and other amounts as lender under the relevant Loan Agreement and (b) amounts received pursuant to the relevant Loan in an account of the Issuer (as described herein), in each case other than the Reserved Rights (as defined in the Trust Deed) and certain amounts relating to the Reserved Rights to the Trustee for the benefit of itself and the Noteholders (as defined herein) and will assign its administrative rights under the relevant Loan Agreement to the Trustee (the "**Assigned Rights**").

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of a Series of Notes, the obligation of the Issuer to make any such payment constitutes an obligation only to account to holders of the Notes ("**Noteholders**"), on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of such Series of Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the corresponding Loan Agreement. The Issuer will have no other financial obligations under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely on the covenant to pay under the relevant Loan Agreement and the credit and financial standing of the Borrower in respect of the financial servicing of the Notes.**

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 13.

The Notes and the corresponding Loans (together, the "Securities") have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")). Depending on the terms of the particular Series of Notes, the Notes may be offered and sold (i) within the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act ("Rule 144A")) that are also qualified purchasers (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act")) in reliance on the exemption from registration provided by Rule 144A (the "Rule 144A Notes"); and (ii) to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act (the "Regulation S Notes"). The Issuer has not been nor will be registered under the Investment Company Act. Prospective purchasers are hereby notified that sellers of the Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions, see "Subscription and Sale" and "Transfer Restrictions."

This Base Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Application will be made to the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") for the Notes issued under the Programme during the period of 12 months from the date hereof to be admitted to the Official List (the "**Official List**") and trading on its regulated market (the "**Main Securities Market**") which is a regulated market for the purposes of Directive 2014/65/EU (as amended, "**MiFID II**"). Reference in this Base Prospectus to Notes being "**listed**" (and all related references) shall mean that such Notes have been admitted to trading on the Main Securities Market. The language of this Base Prospectus is English. Unlisted Notes may also be issued pursuant to the Programme. The relevant Final Terms or Series Prospectus in respect of the issue of any Notes will specify whether or not such Notes will be listed on Euronext Dublin (or any other stock exchange). The Central Bank has only approved this document in relation to Notes which are to be listed on Euronext Dublin or another Main Securities Market in the European Economic Area, and the Central Bank has neither reviewed nor approved this document in relation to any unlisted Notes.

References to Final Terms in this Base Prospectus constitute final terms as per Article 5(4) of the Prospectus Directive except when specified in the Facility Agreement, where references to Final Terms should be read as, in relation to a Loan, final terms issued specifying the relevant issue details of such Loan, substantially in the form of Schedule C of the Dealer Agreement.

Regulation S Notes will initially be represented by interests in a global unrestricted Note in registered form (each a "**Regulation S Global Note**"), without interest coupons, which will be deposited with a common depository for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), and registered in the name of a nominee, on its issue date as set out in the relevant Final Terms or Series Prospectus (the "**Issue Date**"). Beneficial interests in a Regulation S Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. Rule 144A Notes will initially be represented by a global restricted Note in registered form (each a "**Rule 144A Global Note**" and together with any Regulation S Global Notes, the "**Global Notes**"), without interest coupons, which may be deposited with (i) a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg, or (ii) Deutsche Bank Trust Company Americas as custodian for, and registered in the name of Cede & Co. as nominee of, The Depository Trust Company ("**DTC**") on its Issue Date. Beneficial interests in a Rule 144A Global Note will be shown on, and transfers thereof will be effected only through, records maintained by either (i) Euroclear or Clearstream, Luxembourg or (ii) DTC and their respective participants. See "Clearing and Settlement." Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

MIFID II product governance – The Final Terms in respect of any Notes will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS. The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Amounts payable under the Notes of a Series may be calculated by reference to one of LIBOR or EURIBOR, which are respectively administered by ICE Benchmark Administration Limited ("**ICE**") and European Money Markets Institute ("**EMMI**"). As at the date of this Base Prospectus, ICE appears on, and EMMI does not appear on, the ESMA's register of administrators and benchmarks under Article 36 of the Regulation (EU) No. 2016/1011.

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms or Series Prospectus. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (the "**CRA Regulation**") will be disclosed in the Final Terms or Series Prospectus. Please also refer to "Risk Factors—Ratings of the Notes."

Arrangers and Permanent Dealers

Deutsche Bank **UBS Investment Bank**

Permanent Dealers

J.P. Morgan **Mizuho Securities**
Renaissance Capital **UniCredit Bank**

The date of this Base Prospectus is January 30, 2019

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, Gazprom and Gazprom and its subsidiaries taken as a whole (the "**Group**") which, according to the particular nature of the Issuer, Gazprom, the Group, the Notes and the Loans, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, Gazprom and the Group. The Issuer (whose registered office appears below) and Gazprom (whose registered office appears on page 51 of this Base Prospectus) accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer and Gazprom (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

This Base Prospectus does not constitute an offer to sell Notes, or an invitation by or on behalf of the Issuer, Gazprom, the Dealers or the Arrangers (each as defined under "**Overview of the Programme**") to subscribe for or purchase any Notes.

The distribution of this Base Prospectus and the offer or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, Gazprom, any of the Dealers and the Arrangers to inform themselves about and to observe any such restrictions. In particular, the Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission (the "**SEC**") and will not be registered under the Securities Act. Subject to certain exceptions, Notes may not be offered or sold in the United States or to U.S. persons. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Base Prospectus is set out under "Subscription and Sale."

The Notes issued pursuant to the Programme are not, and will not be, qualified for sale under the securities laws of any province or territory of Canada. The Notes have not been, and are not being, offered, sold, or delivered, and no offer to purchase the Notes may be, is, or will be, solicited directly or indirectly, in Canada or to, or for the benefit of, any Canadian Person. This Base Prospectus or any other offering material relating to the Notes may not be, has not been, and will not be, distributed, in Canada or to, or for the benefit of Canadian Persons. In addition, Canadian Persons are restricted from participating in any way, directly or indirectly, in the offering of the Notes (or any dealings related to the offering of the Notes), pursuant to the Special Economic Measures (Russia) Regulations.

"**Canadian Person**" means any person in Canada or any Canadian outside Canada, where "**person**" means an individual or a body corporate, trust, partnership, fund, an unincorporated association or organization; and "**Canadian**" means an individual who is a citizen within the meaning of the Citizenship Act (Canada), or a body corporate formed under the laws of Canada or a Canadian province.

No person is authorized to provide any information or make any representation not contained in this Base Prospectus and any information or representation not contained in this Base Prospectus must not be relied upon as having been authorized by or on behalf of the Issuer, Gazprom, the Trustee, any of the Dealers or the Arrangers. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, at any time or in any circumstances, imply that the information contained in it is correct as at any time subsequent to its date. The websites of Gazprom and the members of the Group and the information posted thereon do not form any part of the contents of this Base Prospectus.

Neither the delivery of this Base Prospectus nor the offer, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of Gazprom or the Group since the date of this Base Prospectus.

None of the Issuer, Gazprom, the Trustee, the Dealers or the Arrangers or any of the respective representatives makes any representation or warranty, express or implied, to any offeree or purchaser of the Notes offered hereby, regarding the legality of an investment by such offeree or purchaser under applicable legal, investment or similar laws. Each investor should consult with their own advisors as to the legal, tax, business, financial and related aspects of any purchase of the Notes. To the fullest extent permitted by law, none of the Dealers or the Arrangers or any of their respective affiliates accepts any responsibility any act or omission of the Issuer or Gazprom or the contents of this Base Prospectus or for any other statement made or purported to be made by the Arrangers or a Dealer or on its behalf in connection with the Issuer, Gazprom or the issue and offering of the Notes. The Arrangers and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of ant act or omission of the Issuer or Gazprom or this Base Prospectus or any such statement.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Base Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained

by such prospective purchaser. Gazprom, the Issuer, the Trustee, the Arrangers and the Dealers are not responsible for compliance with these legal requirements. The appropriate characterization of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which any Notes constitute a legal investment for prospective investors whose investment authority is subject to legal restrictions. Such prospective investors should consult their legal advisors regarding such matters. Neither this Base Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, Gazprom, the Arrangers or the Dealers that any recipient of this Base Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arrangers undertakes to review the financial condition or affairs of the Issuer or Gazprom during the life of the arrangements contemplated by this Base Prospectus or to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arrangers.

This Base Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**relevant persons**"). Any Notes will only be available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

This Base Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

Neither this Base Prospectus nor the information contained herein is an offer, or an invitation to make offers, to sell, exchange or otherwise transfer securities in the Russian Federation to or for the benefit of any Russian person or entity, and it does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. Information contained in this Base Prospectus is not intended for any persons in the Russian Federation who are not "**qualified investors**" within the meaning of Article 51.2 of the Federal Law No. 39-FZ "On the Securities Market" dated April 22, 1996, as amended (the "**Russian QIs**"), and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Securities have not been and will not be registered in Russia and are not intended for "**placement**" or "**circulation**" in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

The Arrangers, the Dealers and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange non-public market financing for, and enter into derivatives transactions with, Gazprom and its affiliates. The Arrangers and Dealers are acting exclusively for Gazprom and the Issuer and no one else in connection with the Programme and the Notes and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to this offering.

In addition, in the ordinary course of their business activities, the Arrangers, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, Gazprom or their respective affiliates. Certain of the Arrangers, the Dealers or their affiliates that have a lending relationship with the Issuer, Gazprom or their respective affiliates routinely hedge their credit exposure to the Issuer, Gazprom or their respective affiliates consistent with their customary risk management policies. Typically, such Arrangers, the Dealers or their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's, Gazprom's or their respective affiliates' securities, including potentially any Notes offered hereby. Any such short positions could adversely affect future trading prices of any Notes offered hereby. The Arrangers, the Dealers and their respective affiliates may also make investment recommendations

and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The Issuer is a public limited liability company (*société anonyme*) incorporated for an unlimited duration under the laws of the Grand Duchy of Luxembourg ("**Luxembourg**"). The Issuer is not a subsidiary of Gazprom. The registered office of the Issuer is located at 14, rue Edward Steichen, L-2540 Luxembourg and the Issuer is registered with the Luxembourg trade and companies register (*Registre de Commerce et des Sociétés, Luxembourg*) under number B 95071. For further information about the Issuer, see "Gaz Capital S.A."

This Base Prospectus has been filed with and approved by the Central Bank as required by the Prospectus Directive.

Any investment in any Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank.

In connection with the issue of any Series of Notes, the Dealer or Dealers (if any) named as the Stabilizing Manager(s) (or any person acting on behalf of any Stabilizing Manager(s)) in the applicable Final Terms or Series Prospectus may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, this is no assurance that the Stabilizing Manager(s) (or any person acting on behalf of any Stabilizing Manager(s)) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Series of Notes. Any stabilization action or over-allotment must be conducted by the relevant Stabilizing Manager(s) (or any person acting on behalf of any Stabilizing Manager(s)) in accordance with all applicable laws and rules.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE DEALERS OR THE ARRANGERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS BASE PROSPECTUS, AND NOTHING CONTAINED IN THIS BASE PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE.

EACH PERSON RECEIVING THIS BASE PROSPECTUS ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE DEALERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR ITS INVESTMENT DECISION. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN ANY NOTES ISSUED UNDER THIS PROGRAMME FROM TIME TO TIME MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER, GAZPROM AND THE GROUP AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

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AVAILABLE INFORMATION

Each of Gazprom and the Issuer has agreed that, for so long as any Notes are "**restricted securities**" within the meaning of Rule 144(a)(3) under the Securities Act, Gazprom or the Issuer will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

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OVERVIEW

This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Base Prospectus, including the more detailed information regarding our business and the Group's Financial Statements included elsewhere in this Base Prospectus. Prospective purchasers of the Notes should also carefully consider the information set forth under the heading "Risk Factors." Certain statements in this Base Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements."

Gazprom

We are one of the world's largest oil and gas companies in terms of reserves, production and market capitalization. For the year ended December 31, 2017, our sales net of value added tax ("**VAT**") and customs duties were RR6,546,143 million and our operating profit was RR871,405 million. For the nine months ended September 30, 2018, our sales net of VAT and customs duties were RR5,901,591 million and our operating profit was RR1,384,951 million. As of December 31, 2017, we had total assets of RR18,238,770 million and total shareholders' equity (excluding non-controlling interest) of RR11,629,086 million. As of September 30, 2018, we had total assets of RR19,935,162 million and total shareholders' equity (excluding non-controlling interest) of RR12,876,099 million.

Reserves. We are a worldwide leader in terms of hydrocarbon reserves. In accordance with the Petroleum Resources Management System standards ("**PRMS Standards**"), as of December 31, 2017, we had proved and probable reserves of 24.1 tcm (156.7 bboe) of natural gas, 1,105.6 million tons of gas condensate (9.0 bboe) and 1,360.0 million tons of crude oil (10.0 bboe) for a total of 175.7 bboe.

Exploration and production. Our natural gas production represented approximately 68% of total natural gas production in Russia in 2017, compared to 66% in 2016 (based on CDU TEC (source: www.cdu.ru) and Gazprom figures). Our natural gas production in Western Siberia accounts for over 90% of our natural gas production. In the year ended December 31, 2017, we produced 472.1 bcm (3,063.6 mmboe) of natural gas and 15.9 million tons (130.4 mmboe) of gas condensate, as compared with 420.1 bcm (2,726.6 mmboe) of natural gas and 15.9 million tons (129.6 mmboe) of gas condensate, for the year ended December 31, 2016. In the year ended December 31, 2017, we produced 48.6 million tons (356.5 mmbls) of crude oil, as compared with 47.2 million tons (345.6 mmbls) of crude oil for the year ended December 31, 2016. In the nine months ended September 30, 2018, we produced 365.1 bcm (2,369.7 mmboe) of natural gas, 11.5 million tons (94.4 mmboe) of gas condensate and 36.2 million tons (265.7 mmbls) of crude oil, as compared with 340.6 bcm (2,210.7 mmboe) of natural gas, 11.6 million tons (95.1 mmboe) of gas condensate and 36.7 million tons (269.1 mmbls) of crude oil in the nine months ended September 30, 2017.

Gas transportation. As of December 31, 2017, the total length of our GTS in Russia was approximately 172,050 km (not including distribution pipelines and pipelines for the transportation of gas condensate and WFLH) and included 254 compressor stations on the pipelines, with an aggregate capacity of 46,700 MW, and 26 UGSFs with an aggregate capacity of 74.9 bcm. We control and manage the transportation of gas in the GTS network from our central dispatch management center located in Moscow.

Processing, refining and petrochemical production. We refine a large amount of the natural and associated gas, gas condensate and crude oil that we produce. In 2017, we refined 30.8 bcm of natural and associated gas and 64.1 million tons of unstable gas condensate and crude oil, as compared with 31.0 bcm of natural and associated gas and 65.9 million tons of unstable gas condensate and crude oil in 2016, respectively. In the nine months ended September 30, 2018, we refined 21.6 bcm of natural and associated gas and 21.5 million tons of unstable gas condensate and crude oil, as compared with 48.7 bcm of natural and associated gas and 47.1 million tons of unstable gas condensate and crude oil in the nine months ended September 30, 2017.

Gas sales. We supply most of the natural gas consumed in Russia and a significant portion of the natural gas consumed in the FSU countries. According to our estimates, we are also the largest natural gas supplier to Europe. In the years ended December 31, 2017 and 2016, we supplied in aggregate 506.9 bcm and 476.4 bcm of natural gas, respectively. In the nine months ended September 30, 2018, our gas sales amounted to 375.5 bcm as compared with 354.9 bcm in the nine months ended September 30, 2017.

Electricity. We own significant power generation assets accounting for approximately 15% of the electric power generated in Russia. The aggregate power generation capacity of our subsidiaries in Russia was 39.2 GW and heat generation capacity was 70.2 Gcal/h as of September 30, 2018. We generated 156.6 billion kWh and 157.5 billion kWh of electric power and 127.3 million Gcal and 129.5 million Gcal of heat for the years ended December 31, 2017 and 2016, respectively. In the nine months ended September 30, 2018, we generated 111.6 billion kWh of electric power

and 85.4 million Gcal of heat as compared to 113.6 billion kWh of electric power and 83.6 million Gcal of heat during the nine months ended September 30, 2017.

Relationship with the Government. As our controlling shareholder, the Russian Federation is able to determine our strategy, make policy decisions in relation to the main areas of our business (including investments, borrowings, risk management and asset allocation), and supervise the implementation of such decisions. Currently, the government of the Russian Federation (the "**Government**") regulates the tariffs that we charge for gas transportation through our trunk pipelines to independent gas suppliers, the wholesale prices for gas that we and our affiliated companies produce and sell in the domestic market, as well as some other areas of our business.

Strategy

Our strategic goal is to continue to be a leader among global energy companies by diversifying our product markets, increasing the reliability of our supplies, enhancing the efficiency of our operations and using advanced technology and scientific achievements to improve our operations.

To achieve this goal, our development strategy prioritizes investments in our industrial assets in gas production, transportation, processing and storage facilities to achieve efficient and integrated development. Our strategy allows us to make adjustments to our capital expenditure plans for the development of our production and transportation projects in response to any short- or medium-term changes in the demand for gas in both the domestic and international markets. See "Gazprom—Investment Program."

We believe that our long-term forecasts of demand in our major markets, the projected economic efficiency of our projects and planned expansion of our capacities continue to be reasonable estimates and are based on a conservative approach. Therefore, we believe that our long-term strategic goals and projects are sustainable despite any changes in the economic environment.

We have consolidated our entire oil business within one subsidiary, Gazprom Neft. Gazprom Neft's strategic goal is to become a large international player with a regionally diversified portfolio throughout the value chain. Gazprom Neft is committed to high standards of social and environmental responsibility, and intends to actively engage in the development of Russian regions. Gazprom Neft raises funding to finance its operations from Russian and other non-U.S. and non-EU credit and capital markets.

Exploration and production. To pursue the recovery of our hydrocarbon reserves, we perform geological exploration works in our main production regions, the most important of which are the Nadym-Pur-Taz region and the Yamal Peninsula in Western Siberia, as well as in promising gas production regions, such as the Russian continental shelf of the Far East and Arctic seas (including the continental shelf of the Okhotsk (Sakhalin), Barents, Pechora and Kara Seas, Obskaya and Tazovskaya Bays), Eastern Siberia and the Far East. In accordance with our programs for resource development, we plan to ensure the enhanced recovery of our gas reserves. See "Gazprom—Reserves and Production."

Assuming sufficient demand in Russia and favorable conditions in foreign markets, we expect our annual production (including production in Eastern Siberia and the Russian Far East) to reach approximately 540-560 bcm by 2025.

In order to reach these levels, we have commenced the development of new strategic fields in the Yamal Peninsula in Western Siberia, the Russian continental sea shelf, in Eastern Siberia and the Far East. The development of fields in these regions will require significant investment because of their distance from existing gas transportation facilities, the complexity of well construction in such areas and difficulties in the implementation of new technologies, including those for environmental preservation in severe weather and geological conditions.

We develop resources in Eastern Siberia and the Far East in accordance with the program adopted in 2007 by the Ministry of Energy of the Russian Federation authorizing us to create a unified gas production, transportation and supply system in Eastern Siberia and the Far East with the potential to export gas to markets in China and other Asia-Pacific countries (the "**Eastern Program**"). Currently, we are engaged in the gradual creation of the Sakhalinskiy, Yakutskiy and Irkutskiy gas production centers as well as gas production in the Kamchatka Territory. The production in these regions is expected to exceed 60 bcm of natural gas by 2025. We hold a 50% plus one share interest in Sakhalin Energy Investment Company Ltd. ("**Sakhalin Energy**"), the project operator of Sakhalin II. In the period from 2010 through 2017, we put on stream the Kshukskoye and Nizhne-Kvakchikskoye fields in the Kamchatka Territory, commissioned the Kirinskoye field on the continental shelf of the Sea of Okhotsk, obtained the license for and performed exploration at the Kovyktinskoye field in the Irkutsk Region and started establishing a large gas production center in the Republic of Sakha (Yakutia) on the base of the Chayandinskoye field. We continue the exploration and development of other fields and areas in Eastern Siberia and the Far East, including on the continental shelf of the Sea of Okhotsk. See "Gazprom—Reserves and Production—Exploration, development and production regions—Eastern Siberia and the Far

East (Siberian and Far East Federal Districts)" and "Gazprom—Reserves and Production—Exploration, development and production regions—Russian continental shelf."

We also intend to expand our reserves outside Russia and obtain licenses for exploration and development of hydrocarbon reserves in various international regions. Currently, the Group is involved in exploration and/or production projects in Algeria, Angola, Bolivia, Bosnia and Herzegovina, Denmark, Hungary, Iraq, Libya, the Netherlands, Romania, Serbia, United Kingdom, Uzbekistan, Venezuela and Vietnam. We are also considering participating in projects in other countries, in particular, in Iran and various countries in South America. See "Gazprom—Reserves and Production—Exploration, development and production regions—FSU and Europe and Other Countries—Associates and development of associated projects in the region."

Gazprom Neft's strategic objective is to increase its annual hydrocarbon production up to 100 mtoe (including Gazprom Neft's share in production of associates and joint ventures) by 2020 and to maintain it at this level through 2025. Gazprom Neft expects to maintain the proved reserve-to-production ratio at 15 years and the proved and probable reserves replacement ratio at or above 100%. To achieve these objectives, Gazprom Neft intends to enhance profitability of extraction of the remaining resources at its active production sites by applying new production technologies and by optimizing development processes while reducing the cost of production technologies Gazprom Neft currently employs. Gazprom Neft also aims at actively managing its production assets which involves a disposal of non-core assets and reinvestment of the released funds to finance more efficient assets with potential for growth. Gazprom Neft is creating a new production center in the north of the Yamal-Nenets Autonomous Area and seeks to expand its presence on the Russian continental shelf. Gazprom Neft considers unconventional reserves, similar to shale oil by their core qualities, as an additional opportunity to increase production. Gazprom Neft seeks to establish new production centers in Russia after 2020 and maintain its international presence.

Gas transportation and storage. We reconstruct our existing, and develop new, transportation facilities to ensure the transportation of gas from the new production regions, to provide a reliable supply of gas to Russian consumers and to satisfy our contractual export obligations. In determining the sequence of the implementation of our new gas transportation facilities in the long term, we take into account the projected timing for achieving efficient utilization and optimal productivity of the existing gas transportation system and diversification of export routes. Our most significant current gas transportation projects in Russia are the construction of the Power of Siberia pipeline and the GTS extension to enable supply to the Nord Stream II pipeline, including the completion of construction of the second branch and the start of construction of the third branch of the Bovanenkovo-Ukhta and Ukhta-Torzhok trunk pipelines and the Gryazovets-Slavyanskaya CS project. We are also constructing the Nord Stream II and TurkStream pipelines in cooperation with international investors. See "Gazprom—Transport—Gas transportation projects in Russia" and "Gazprom—Transport—International projects in gas transportation."

One of our long-term goals is the further development of gas transportation facilities in Eastern Siberia and the Far East. From 2011 to 2017, we commissioned the first stage of the Sakhalin-Khabarovsk-Vladivostok gas transportation system with a pipeline on Sakhalin Island connecting the Kirinskoye field with the Sakhalin-Khabarovsk-Vladivostok gas transportation system and started gasification of the Sakhalin Region and the Primorye Territory. We have put into operation a pipeline from the Kshukskoye and Nizhne-Kvakchikskoye fields located in the Sobolevsk region to Petropavlovsk-Kamchatskiy to develop gas supplies in the Kamchatka Territory. Additionally, we are constructing the Power of Siberia pipeline, a trunk gas pipeline from Yakutia to Blagoveschensk and further to the border with China, to transport gas from the Yakutskiy and Irkutskiy gas production centers, including the Chayandinskoye and Kovyktinskoye fields, to consumers in the Russian Far East and China. We are also considering the construction of the Power of Siberia II pipeline, which would extend from the fields in Western Siberia to the western part of the Russian-Chinese border as well as gas transportation projects to supply gas from the Russian Far East to China. See "Gazprom—Transport—Gas transportation projects in Russia," "Gazprom—Transport—International projects in gas transportation" and "Gazprom—Distribution—Europe and Other Countries—Asia."

One of the strategic goals we pursue in developing our gas storage business in Russia is the technical re-equipment, reconstruction and expansion of existing storage facilities as well as the construction of new UGSFs in order to increase our daily withdrawal capacity and active gas storage reserve. Our long-term plans contemplate reaching the maximum daily withdrawal capacity of 1.0 bcm by 2030.

To implement our marketing strategy in Europe, we are engaged in the European gas transportation and storage sectors, particularly by contracting transportation and storage facilities to ensure reliable gas supplies to our customers as well as participating in investment projects aimed at the development of gas transportation and storage infrastructure in Europe. Our strategic goal is to increase the active capacity of our UGSFs abroad to 5% of our annual exports by 2030, with a priority to develop our own storage capacity. See "Gazprom—Gas Storage—Gas storage in FSU, Europe and Other Countries."

Refining. We intend to increase our production of refined products. Our goal with respect to our refining activities and our gas and petrochemical activities is to increase the degree of extraction and effective utilization of the valuable components of hydrocarbons that we produce, including associated gas, to further process such gases to create higher added value. At our existing processing and refining plants, we intend to increase the extraction of valuable components from our gas and increase the depth of our feedstock processing and our refining throughput by refurbishing and modernizing our existing processing capabilities and by constructing new processing capacities. See "Gazprom—Refining."

In accordance with the Eastern Program, we are considering gas refining capacity construction projects to develop the resources of Eastern Siberia and the Far East, which at the first stage are expected to be based on the resources of the Chayandinskoye and Kovyktinskoye fields. In particular, we are constructing a gas processing plant in the city of Svobodniy in the Amur Region (Amurskiy GPP) with a projected annual capacity of up to 42 bcm of gas to separate ethane and other valuable components from gas produced in the Yakutskiy and Irkutskiy gas production centers. See "Gazprom—Refining—Projects in refining."

Gazprom Neft prioritizes operational efficiency and modernization of its refining assets in developing our Refining segment. We anticipate that the strategy of modernization of its refining assets will allow Gazprom Neft to process an average of 40 million tons of crude oil a year (including Gazprom Neft's share in processing volumes of associates and joint ventures) and achieve a processing depth of 95% and light oil products yield of 80% in Russia in 2025.

Marketing and sales. Our strategy in the Russian domestic market is to ensure reliable gas supplies to our domestic customers at an acceptable level of profitability. The Government regulates prices for natural gas produced by us and our affiliates and we are required to sell our gas within Russia at regulated prices below those which may be economically viable. Our main objective in the development of the domestic market is to achieve a transition from the regulated wholesale gas prices to market pricing principles, along with the regulated natural monopoly tariffs for gas transportation through trunk pipelines for all gas suppliers. See "Gazprom—Distribution—Russia."

As long as domestic gas prices remain regulated, we believe the regulated domestic wholesale gas prices require adjustment to achieve an economically justified price level sufficient to supply gas in Russia at an acceptable profitability rate and accumulate funds to finance our investments in gas supply facilities for the benefit of Russian customers.

Government Resolution No. 323 dated April 16, 2012, as amended, adopted to promote the market pricing principles, permits the Group to sell on commodity exchanges and in trading systems up to 17.5 bcm of gas a year.

In October 2014, gas trading was launched at the Saint-Petersburg International Mercantile Exchange. We believe that launching gas trading at commodity exchanges is an important step to introducing market pricing principles in the domestic gas market that could provide necessary indication of market prices for gas. See "Gazprom—Distribution—Russia" and "Risk Factors—Risks Relating to Our Business—We are required to supply natural gas to customers in Russia at prices that are regulated by the Government and are below those which may be economically viable to us."

Our key objectives in the European market are to maintain our market-leading position, provide for reliable gas supply, and increase the efficiency of our marketing activities. We plan to achieve these objectives by developing relationships with traditional customers on a long-term contractual basis and using other forms of trade based on short-term and medium-term sales, gas exchange and spot transactions as well as sales through bidding. To increase efficiency of our operations in the European natural gas market and improve the reliability and flexibility of our gas supply, we intend to expand the use of leased gas transportation and UGSF capacity in Europe, subject to favorable market conditions. "Gazprom—Distribution—Europe and Other Countries."

The key objective of our marketing strategy in the FSU countries is to ensure that Russian gas will continue to maintain its leading position in the energy sector of such countries, while adjusting the pricing and other terms with respect to sales to the FSU customers to terms that are similar to those we currently have with our European customers. See "Gazprom—Distribution—The FSU."

We are also seeking to cooperate with Central Asian countries in developing gas reserves as well as upgrading and modernizing gas transportation systems. See "Gazprom—Reserves and Production—Exploration, development and production regions—FSU and Europe and Other Countries", "Gazprom—Transport—Existing routes of gas export and participation in foreign gas distribution networks" and "Gazprom—Distribution—The FSU—Cooperation with FSU countries in gas marketing."

As part of our market diversification strategy, we consider countries in the Asia-Pacific region as key new markets. In particular, in May 2014, we signed a contract with China National Petroleum Corporation ("**CNPC**") for the supply of

up to 38 bcm of pipeline gas from Russia to China annually via the Eastern route for 30 years. The supplies under the contract are expected to start in December 2019. The contract provides for a gradual increase in delivery volumes to the contracted amount of 38 bcm in the early years of supplies. In addition, in May 2015, we signed a heads of agreement with CNPC for gas supply to China via the Western route (the "**Power of Siberia II pipeline**") and are currently continuing to negotiate contractual terms. In December 2017, we also signed with CNPC heads of agreement for natural gas supplies to China from Russia's Far East. See "Gazprom—Distribution—Europe and Other Countries—Asia."

Gazprom Neft's primary objective with respect to its sales of refined petroleum products is to market nearly 100% of its Russian subsidiaries' refined petroleum production through its own distribution channels to capture available margins within the value chain of the oil business. In the motor fuel sales segment, Gazprom Neft seeks to increase its sales of motor fuel in Russia and the CIS up to 19.6 million tons a year by 2025. In order to achieve this strategic objective, Gazprom Neft plans to expand its gasoline station network in Russia and the CIS to 1,450 self-owned and 200 franchised stations by 2025. In the sales to industrial customers segment, Gazprom Neft is committed to expanding its product marketing segments, including marketing of jet fuel, oils, lubricants and technical liquids, bitumen, petrochemicals and bunker fuel. Gazprom Neft intends to increase its refined products sales to industrial consumers to 12.9 million tons a year (including Gazprom Neft's share in refined products of associates and joint ventures) by 2025.

Electricity. We consider electricity to be a strategically important sector for the development of our business. We believe that we can improve the stability of our business and achieve additional revenue by increasing our share of the power generation sector. Our strategic goal in the electricity sector is maintaining a sustainable growth of profits while ensuring high reliability of power supplies to our customers. In implementing our electricity strategy, we plan to focus on the optimization of our power generating assets, reliable power supply, efficiency of operations and realization of synergies between our power generation and gas businesses. See "Gazprom—Electric and heat energy generation and sales—Russia."

We are considering opportunities to increase our gas supplies to electric power generating facilities outside Russia, in particular, through participation in power plant construction projects and acquisition of non-controlling interests in power assets. See "Gazprom—Electric and heat energy generation and sales—FSU and Europe and Other Countries."

Diversification of products and activities. To continue our development as a global energy company, we are integrating new products and activities with our traditional pipeline gas supplies.

One of our priorities while expanding into new markets is the gradual implementation of the production, maritime transportation and marketing of liquefied natural gas ("**LNG**"). Since 2005, we have operated in the LNG market and accumulated a substantial LNG trading portfolio, including LNG of Sakhalin Energy and LNG purchased from other market participants under fixed-term and spot contracts. See "Gazprom—Reserves and Production—Exploration, development and production regions—Russian continental shelf—Associates and development of associated projects in the region—Sakhalin II project" and "Gazprom—Distribution—Europe and Other Countries—LNG."

We intend to increase export of LNG from the Russian Far East. In particular, together with the other shareholders of Sakhalin Energy, we have developed the project documentation for the construction of the third production line of the Sakhalin LNG plant. See "Gazprom—Distribution—Europe and Other Countries—LNG."

We have completed the pre-investment study and, in cooperation with Royal Dutch Shell, prepared a joint feasibility study of a project to build the Baltic LNG Plant in the Leningrad Region. In addition, to ensure reliable gas supplies to the consumers in the Kaliningrad Region and further develop the local energy system, we have constructed a floating regasification unit in the Kaliningrad Region. We are also implementing a project to construct an LNG production, storage and shipment complex near the Portovaya compressor station in the Leningrad Region. See "Gazprom—Distribution—Europe and Other Countries—LNG."

We plan to further expand our LNG trading. To reach that goal, we plan to develop new LNG projects in Russia, participate in LNG projects abroad and expand our LNG operations by purchasing LNG from other producers. Our target markets for LNG sales are the countries of the Asia-Pacific and Atlantic regions.

We also plan to export liquified petroleum gases and liquid helium from the Amurskiy GPP, which is currently under construction. See "Gazprom—Refining—Projects in refining."

We are considering opportunities to produce synthetic liquid fuels ("**SLFs**") using gas to liquid ("**GTL**") technology. The development of the SLF industry would allow us to further diversify our businesses by producing high quality motor fuels and oil refinery products for sale to export markets and use gas resources of low-pressure and low-yield fields and fields with declining production in processing and refining.

One of our strategic goals is enhanced use of natural gas as motor fuel. To enhance the efficiency of implementing our strategy in the gas engine fuel market, we established LLC Gazprom gazomotornoe toplivo ("**GGT**") which is engaged in the development of the gas engine fuel market in Russia and abroad in cooperation with relevant state authorities, financial institutions, consumers and producers of methane utilizing equipment and vehicles. See "Gazprom—Distribution—Natural gas as motor fuel and small scale LNG."

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Base Prospectus prior to making any decision to invest in any Notes. Each of the risks highlighted below could have a material adverse effect on our businesses, operations and financial condition which, in turn, could have a material adverse effect on our ability to service our payment obligations under the Loan and thus on debt service on the Notes. In addition, the trading price of the Notes could decline due to any of these risks, and you could lose some or all of your investment.

You should note that the risks described below are not the only risks we face. We have described only the risks we consider to be material. However, there may be additional risks that we currently consider not to be material or of which we are not currently aware, and any of these risks could have the effects set forth above.

Risks Relating to Our Business

The prices of the natural gas we sell in Europe and most FSU countries under long-term contracts are to a significant extent based on formulas linked to international prices for oil products. A decline in international prices for crude oil and oil products have affected, and in future periods could continue to adversely affect, the amount of revenue generated by our natural gas, crude oil and refined product sales in Europe, the FSU and other markets where we sell under such terms.

We sell a substantial portion of our natural gas in Europe, which is our primary source of foreign currency revenues and cash flows. Such sales are generally pursuant to long-term contracts. Our long-term contracts with customers in Europe and some of our customers in the FSU countries are primarily based on a price formula linked to changes in the average price for oil products for a period of approximately six to nine months. Prices for oil products fluctuate widely in response to changes in many factors over which we have no control. The factors which influence our gas, oil and refined products prices include, but are not limited to:

- global and regional supply and demand for gas, crude oil and refined products and expectations regarding future supply thereof and demand therefor;
- the impact of recessionary economic conditions on our customers, including reductions in demand for gas and oil products;
- global and regional socioeconomic and political conditions, particularly in the Middle East and other oil producing regions;
- the ability of members of the Organization of Petroleum Exporting Countries ("**OPEC**") and other crude oil producing nations to influence global production levels and prices;
- other actions taken by certain major gas, crude oil and refined products supplying or consuming countries or companies;
- prices and availability of alternative fuels and alternative sources of energy;
- new technologies, including technologies for gas production from unconventional sources (e.g., shale gas);
- volumes and prices of LNG supplied, in particular, to Europe and Other Countries;
- Russian and foreign governmental regulations, relations and actions, including sanctions, antimonopoly regulation, export restrictions and taxes;
- domestic and international security, including potential terrorist activities; and
- weather conditions as well as natural and technological disasters.

Prices for oil products significantly declined from the second half of 2014 through the beginning of 2016 dropping near to the price levels of 2004. This decrease in oil prices caused our gas sales prices in Europe and Other Countries to decline to a twelve-year low during 2016. Crude oil prices generally remain volatile and, while they recovered significantly since the beginning of 2016, a further decline was experienced at the end of 2018. However, any possible decline and extended periods of low crude oil and oil products prices may adversely affect our business, results of operations, cash flows,

financial condition and our ability to finance planned capital expenditures, any of which may adversely affect the value of the Notes.

The global prices for crude oil and refined products also affect our sales of crude oil and refined products and revenues. In addition, lower prices may reduce the amount of crude oil that we can produce economically or reduce the economic viability of crude oil development or processing projects planned or in development. We may reduce our planned capital expenditures if international crude oil or refined product prices fall below the price assumptions used in our estimates.

A significant difference between prices under our long-term contracts and natural gas market spot prices affected in the past, and in future periods could adversely affect, the amount of revenue generated by our natural gas sales in Europe, the FSU and other markets where we sell under such terms.

Excess gas supply accompanied by declining or stagnating demand for gas in the European market in years 2011-2014, improving liquidity of gas trading boards, competition from alternative gas suppliers and energy sources, and other factors, including weather conditions, caused European gas trading board prices to be at times lower than the prices determined by our long-term contracts, which, in turn, led to occasional declines in sales under our long-term contracts. We may experience such occasional unfavorable price differences from time to time and such pricing pressure could, if significant, prevent us from increasing our sales under long-term contracts and reduce our revenues generated by our natural gas sales in Europe, the FSU and other markets where we sell under such terms.

In response to changes in the market conditions in Europe beginning in 2010, we have linked a significant portion of our export gas sales pricing to natural gas quotes on European trading floors. In addition, we have introduced alternative pricing mechanisms that indirectly reflect trading floor price levels in our contract prices.

At times our exporting subsidiary, LLC Gazprom export ("**Gazprom Export**") is involved in arbitration proceedings with some of our customers seeking revisions of gas prices we charge under our long-term contracts. The terms of settlement of our disputes with certain of these claimants have resulted in price revisions.

The effects of retroactive gas price adjustments are recorded in our accounting when they become probable and a reliable estimate of the amounts can be made. Retroactive gas price adjustments reflect, in the periods when a decrease is recorded, a downward revision of prices for previous periods and/or an increase in accrued liability, and when an increase is recorded, an upward revision of prices for previous periods and/or a decrease in previously accrued liability. As of September 30, 2018, the amount of our provisions accrued for such liabilities was RR32 billion.

Arbitration over our 2009 gas supply contract with Naftogaz (the "**2009 Contract**"), in particular the contract price, and Naftogaz's debt owed to us for gas supplies in 2013 and 2014 and the failure to purchase contracted gas volumes under the "take-or-pay" clause in the period from 2012 through 2016 proceeded from 2014 through 2017. In December 2017, the Arbitration Institute of the Stockholm Chamber of Commerce (SCC) rendered its final decision in this dispute (the "**Gas Supplies Award**"). In addition, in February 2018, the Arbitration Institute of the Stockholm Chamber of Commerce (SCC) rendered its final decision in our dispute with Naftogaz on our gas transit contract (the "**Transit Dispute Award**"). As of September 30, 2018, our accounts payable accrued as a result of the aforementioned arbitration awards amounted to RR175 billion. Currently, we are appealing against the arbitral awards. See "Gazprom—Litigation and Investigations." No assurance can be given that any ongoing or possible future pricing negotiations with our customers will be successful and that possible future court decisions will be in our favor. Unfavorable court decisions and results of negotiations on pricing terms adversely affected our financial results in the past years, and any similar occurrences in the future may adversely affect our business, results of operations, cash flows and financial condition.

State regulated tariffs for electric and heat energy may not accurately reflect increasing costs in generating electricity and heat energy, and our wholesale prices for electric and heat energy are largely dependent on the economic conditions in Russia.

We supply electricity and power generation capacity to the Wholesale Market of Electricity and Power (the "**WMEP**") in accordance with Government Resolution No. 1172 dated December 27, 2010, as amended, that sets forth the rules regulating operations in the WMEP. The WMEP includes a regulated segment in which tariffs for electricity and capacity are regulated by the Government and other segments in which electricity and capacity is sold at free market prices.

The prices under our regulated contracts for the supply of electricity to the WMEP are regulated by the FAS. We provide them with information on the expenses we incur in generating electricity that the FAS takes into account while setting regulated tariffs for the relevant period. However, if the prices for the goods and services we use to generate electricity increase at a faster rate than the tariffs, our margins from sales of electricity and capacity revenues may decrease which may adversely affect our financial results.

Prices for electricity in the free market segments are largely dependent on domestic demand, which correlates to other macroeconomic indicators, such as gross domestic product growth rates and industrial production in Russia. If economic conditions in Russia deteriorate, the prices for electricity in the free market segments could substantially decline, which could adversely affect our financial results. In addition, if the prices for electricity for the end consumers increase, no assurance can be given that special pricing mechanisms, including state regulated pricing, would not be introduced in Russia. Such developments could have an adverse effect on our results in the electricity generation and sales operating segment.

We sell heat energy at prices regulated by the FAS. In marketing heat energy, we often encounter issues relating to insufficient legal regulation with regard to the market for heat energy that could result in the regulated tariffs for supplies to the end consumers being lower than our cost of production, consequently reducing our financial results.

We are required to supply natural gas to customers in Russia at prices that are regulated by the Government and are below those which may be economically viable to us.

We are, and are likely to remain for the foreseeable future, a natural monopoly with respect to activities in natural gas transportation through trunk pipelines in Russia. Wholesale prices of natural gas that we and our affiliates produce and sell to consumers in the Russian Federation are regulated by governmental authorities and are currently significantly lower than the prices we charge to Western European off-takers.

Domestic regulated gas prices are expected to increase from 2019 through 2024 in line with the growth rates set forth in the Forecast of Social and Economic Development in the Russian Federation approved by the Government in September 2018 (the "**Forecast**"). See "Gazprom—Distribution—Russia—Domestic market conditions." However, no assurance can be given that natural gas prices in Russia will increase in line with the growth rates set forth in the Forecast, or increase at all. If the natural gas prices we charge to Russian customers do not increase as currently anticipated, our investment program could be scaled back and our future results of operations, cash flows and financial condition could be adversely affected.

Negative economic developments and conditions in the markets in which we operate can adversely affect our business and results of operations.

Our results of operations are significantly influenced by the general economic conditions in the countries in which we operate. Since 2010, many countries in the Eurozone and the FSU have experienced recessionary conditions. In particular, many countries in these markets have experienced declining economic growth, reduced industrial production, increasing rates of unemployment as well as decreasing asset values, and may further deteriorate as a result of the current economic instability, caused by various factors including, for instance, the decision of the United Kingdom to withdraw from the European Union, and possible global recession. Russia also experienced economic slowdown from 2012 through 2014 and was in recession in 2015. Adverse economic developments of the kind described above have resulted in a decrease in demand for natural gas and other commodities, which in turn has affected and may continue to affect our business in a number of ways, including, without limitation, due to the deterioration of the financial condition of our customers. In the period from 2011 through 2015, we experienced a significant reduction in demand for natural gas in our main markets compared to prior years. The cumulative effect of this reduction in demand was a decrease in our natural gas production by more than 18% in 2016 compared to 2011. Our gas production and sales volumes rose considerably in the first nine months of 2018 and in 2017 as compared, respectively, to the first nine months of 2017 and 2016. However, the continuing uncertainty in respect of demand in the future may have a material adverse effect on our business, financial condition and results of operations. Our long-term supply contracts with customers in Europe generally have "take-or-pay" provisions that provide for minimum annual volumes of natural gas. Customers that have failed to purchase the minimum amount stipulated in the contract are required to pay for a major portion of such amount. However, no assurance can be given that our customers will fulfill these obligations.

The declining oil prices, the crisis in Ukraine and sanctions imposed in connection with the situation in Ukraine have had a significant adverse impact on the economic conditions in Russia. Political tensions and increased risks associated with the Russian economy and the declining oil prices, have caused significant capital outflow, the ruble has depreciated, and there has been an overall negative effect on the investment climate in the country. These developments have led to decreased value of Russian assets, credit rating downgrades, declined industrial output, contraction in consumer spending, higher inflation, limited access to international capital markets, increased cost of domestic and international borrowings or the inability of many borrowers to refinance their borrowings. These negative economic developments have had and may continue to have an adverse effect on our business condition, cash flows and results of operations. In addition, there can be no assurance that, in circumstances of especially stressful financial conditions in the Russian market, controls of capital outflow and restrictive currency controls will not be implemented. Implementation of such controls may have an adverse effect on our business condition, cash flows, results of operations and our ability to make payment on the Notes.

Delayed, non-collectible and non-cash payments by our customers could adversely affect us.

The failure of a number of FSU and Russian customers to pay us for supplies of natural gas and other products has from time to time resulted in substantial increase in our accounts receivable. As of September 30, 2018, gross accounts receivable for sales of natural gas due from customers in the FSU countries and in Russia were RR554 billion and RR374 billion of which 95% and 82% were doubtful or overdue, respectively. See "Gazprom—Distribution—The FSU—Debt settlement" and "Gazprom—Distribution—Russia—Payments for gas deliveries in Russia." Furthermore, our cash flows could be affected by the inability or limited ability of our customers, particularly those in the FSU countries and Russia, to pay for our natural gas and other products we sell. As of September 30, 2018, we made provisions of RR523 billion and RR279 billion in our Unaudited consolidated interim condensed financial information for expected credit losses on our accounts receivable due from customers for gas sales in the FSU countries and in Russia, respectively, including provisions in the amount of RR122 billion in respect of Naftogaz's overdue debt. In addition, despite the high credit ratings of the majority of our European customers and payment obligations of some of our foreign customers being guaranteed by European banks, payments for natural gas, crude oil, oil refinery and petrochemical products we supply to certain customers in South and South Eastern Europe may be delayed or not made in full due to a reduced creditworthiness of such customers. As of September 30, 2018, overdue debt for gas supplies in Europe and Other Countries amounted to RR28 billion or approximately 7% of our gross accounts receivable from gas sales to Europe and Other Countries. In addition, stringent compliance procedures currently followed by some of our counterparties and intermediaries, including banks, as a result of the sanctions imposed by the U.S. and EU may sometimes result in delays in payments.

There can be no assurance that amounts owed to us by our customers will be paid in full or, if paid, that payment will be in cash. In addition, no assurance can be given that amounts owed to us by our customers will not be written off pursuant to intergovernmental agreements that may be entered into in the future, which could have an adverse effect on our financial position. As was the case with many Russian companies, we had to make use of and accept various forms of non-cash settlement, including negotiable promissory notes, bonds, equity interests in natural gas companies and goods and services as payment for gas supplies. Non-cash settlement of transactions had in the past, and may have in the future, an adverse effect on our ability to fund those operating or capital expenditures that we are required to make in cash and to make interest, dividends, tax and other mandatory payments when due.

We bear a substantial tax burden.

We are subject to a broad range of taxes imposed at federal, regional and local levels, and we are one of the largest sources of tax revenue for the federal budget, as well as for the regional and local budgets in those regions and locations and localities in which we operate. Addressing social and economic issues by federal, regional and local authorities increases the risk of raising tax rates or revision or abolition of regional tax benefits, which may result in an increase to our substantial tax burden.

Export duty rates for the products we produce are subject to frequent change. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Recent Changes in Russian Tax Regulation." There can be no assurance that future changes in export duty rates or objects of taxation will not cause our tax burden to increase, which could have a negative effect on our results of operations, cash flows and financial condition.

Starting January 1, 2015, the mineral extraction tax ("**MET**") rate for natural gas is determined pursuant to a formula, which takes into account various factors such as prices for oil and gas, degree of difficulty of extraction of gas and gas condensate and other factors. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Recent Changes in Russian Tax Regulation." The application of the new method of calculating the MET rate for natural gas and gas condensate has increased our tax obligations.

MET for crude oil is calculated pursuant to a formula, which adjusts the basic MET rate depending on fluctuations of crude oil prices and degree of difficulty of oil extraction. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Recent Changes in Russian Tax Regulation." MET basic rates increased from RR857 per ton in 2016 to RR919 per ton from 2017.

Federal law No. 401-FZ, dated November 30, 2016, introduced amendments to the formula for calculating MET for natural gas and gas condensate for the period from 2017 to 2021 (taking into account further amendments introduced by Federal law No. 254-FZ, dated July 29, 2017, Federal law No. 199-FZ, dated July 19, 2018 and Federal law No. 424-FZ, dated November 27, 2018). Federal law No. 301-FZ, dated August 3, 2018 introduced additional amendments to the MET formula for gas condensate for the period from 2019 to 2024. Depending on certain variables, such as oil and gas prices and other components of the MET formula, the amendments could result in an increase in our MET burden with respect to natural gas and gas condensate in 2017-2024 as compared to 2016.

However, our actual MET burden in respect of natural gas and gas condensate production will also depend on other factors reflected in the MET formula, in particular, various macroeconomic indicators including oil and gas prices. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—

Recent Changes in Russian Tax Regulation." There can be no assurance that these or future changes in the MET taxation will not increase our tax burden adversely affecting the profitability and overall results of our operations.

The recent amendments to Russian tax legislation provide for a gradual elimination of regional and local tax breaks and an increase in the corporate property tax burden. The increase of the property tax rate may adversely affect our investment activity in Russia because a significant portion of the additional tax burden will be imposed on our new gas transportation facilities. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Recent Changes in Russian Tax Regulation."

The Government receives substantial revenues from export duties on natural gas, crude oil and refined products, and we have no control over changes to Russian customs law and the Russian Tax Code. The Government may institute changes in export duties or other taxes in an attempt to promote fiscal goals, while at the same time altering profitability dynamics of our operations negatively, including in ways that could have a material adverse effect on our business, financial condition or prospects and results of operations, as well as the value of the Notes.

The Government has exercised, and can be expected to continue to exercise, a strong influence over our operations.

The Russian Federation currently controls more than 50% of Gazprom's ordinary shares. See "Shareholding Structure of Gazprom." Nominees of the Russian Federation, including Mr. Miller, the Deputy Chairman of the Board of Directors and Chairman of Gazprom's Management Committee, hold nine out of eleven seats on the Board of Directors. State authorities regulate the prices we charge for gas in the domestic market, the tariffs we charge for the transportation of third parties' gas through the GTS and other matters affecting our business. Through its shareholding, representation on the Board of Directors and role as the main regulator, the Government has a strong influence over our operations. In particular, in April 2017, the Chairman of the Government signed an order which required the governmental agencies authorized to exercise shareholders powers on behalf of the Russian Federation in relation to state-owned companies to procure that the state-owned companies pay dividends of at least 50% of their 2016 profits under IFRS. For each of the full years 2016 and 2017, the Board of Directors recommended, and the General Meeting of Shareholders approved, a dividend payout of RR190.3 billion, which is equal to approximately 20% and 27% of profits attributable to owners of Gazprom under its Annual Consolidated Financial Statements for the years ended December 31, 2016 and December 31, 2017, respectively. There could be no assurance that in the future we would not have to pay a greater share of our profits to our shareholders. Equally, there could be no assurance that the Government would not require us (as well as other Russian companies) to take certain actions, such as the undertaking of projects and supply of goods and services to customers, that may not be in the best interests of the companies and their investors.

Further, in 2012, the President of the Russian Federation adopted Decree No. 1285 "On Protection Measures for the Interests of the Russian Federation in Foreign Economic Activity" dated September 11, 2012 ("**Decree No. 1285**"). Decree No. 1285 requires that certain companies, including Gazprom and its subsidiaries, obtain permission from an authorized governmental agency before engaging in certain activities, such as providing information relating to their business activities to foreign governments (including their regulatory and controlling bodies), international organizations and unions of foreign states, amending certain contracts and business policies, as well as disposing certain assets. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Foreign Investments." Such permission will be refused if activities specified in Decree No. 1285 could harm the economic interests of the Russian Federation. If we are unsuccessful in obtaining permission as required under Decree No. 1285, it could have an adverse effect on our ability to dispose of our foreign assets, amend contracts with foreign parties or cooperate fully with foreign state agencies.

We may not be successful in our efforts to integrate recent or future acquisitions and we may be unable to finance acquisitions we believe could be beneficial to our existing operations on terms desirable to us or at all.

We have acquired, and may continue to acquire in the future, businesses and legal entities that are engaged in activities that are different from our gas business. The integration of any newly-acquired businesses may be difficult for a variety of reasons, such as differing culture or management styles, poor records or internal controls and difficulty in establishing immediate control over cash flows. As a result, the need to integrate acquired assets or any potential future acquisitions poses risks to our existing operations, including:

- additional demands placed on our senior management, who are also responsible for managing our existing operations;
- increased overall operating complexity of our business; and
- additional cash expenditures or debt service costs.

Acquisitions of businesses and assets also create the need to attract and retain a greater number of qualified management and other personnel, for which there is significant competition in Russia. Any failure to successfully integrate potential acquisitions could adversely affect our business, financial condition and results of operations. Moreover, even if we were successful in integrating any newly acquired assets and acquiring additional assets, expected synergies and cost savings may not materialize, resulting in lower than expected profit margins.

We also may be unable to generate and raise sufficient funds to finance future acquisitions that may be beneficial to our future operations or to do so at a reasonable cost. See "—Debt financing may not be available on desirable terms or at all." Lack of sufficient funds in the future may require us to delay or abandon some of our anticipated acquisitions.

Implementation of major international energy projects is associated with political and regulatory risks. If it becomes impossible or impractical to continue to implement such projects, they may be suspended or discontinued. As a result, our contractors may bring claims against us to recover damages and we may be required to record significant impairment provisions attributable to such projects in our financial statements.

While implementing our major international projects, such as the TurkStream and Nord Stream II pipelines, we have faced and may continue to encounter risks associated with changes in political conditions in various regions related to such projects, strains in relations between countries, and shifts in positions of our partners and regulators with regard to various aspects of the projects. In some instances such changes may result in a project becoming impossible or impractical, which may cause the project to be suspended or cancelled. Consequently, claims could be brought against us seeking recovery of damages incurred by our contractors, and we may be required to pay substantial compensation, including damages, penalties, cancellation fees and make other payments. We may also be required to record significant impairment provisions relating to our investments in such projects and contingent liabilities associated with potentially unsuccessful litigation. In addition, such occurrences may result in reputational damage.

For instance, inconsistencies between the provisions of the Third Gas Directive and the terms of bilateral intergovernmental agreements entered into by and between the Russian Federation and other countries that participated in implementing the South Stream pipeline project became one of the reasons for the cancellation of the project in 2014 and its substitution for an alternative project, the TurkStream pipeline. See "Gazprom—Transport—International projects in gas transportation—TurkStream."

In connection with the development of the South Stream pipeline project, we contracted with a number of international suppliers that supplied equipment, performed works, rendered services and otherwise engaged in implementing the project. Following the cancellation of the project, certain of our agreements with such contractors were terminated early.

In December 2015, South Stream Transport B.V. ("**SST**"), a project company for the South Stream pipeline project, received from the Secretariat of the ICC International Court of Arbitration a notice of arbitration initiated by Saipem S.p.A. ("**Saipem**") against SST in relation to the unilateral termination of an agreement regarding the construction of the South Stream pipeline dated March 14, 2014. See "Gazprom—Litigation and Investigations."

Due to possible uncertainties inherent in implementing our investment projects, in accordance with IFRS we may be required to record substantial impairment provisions in our financial statements attributable to the diminution in value of such investments. Depending on the amount of such provisions, they could have a material adverse effect on our results of operations and financial condition.

For example, due to the significant investments we had made in the cancelled South Stream project and the uncertain status of the alternative TurkStream project at the end of 2015, we recognized impairment attributable to construction-in-progress. As of September 30, 2018, the balance of this impairment provision amounted to RR44 billion.

Although the TurkStream project is currently at the construction stage, there can be no assurance that this or any other major project will be completed. If such projects are suspended, cancelled or their parameters are substantially revised, our financial condition and results of operations could be adversely affected.

Our licenses may be suspended, amended, or terminated prior to the end of their terms, and we may not be able to obtain or maintain various permits and authorizations.

In accordance with Russian law, many of our business operations are subject to licensing or obtaining of various permits and authorizations. We have been able to obtain and extend licenses, permits and authorizations necessary to carry out our operations; however, no assurance can be given that we will be able to do so in the future. If we fail to obtain or extend significant licenses, permits or authorizations, our operations, financial position or the value of our assets could be adversely affected.

The licensing regime in Russia for the exploration and production of natural gas, gas condensate and crude oil is governed primarily by Federal Law "On Subsoil" No. 2395-1 dated February 21, 1992, as amended (the "**Subsoil Resources Law**"), Federal Law "On Gas Supply in the Russian Federation" No. 69-FZ dated March 31, 1999, as amended (the "**Gas Supply Law**"), Federal Law "On the Continental Shelf of the Russian Federation" No. 187-FZ dated November 30, 1995, as amended (the "**Continental Shelf Law**"), and numerous regulations issued thereunder. We currently conduct our operations under multiple geological study, exploration and production licenses. Production licenses for our major natural gas and oil production fields extend to at least 2019, with most of our licenses extending for a much longer period. In accordance with current legislation, we plan to extend our licenses that have a fixed term to the end of the economic life of the fields to which such licenses relate. Although historically we have been able to obtain such extensions, we may fail to do so in the future.

Most of our licenses also provide that they may be terminated if we fail to comply with material license requirements, do not make timely payments of levies and taxes for the use of the subsoil, systematically fail to provide information to regulatory authorities or fail to fulfill any license requirements in respect of exploration and hydrocarbon production volumes or timing requirements relating to subsoil use. In some instances we have to engage in exploration activities in addition to those that are provided by the terms of our licenses, particularly, at the geologically complex subsoil areas that could result in changes of subsoil use periods. The Group has from time to time requested and received appropriate amendments to certain licenses, but has not had any material licenses revoked or suspended. There can be no assurances that the decisions of the Government regulators in the future will always be favorable to us. Moreover, an eventual decrease in demand among our principal customers could increase the likelihood that we will not be able to achieve the production targets required by our licenses. Russian law provides that the timeline for putting fields on stream stipulated in a subsoil license may be amended due to significant changes in consumption levels that have occurred due to circumstances beyond the subsoil user's control. However, if we fail to fulfill the specific terms of any of our licenses or if we operate in the license areas in a manner that violates Russian law, Government regulators may impose fines on us or suspend, amend or terminate our licenses.

The Federal Service for the Supervision of Environmental Use ("**Rosprirodnadzor**") performs regular planned and unscheduled inspections occasionally issuing prescriptions that require us to remedy certain alleged violations relating to the timeline for performing geological works at various areas and fields and/or environmental law violations. Currently, a notice of violation of license terms regarding the timeline for geological works remains outstanding in relation to the Zapadno-Kamchatskiy licensed area. We are working to retain the license. See "Gazprom—Reserves and Production—Licensing activities." If we are unsuccessful in complying with the prescribed requirements, the respective license could be suspended, amended or terminated or fines could be imposed on us. Any suspension, amendment, or termination of our licenses could have an adverse effect on our operations, financial position or the value of our assets.

We must make significant capital expenditures in order to replace diminishing production in our operating fields and maintain and develop our gas transportation system to meet our gas supply obligations in Russia and abroad. Certain of our projects and related capital expenditures may be revised, in particular, if the demand for and price of natural gas and other hydrocarbons that we produce diverge from our expectations or due to other reasons including international sanctions.

In order to perform our obligations under our export contracts and supply gas to the domestic market, we must make capital expenditures in order to develop our natural gas, gas condensate and crude oil production capabilities in line with demand, maintain our natural gas transportation system and offset declines in our main producing fields, particularly our Urengoyskoye and Yamburgskoye fields. In order to achieve such goals, we are developing satellite fields in Western Siberia and fields in the Yamal Peninsula, Eastern Siberia and the Far East, and increasing Gazprom Neft's oil production levels, which require exploration and development activity. The development of fields in these regions has required and will require significant investment because of their distance from existing gas transportation facilities, the complexity of well construction in such areas and difficulties in the implementation of new technologies, including those for environmental preservation in severe weather conditions.

Our current gas transportation projects, including the construction of the Power of Siberia pipeline and the second and third branches of the Bovanenkovo-Ukhta and Ukhta-Torzhok trunk pipelines for gas transportation from the Yamal Peninsula, the GTS capacity extension to facilitate supplies to the Nord Stream II pipeline, and the construction of the Nord Stream II and the TurkStream projects, have required, and our other contemplated gas transportation and other projects may require, significant investment. In addition, considerable sums of money are required to maintain and develop the GTS, which we own and operate and which is responsible for the transportation, storage and delivery of substantially all natural gas in Russia. See "Gazprom—Investment Program." The GTS comprises an extensive network of pipelines and compressor installations that has been largely developed over more than 40 years. Most of the pipeline is over 10 years old, and some portions of the pipeline are over 30 and 40 years old, necessitating continuous inspection, capital repairs and reconstruction. See "Gazprom—Transport—GTS." A significant part of the pipeline is protected by electrochemical processes of limited duration and effectiveness. In addition, large segments of the GTS are located in regions with harsh climates, where

construction, maintenance and refurbishment are difficult and costly. Given these factors and the imposition of international sanctions, the uncertainty with respect to future prices and demand for energy resources and other factors that are out of our control, we may have to revise the timeframe of, and investments in, certain of our prospective projects to avoid a build-up of excess capacities. We may also be unable to finance our capital expenditures at a reasonable cost, including the capital requirements necessary to maintain our production and the operation of the GTS. See "Gazprom—Investment Program."

It is possible, however, that we will be unsuccessful in meeting our long-term production targets as a result of possible decreases in our capital expenditures due to the foregoing or other reasons. In such circumstance, our ability to meet our contractual export commitments and domestic supply obligations could be adversely affected. In addition, an eventual decrease in our investment program may increase the risk that certain of our licenses will be suspended, amended or terminated. See "—Our licenses may be suspended, amended or terminated prior to the end of their terms, and we may not be able to obtain or maintain various permits and authorizations." Additionally, a possible inability to obtain financing in or outside Russia as a result of international sanctions may cause us to divert funds earmarked for investment to pay off our debts.

Debt financing may not be available on desirable terms or at all.

We expect to fund our capital expenditures, working capital and any potential acquisitions through our operational cash flows, other internal sources and external financing. There can be no assurance, however, that we will be able to generate and raise sufficient funds to meet such capital requirements in the future or to do so at a reasonable cost. We depend on regular access to debt markets to meet a significant portion of our financing requirements. Our cash flow generated from our natural gas, crude oil and refined product sales decreased following the dramatic fall in crude oil prices in late 2015 and early 2016 and the consequential decline in natural gas prices under our long-term contracts. Additionally, during periods of global bank and capital markets disruptions that have occurred in recent years, we experienced disruptions that were characterized by severe reductions in liquidity, greater volatility, general widening of spreads, and, in some cases, lack of price transparency in money and capital markets interest rates. As a result, many lenders reduced or ceased providing funding to borrowers, particularly in the emerging markets, and there was a general increase in the cost of borrowing for corporate borrowers in such periods, including Gazprom.

Our ability to raise debt financing from capital markets or otherwise could be further affected by other factors that we do not control, for example, the imposition of international sanctions or actions of rating agencies. Against the background of a steep decline in oil prices and the Ukrainian crisis, S&P, Fitch and Moody's took negative rating actions in previous years resulting in downgrades of Gazprom's credit ratings. Currently, we are rated BBB– by S&P, BBB– by Fitch and Baa3 by Moody's. There can be no assurance that no further downgrades of either Gazprom's or Russia's sovereign credit rating will occur, and any such downgrades could further increase our cost of debt financing or otherwise impede our access to debt capital markets on economically acceptable terms. In recent years, the global bank and capital markets have shown periods of increased volatility primarily due to continued global macroeconomic challenges. The prospects of future macroeconomic stability remain uncertain due to such factors as the tightening of monetary policy by the U.S. Federal Reserve and the slowdown of the economy of China. Falling oil prices between 2014 and 2016 had an overall adverse effect on global economy, creating risks associated with the lack of sustainability of large corporations, weakening of national currencies of oil exporting countries and deterioration of their payment and budgetary balances.

We face numerous operational risks in our gas and crude oil exploration, production, transportation and other core activities, which may result in losses and additional expenditures and which may not be covered by insurance.

We conduct our exploration activities in various geographical regions, including Western and Eastern Siberia, the Far East and the Russian continental shelf, which are characterized by their remoteness from population centers, challenging environmental conditions and high costs associated with these factors. For these reasons, the cost of drilling, completing and operating wells is often uncertain. As a result, we may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. The ongoing sanctions have imposed significant restrictions on providing goods, services or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects. For example, in August 2015, the U.S. Department of Commerce's Bureau of Industry and Security (the "**BIS**") added our Yuzhno-Kirinskoye field to its Entity List. A designation on the Entity List effectively eliminates the availability of U.S.-made equipment to such entities or at such projects. See "—The sanctions imposed by the U.S. and EU, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition." We operate highly sophisticated and often customized equipment, and any supply shortages or delivery delays, including as a result of the imposed or further sanctions against Russian entities and individuals, as well as insufficient quality of such equipment, could cause disruptions in our operations and delays in the implementation of our projects.

In addition, our overall drilling activity or drilling activity in particular project areas may be unsuccessful in that we may not find commercially productive reservoirs.

Our core operations, including production, transportation, storage and refining of hydrocarbons, may also be adversely affected by many factors, including the breakdown or failure of equipment or processes, labor disputes, natural disasters, political disputes and terrorist attacks or sabotage to our extensive pipeline network and other equipment. Although our GTS has been designed and is operated in a way that seeks to minimize the risk that reliable gas supplies are disrupted and there have been no significant delays or curtailments of the supply of natural gas or crude oil to our customers due to these factors recently, no assurance can be given that such delays or curtailments will not occur in the future due to the stress and corrosion of pipelines, defective construction of trunk pipelines or compressor stations, insufficient maintenance or refurbishment of the pipeline system or other factors.

We maintain insurance coverage for most of Gazprom's and its main subsidiaries' operational risks, taking into account the available insurance conditions and coverage provided by Russian and international insurance markets. However, we do not have full insurance coverage for all of our activities. See "Gazprom—Insurance." Therefore, in a number of cases, we would have to cover financial losses from the above-mentioned or other factors out of our own cash flow.

We encounter competition in our largest business, natural gas sales, from alternative fuel sources and other natural gas producers and suppliers and actions of antitrust regulators, structural changes in our markets or regulation can intensify this competition or otherwise adversely affect our operations or financial position.

We face varying degrees of competition in each of our major natural gas markets from other natural gas suppliers and providers of alternative fuels, such as crude oil, oil products and coal. No assurance can be given that we will be able to compete effectively with such providers of alternative fuels or with those who produce gas from unconventional sources including shale gas.

We are a natural monopoly in transportation of natural gas and according to Federal Law "On gas export" No. 117-FZ dated July 18, 2006 (the "**Gas Export Law**"), as the owner of the UGSS, we have the exclusive right to export natural gas produced in Russia, except for gas produced under production sharing agreements that had been entered into before the Gas Export Law came into effect and LNG produced in Russia by the companies meeting certain legal requirements. Although the proposed Draft Energy Strategy of the Russian Federation until 2035 (dated February 1, 2017) indicates that the existing monopoly for export of Russian pipeline gas should be maintained, there can be no assurance that our exclusive right to export gas by pipelines will not be revoked in the future or our business or operations will not be otherwise reorganized by the Russian Government.

An increase in European intra-pipeline trade and the decision by several European countries to diversify sources of gas supply have increased competition with our pipeline gas. We encounter competition in Europe from other natural gas suppliers (especially from Norway, the United Kingdom, the Netherlands, Algeria and Qatar), which has affected and could continue to affect the prices and volumes of our sales of natural gas to Europe. We also cannot exclude future competition from Iranian gas. The eventual emergence of new large suppliers of natural gas in Europe and/or the LNG exports or competing coal supplies from North America could also result in an increased supply of energy resources, increased competition and lower prices. In addition, the existing blockade of Qatar by some Arab states may make European gas prices and/or supplies from Qatar more volatile and less predictable.

In late 2017, Yamal LNG, a joint project executed by NOVATEK JSC ("**Novatek**") and their foreign partners on the Yamal Peninsula, commenced production and shipment of LNG for export, including to European countries. Senior management of Novatek has publicly stated that they intend to avoid competition of LNG supplied under long term contracts from Yamal LNG with our pipeline gas supplies. However, there can be no assurance that the LNG produced by this project, other projects on the Yamal Peninsula or other similar projects that could be launched by independent producers in Russia in the future will not compete in certain circumstances with our pipeline gas exports in Europe or other markets.

In Russia, we face competition from other crude oil and natural gas suppliers, in particular from Russian independent natural gas suppliers. See "Gazprom—Competition." Wholesale gas prices we realize in Russia are regulated by the Government. This limits our opportunities to compete with independent suppliers that sell their gas at unregulated prices allowing them to offer their customers more flexible pricing terms. In addition, our gas tends to be replaced by gas supplied by the independent suppliers in the Russian regions where the independent suppliers produce gas as well as in the adjacent regions. Independent suppliers increased their combined share in gas production in Russia from 27% in 2013 to 34% in 2015 and 2016 and decreased to 32% in 2017. However, there can be no assurance that their share in gas production and sales to consumers in Russia would not increase in the future. See "Gazprom—Competition—Russia."

As a result of its liberalization in recent years, the Western European gas market has undergone a significant structural change. Directive 2003/55/EC adopted in the EU in June 2003 (the "**Second Gas Directive**") and Directive 2009/73/EC

adopted in the EU in July 2009 (the "**Third Gas Directive**") have brought about significant liberalization of the EU gas market by introducing greater competition into the market in order to reduce gas prices for the end-user. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Regulation Abroad—Gas Directives."

The Third Gas Directive sets forth three alternatives for the vertical disintegration of existing energy producers and suppliers from operators of relevant transportation networks. The alternatives establish various restrictions imposed on energy producers with respect to ownership and management of the transportation networks, varying from restrictions on managing the networks imposed by a national regulator to a mandatory disposition of assets or requirement to transfer control over assets to an independent operator.

The requirements relating to vertical disintegration apply not only to European undertakings but also to foreign vertically integrated undertakings operating in the EU, including the Group. If, pursuant to the Third Gas Directive, an EU state chooses to implement the most restrictive measures in relation to participation of energy producers in ownership and management of the transportation networks, we may be required to dispose of our gas transportation assets in Europe. In light of the requirements of the Third Gas Directive and related national rules and regulations, we have restructured our assets in Europe and disposed of our holdings in gas transportation companies in a number of European countries, including the Baltic States. In particular, in 2015, we disposed of our non-controlling interests in EG Vorguteenus (Estonia) and Interconnector (UK) Ltd. (United Kingdom), which operate gas transportation networks in Europe. In 2016, we completed the sale of our interest in Gasum Oy (Finland) ("**Gasum**") and AS Eesti Gaas (Estonia) ("**Eesti Gaas**").

In November 2017, the European Commission released draft amendments to the Third Gas Directive which, in particular, extend its requirements to sections of onshore and offshore gas pipelines laid in the territories under jurisdiction of the EU and going from or to other countries. Although the proposed amendments have not been approved yet by relevant EU bodies and EU member states, the implementation of the Third Gas Directive and/or possible amendments to it, if enacted, could negatively affect the timing and prospects of our gas transportation projects in Europe. In particular, inconsistencies between the provisions of the Third Gas Directive and the terms of bilateral intergovernmental agreements between the Russian Federation and the other countries that participated in implementing the South Stream pipeline project became one of the reasons for the cancellation of the project in 2014 and its substitution for an alternative project, the TurkStream pipeline. The restrictions imposed by the Third Gas Directive and possible amendments to it, if enacted, could affect our competitive position and our ongoing or contemplated projects, and, consequently, our results of operations. In the absence of a special permission granted in accordance with EU regulations, it may not be possible for us to own and control gas transportation assets in Europe.

Further liberalization of the gas market in Europe may also result in a declining role for long-term contracts, which could, in turn, adversely affect the stability of our revenues.

In 2017-2018, the European Commission carried out a study, known as the Quo Vadis EU gas market regulatory framework, to assess whether the current regulatory framework in the EU gas sector is the most effective in order to maximize overall EU welfare or whether amendments may be necessary. The published report on the study contains conclusions and recommendations which, in particular, provide for measures aimed at a reduction in wholesale gas prices. The European Commission has stated that the results of the study do not prejudice any possible changes of the gas regulatory framework. However, there can be no assurance that a possible implementation of the recommendations will not result in increased regulatory burden on our operations in the EU.

In addition, from 2012 through 2018, the European Commission conducted a formal antitrust investigation regarding alleged violations of antimonopoly laws of the EU by Gazprom and Gazprom Export, which, in particular, included allegations of segmenting the European gas market, imposing unfair prices on customers and obstructing competition. In May 2018, as a consequence of Gazprom and Gazprom Export accepting certain pro-competition commitments, the European Commission announced the termination of the antitrust investigation against Gazprom and Gazprom Export in the markets of Central and Eastern Europe. However, in March 2017, PGNiG S.A. submitted a complaint to the European Commission alleging violations by Gazprom and Gazprom Export of antimonopoly laws of the EU. In May 2018, Gazprom received a notice from the antimonopoly authority of the Republic of Poland ("**Polish Competition Commitee**") in relation to the alleged violation of the Polish antitrust laws in connection with the arranging of funding for Nord Stream 2 AG. Additionally, in October 2018, PGNiG S.A. filed an appeal to the Europen Court of Justice against the decision of the European Commission on pro-competition commitments of May, 2018. For more information, see "Gazprom—Litigation and Investigations—International Litigation and Investigations." There can be no assurance that the outcome of the legal proceedings initiated by PGNiG S.A. or other similar actions that may take place in the future or the action taken by the Polish Competition Committee will be, or will end up with a result that is, favorable to us. As of the date of this Base Prospectus, it is not possible to assess the potential negative impact of the actions of PGNiG S.A. on our operations in Europe, including on the prices we charge to our European customers, or the impact of the action of the Polish Competition Committee in Poland or in respect of our financial position as a whole. See "Gazprom—Litigation and Investigations."

Certain European countries have intensified efforts to diversify their energy sources with an intent to reduce the dependence of European customers on Russian gas supplies. In addition, the EU has repeatedly stressed the need for the diversification in connection with our gas price disputes with Ukraine (see "—We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas"). In particular, the Trans-Anatolian pipeline was put into operation in June 2018 and the Trans-Adriatic pipeline is currently under construction. These pipelines are intended primarily for natural gas transit from the Azerbaidjani gas condensate field Shah-Deniz to Europe. In addition, other new pipeline projects, including the Interconnector Turkey-Bulgaria, Interconnector Greece-Bulgaria, Interconnector Turkey-Greece-Italy, Denmark-Poland, a possible project of a gas pipeline from Iraqi Kurdistan to Turkey, where Rosneft may participate, and other potential pipelines, are in varying stages of pre-construction development. The projects are designed to transport gas from Norway, the Caspian Region, Central Asia and the Middle East to Europe and Turkey. While we currently believe that the expected gap between gas demand and production in Europe in the long term will create room for various gas transportation projects, including our Nord Stream II and the TurkStream pipelines, there can be no assurance that alternative gas transportation projects will not compete with our gas supplies in the future if the domestic production and demand, or other factors in the European gas market, change differently from our expectations. In that case, our future results of operations, cash flows and financial condition could be adversely affected.

We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas.

Although our strategy includes seeking to diversify our export routes, we are currently dependent on pipelines in Ukraine and Belarus to deliver a significant portion of the natural gas we sell to customers in Europe, and we may not be able to prevent eventual disruptions in our transit of natural gas through Ukraine and Belarus. In the past, the FSU countries purchased our natural gas at fixed prices that represented a significant discount to the prices we realized under our European contracts. Since the late 1990s, we have been working to gradually align the terms in our export contacts with the FSU countries to the terms in our export contracts with European customers. However, our customers in the FSU countries have occasionally objected to the extension of our contracts on such new terms or even failed to fully pay for gas supplies. There have been instances in which our gas deliveries intended for our European customers were diverted as a result of our disputes with the FSU transit countries. For instance, in January 2009, in connection with a price dispute, Ukraine closed all major export pipelines going through Ukraine. We also had a price dispute with Belarus in 2010 that led to a temporary suspension of our gas supplies to Belarus, although deliveries to our European customers were not disrupted during that time. See "Gazprom—Transport—Existing routes of gas export and participation in foreign gas distribution networks—Natural gas transit through Ukraine and Belarus." We have settled these disputes with Ukraine and Belarus.

Arbitration over the 2009 Contract price and Naftogaz's debt owed to us for gas supplies in 2013 and 2014 and the failure to purchase contracted gas volumes under the "take-or-pay" clause in the period from 2012 through 2016 proceeded from 2014 through 2017. On December 22, 2017 and February 28, 2018, the Arbitration Institute of the Stockholm Chamber of Commerce (SCC) rendered the Gas Supplies Award and the Transit Dispute Award, respectively. Currently, we are appealing against both arbitral awards. See "Gazprom—Litigation and Investigations." Our gas transit to Europe through Ukraine has not been affected by these developments.

Since May 2018 Naftogaz has been taking actions in Switzerland, the Netherlands and the United Kingdom to enforce the Transit Dispute Award. In particular, in Switzerland, a court issued an enforcement injunction prohibiting Nord Stream AG and Nord Stream 2 AG, the operators of the Nord Stream and Nord Stream II pipeline projects, from paying receivables to Gazprom and directing that all such payments were instead to be made to Swiss bailiffs. In January 2019, Gazprom successfully contested such action in court and the prohibitions imposed on Nord Stream AG and Nord Stream 2 AG have been lifted.

Similarly, Naftogaz has initiated the enforcement proceedings in the Netherlands and the United Kingdom. On May 30, 2018, the District Court of Amsterdam provisionally seized Gazprom's shares in Blue Stream Pipeline Company B.V. ("**BSPC**"), the operator of the Blue Stream pipeline, and barred any payment of receivables to Gazprom owed by its Dutch subsidiaries (with such receivables remaining at the disposal of the Dutch subsidiaries). In June 2018, our assets were frozen in the United Kingdom. However, in September 2018 the freezing injunction was removed and replaced with Gazprom's undertaking not to dispose of any shares of Nord Stream AG owned by Gazprom until the handing down of the judgment of the English court on the recognition and enforcement of the Transit Dispute Award. The hearing in this case is tentatively set for February 2019. See "Gazprom—Litigation and Investigations." No assurance can be given that Naftogaz enforcement actions to recover under the Transit Dispute Award would not result in a seizure of our aforementioned and other assets (including cash payments made towards Gazprom) or that Gazprom would be successful in challenging such enforcement actions. Any of the risks described above, if realized, could have an adverse effect on our business, financial condition and results of operations.

We currently supply gas to Ukraine pursuant to the 2009 Contract through the Platovo and Prokhorovka gas measuring stations in the eastern part of Ukraine. However, Naftogaz has neither paid for nor recognized these supplies as made under

the 2009 Contract. In the end of February 2018, Naftogaz made a prepayment for gas deliveries beginning from March 2018. We returned the prepayment and did not recommence the deliveries of gas because the parties had not agreed to certain supplements to the 2009 Contract reflecting provisions of the Gas Supplies Award. In addition, in April 2018, after the negotiations had failed, Gazprom submitted a request for arbitration to the ICC Arbitration in Stockholm ("**SCC Arbitration**") seeking to amend or terminate the gas supply and transit agreements with Naftogaz in order to restore a balanced distribution of the contractual obligations and eliminate disproportions in terms of parties' contractual liability. See "Gazprom—Litigation and Investigations."

Since 2010, the tariff rate for gas transit through Ukraine has been calculated based on the market price formula set forth in the 2009 Contract. However, in late 2015, Naftogaz published a press release announcing that due to the recent amendments made to the legislation of Ukraine, the National Commission of Ukraine will set tariffs for natural gas transportation services through cross-border pipelines in accordance with new rules. The Minister of Energy and Coal Industry of Ukraine subsequently stated that according to the new rules the tariff rate for transit of Russian gas through Ukraine could be raised by more than 50%, while acknowledging that no tariff raise can be introduced without amending the existing contract. However, there can be no assurance that Ukrainian authorities will not attempt to unilaterally increase the transit tariff rates. In addition, in July 2018, Naftogaz filed a request for arbitration to the SCC Arbitration seeking a revision of the transit tariff rate charged for the gas transit through Ukraine from March 18, 2018 and recovery from Gazprom of approximately U.S.$11.6 billion for the period from March 18, 2018 to December 31, 2019. See "Gazprom—Litigation and Investigations."

In addition, in January 2016, the Anti-Monopoly Committee of Ukraine ("**AMCU**") published a decision in relation to its investigation of Gazprom's operations. In particular, AMCU alleges that Gazprom is a monopoly with regard to gas transit through the Ukrainian territory, and since 2011 has been violating the terms and conditions of the transit agreement with Naftogaz by refusing to adjust the volumes and the price of transit to levels that are economically justified. AMCU has imposed a fine on Gazprom of approximately UAH86 billion and demanded that the alleged violations be rectified. In October 2016, the Commercial Court of the city of Kiev commenced the enforcement proceedings in respect of the claim filed by AMCU seeking to recover the fine of UAH86 billion, penalties in the same amount (making the total amount of fines and penalties equal to UAH172 billion) and to compel Gazprom to transit the volumes of gas in the prescribed amounts. In May 2017, the State Executive Services of the Ministry of Justice of Ukraine ruled to begin enforcement procedures against us for approximately UAH189 billion (including the execution fee of approximately UAH17 billion). See "Gazprom—Litigation and Investigations." No assurance can be given that these or any future recovery efforts will be in our favor. Unfavorable court decisions and/or successful enforcement of the AMCU claims have resulted in arrests of our equity interests in certain Ukrainian companies and execution of levy against our other Ukrainian assets and may result in an arrest of our other assets, including the gas transported to our European customers. Moreover, despite the administrative rather than civil nature of the case, there can be no assurance that the Ukrainian authorities will not attempt to enforce the decision of the Ukrainian courts against our assets in other jurisdictions. Such developments may adversely affect our business, results of operations, cash flows and financial condition. In October 2018, following the imposition of the unfair and groundless fine by AMCU Gazprom initiated an UNCITRAL arbitration against Ukraine pursuant to the bilateral investment treaty between Russia and Ukraine on the encouragement and mutual protection of investments. See "Gazprom—Litigation and Investigations."

Any disputes with Ukraine or Belarus could potentially lead to a disruption of our exports to Europe through pipelines crossing these countries.

In addition to disruptions that may be caused by commercial disputes, our transit of natural gas through pipelines in Ukraine may also be disrupted if Ukraine is unable to properly maintain and ensure security of their pipelines due to the ongoing military conflict or a lack of financial resources. The current political and economic tensions between Russia and Ukraine have raised renewed concerns regarding the reliability of gas supplies to Europe through Ukraine and the ability of Naftogaz to repay its debt for supplied gas and make payments for current gas deliveries. The ongoing crisis in Ukraine aggravated by its poor economic conditions may also lead to a disruption.

To reduce transit risks, we expanded our gas export capacity and diversified our gas export routes by completing the Yamal-Europe pipeline, the Blue Stream pipeline and the Nord Stream pipeline, and we continue to invest further in other export-oriented projects, such as the Nord Stream II and the TurkStream pipeline projects and the development of our capacity to produce and sell LNG. See "Gazprom—Transport—International projects in gas transportation" and "Gazprom—Distribution—Europe and Other Countries—LNG." We are also expanding our access to UGSFs in Europe. See "Gazprom—Gas storage—Gas storage in FSU, Europe and Other Countries." However, no assurance can be given that such expansion will be sufficient to manage our transit risks in the future. Any significant disruptions in the transit of our gas could have a material adverse effect on our business, financial condition and results of operations.

A major disruption in the Transneft system and continuing increases in Transneft's fees could have a material adverse effect on our business, financial condition and results of operations.

The trunk pipelines for transportation of crude oil and petroleum products in Russia are controlled by PJSC Transneft ("**Transneft**"), a state-controlled monopoly. Transneft has generally avoided serious disruptions in the transport of crude oil and, to date, we have not suffered significant losses arising from the failure of the pipeline system. However, much of the Transneft-operated pipeline system is relatively old and located in regions with harsh climates. As a result, the Transneft-operated system may experience outages or capacity constraints during required maintenance periods and it is likely we may experience delays in or be prevented from transporting crude oil through it. These delays, outages or capacity constraints could materially adversely affect our business, financial condition and results of operations.

We, along with all other Russian oil producers, must pay transportation fees to Transneft in order to transport crude oil through the Transneft network. The FAS is responsible for setting Transneft's fees, which have risen in recent years and may continue to rise. Failure to pay these fees could result in the termination or temporary suspension of Gazprom Neft's access to the Transneft network, which would adversely affect Gazprom Neft's operating results and financial condition. In addition, increases in the fees for the use of Transneft's network raise our costs for the transportation of crude oil and petroleum products, adversely affecting our operating results and financial condition.

As an energy company we may incur material costs to comply with, or as a result of, environmental, health, and safety laws and regulations.

Our operations, which are often potentially hazardous, are subject to the risk of liability arising from various environmental, health and safety laws and regulations, including those arising from environmental damage or damage to third party's property. Environmental and health and safety laws regulate, among other things, the composition of emissions into the atmosphere, wastewater discharges and discharges to the sea, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. As a production company, environmental and health and safety liability risks are inherent in our operations. We may become involved in claims, lawsuits and administrative proceedings relating to environmental or health and safety matters in the future. An adverse outcome in any of these could entail the imposition of civil, administrative or criminal liability on the Group or its officers, which could have a material adverse effect on our business, financial condition and results of operations.

We have an established environmental policy and monitor our operations in an effort to meet applicable environmental legal requirements and standards. We have made provisions in the Group's Financial Statements for environmental liabilities where it is probable that an obligation exists and the cost related to such obligation could be reasonably estimated. Such provisions have been made in accordance with what we believe is a reasonable and prudent policy that takes into account payments made in prior years, among other factors. Currently, Russian federal, regional and local authorities occasionally enforce existing laws and regulations more strictly than they have done previously and are imposing stricter environmental and health and safety standards, or higher levels of fines and penalties for violations.

Should we incur environmental liabilities in amounts above currently established provisions, or should environmental or health and safety laws be enforced more strictly than they have been previously, or be changed to provide for stricter standards than are currently in place, it may adversely affect our business, results of operations, cash flows and financial condition.

Environmental concerns and actions, such as initiatives to address climate change or direct action by activist groups or other means, may hamper our operations.

International policies and initiatives to address climate change, such as treaties and regulatory actions to reduce greenhouse gas (and, in particular, the entry into force of the Paris Agreement on Climate Change ("**Paris Agreement**"), could affect our business and the balance of demand and supply for various types of fuels. The Paris Agreement, in particular, could have a positive effect on our gas business because it improves the competitive position of natural gas as compared to coal, but, on the other hand, could adversely affect our crude oil, gas condensate and refining businesses. Policy approaches that promote and subsidize the usage of alternative energy sources, including renewables, biofuels, hydro-electric power and wind power, initiatives to develop nuclear power generation and the provision of preferential factors for consumption of energy generated from such sources in Europe may have an adverse impact on our sales of hydrocarbons and financial results. The foregoing factors and the lower cost of carbon units diminish the market evaluation of the environmental advantage of natural gas relative to coal and could negatively impact our business in foreign markets.

Some of our current operations are, and planned activities are expected to be, carried out in environmentally-sensitive areas, in particular the Russian continental shelf of Arctic seas. While we continue to develop risk controls appropriate to manage the potential environmental impacts associated with our activities in these sensitive areas, including insurance for environmental liability, there remains a possibility that activist groups may continue to attempt to disrupt our operations through direct action, or other means. Any similar actions causing disruption to our operations may adversely affect our business, results of operations, cash flows and financial condition and may result in reputational damage.

There are numerous uncertainties inherent in estimating our reserves of natural gas, gas condensate and crude oil.

DeGolyer and MacNaughton has evaluated our reserves of natural gas, gas condensate and crude oil according to PRMS Standards as of December 31, 2017. See the January 25, 2019 letter from DeGolyer and MacNaughton attached to this Base Prospectus as Appendix B (the "**D&M Letter**"). An evaluation of proved and probable natural gas reserves naturally involves multiple uncertainties. The reserves data included in this Base Prospectus represent only estimates and should not be construed as exact quantities. The accuracy of any reserves evaluation depends on the quality of available information and engineering and geological interpretation. Based on the results of drilling, testing and production after the audit date, reserves may be significantly restated upwards or downwards. Changes in the price of natural gas, gas condensate or crude oil may also affect our proved and probable reserves estimates, as well as estimates of our future net revenues and present worth, because the reserves are evaluated, and the future net revenues and present worth are estimated, based on price and cost forecasts as of the audit date. For the foregoing reasons, potential investors should not place undue reliance on the forward-looking statements in this Base Prospectus with respect to our estimated reserves.

In addition, our reserves reports are prepared in accordance with the Russian reserves system, which differs in certain material respects from PRMS Standards and reserves standards applied by the SEC ("**SEC Standards**"), in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. As a result of the adoption of the new Classification of reserves and resources of oil and flammable gases approved by Order No. 477 of the Ministry of Natural Resources and Environment of the Russian Federation dated November 1, 2013 (the "**Classification**"), as further discussed under "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Classification of Reserves", we are replacing the reporting of geological gas reserves with that of extractable gas reserves. This transition involves estimating the reserves extraction ratio (the "**RER**") for each subsoil deposit. As at early 2018, we determined the RER for 19% of our AB_1C_1 natural gas reserves which averaged 0.89. The ratio changed insignificantly by the end of 2018 as we completed an assessment of a relatively small portion of our AB_1C_1 natural gas reserves in that period. Over time, most of our AB_1C_1 natural gas reserves will be presented using the RER metric. Our reserves base grows as a consequence of geological discoveries, the obtaining of new licenses and other contributing factors. Investors should be aware that the application of the RER to our AB_1C_1 natural gas reserves, net of the effect of other contributing factors in the future, would result in a decrease in reportable AB_1C_1 natural gas reserves, to the extent the applicable average RER is lower than 1. Investors should also be aware that the application of RER does not affect our natural gas reserves as they are reported under PRMS standards nor does the RER metric retroactively affect any reserves amounts reported for prior periods.

PRMS Standards also differ in certain material respects from SEC Standards. The amount of estimated proved natural gas, gas condensate and crude oil reserves reported under SEC Standards could potentially be lower than those reported under PRMS Standards. An eventual decrease in the amount of natural gas, gas condensate and crude oil reserves reported by us could, if material, affect certain financial data reported by us in the Group's Financial Statements in future periods.

Violations of existing international or U.S. sanctions related to Iran and North Korea could subject us to penalties or prevent certain of our transactions that could have an adverse effect on us.

To our knowledge, we are in material compliance with the resolutions of the UN Security Council, Russian law and laws of other applicable jurisdictions. However, we are continuing to monitor international sanctions and relevant laws and cannot give any assurance that we will not be subject to additional scrutiny from relevant authorities in connection with any such sanctions and laws.

International and U.S. sanctions have been imposed on companies engaging in certain types of transactions with specified countries or territories, including Iran and North Korea, or companies and individuals in those countries or deemed to be engaging in sanctionable activity.

In January 2016, the U.S. and the EU amended their respective sanctions regimes against Iran. As a result, portions of the U.S. and the EU sanctions programs with respect to Iran were suspended or lifted. However, in May 2018, the U.S. President announced a reinstatement of U.S. sanctions against Iran. According to guidance provided by the U.S. Office of Foreign Asset Controls (OFAC), the United States will be reinstating the sanctions that it previously lifted and the Executive Orders that it rescinded under the Joint Comprehensive Plan of Action. These sanctions will be reinstated following a wind-down period, with certain sanctions having returned on August 7, 2018 and the remaining sanctions restored on November 5, 2018. Certain transactions related to oil and gas, as well as Iran's energy, shipping and shipbuilding sectors, have again become subject to secondary sanctions effective November 5, 2018.

In March 2006, we entered into a 25-year agreement with the Armenian government. In 2009, pursuant to the agreement, CJSC Gazprom Armenia (formerly CJSC ArmRosGazprom), which is currently our wholly owned subsidiary, completed the construction and refurbishment of the approximately 188 km long second section of the Iran-Armenia pipeline. CJSC Gazprom Armenia ("**Gazprom Armenia**") owns this section of the pipeline. In 2009, the Armenian government, the owner

of the approximately 40 km long first section of the pipeline, leased the first section of the pipeline to Gazprom Armenia. Currently, Gazprom Armenia transports gas through the pipeline that the Armenian state-owned company obtains from Iran in exchange for electricity supplies. In addition, Gazprom Armenia uses a portion of this gas at its power generation facilities (Razdan-5) to produce electricity, which is subsequently supplied to the Armenian state-owned company.

In September 2011, Gazprom entered into separate memoranda of understanding with the Democratic People's Republic of Korea (North Korea) and KOGAS to explore the development of a pipeline through the territory of the Democratic People's Republic of Korea to the Republic of Korea (South Korea). To date, no binding agreement has been reached and no investment has been made.

In December 2016, Gazprom signed with National Iranian Gas Company ("**NIGC**") a memorandum of understanding outlining possible areas of cooperation. Further, Gazprom signed in March 2017 and extended in October 2017 a memorandum of understanding with National Iranian Oil Company ("**NIOC**") pursuant to which the parties intend to assess the prospects of cooperation in exploration and production of hydrocarbons in Iran. In November 2017, Gazprom signed with the Iranian Ministry of Petroleum, NIOC and Industrial Development & Renovation Organization of Iran memoranda of understanding that provide for cooperation in, among other things, development of Iranian gas fields, gas transportation from such fields, development of the Iran – Pakistan – India gas corridor, development of joint gas liquefaction, gas processing and petrochemical projects in Iran, and designing a unified system of gas production, transmission and processing for Iran. In December 2017, Gazprom signed with NIOC a protocol on the road map for the implementation of joint projects envisaged by the memoranda of understanding previously signed with the Iranian Ministry of Petroleum and NIOC. In addition, in December 2017, Gazprom signed with Oil Industry Pension, Saving and Staff Welfare Fund a memorandum of understanding providing for a joint assessment of opportunities to cooperate in the construction of an LNG plant in Iran.

We believe that we are not currently involved in any transactions relating to Iran or North Korea, which could result in the imposition of economic sanctions against us. However, no assurance can be given that sanctions in connection with Iran or North Korea may not be imposed in the future, and we cannot predict future interpretations of law, subsequent related legislation, or the implementation policy of the U.S. government with respect to the current or future U.S. sanctions programs.

If sanctions were imposed against us in connection with dealings with Iran or North Korea, the consequences could include a prohibition or limitation on our ability to obtain goods and services on the international market or to access the international capital markets, and could have a material adverse impact on our business, operating results, cash flows, financial condition, prospects, our ability to perform our payment obligations under the Notes, or the value of the Notes. See "—An expansion of U.S. or EU sanctions programs could adversely impact the trading market for the Notes."

The sanctions imposed by the U.S. and EU, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition.

Following the political and military crisis in Ukraine that began in the first months of 2014 and the referendum that was held in Crimea in March 2014 and resulted in accession of the region to Russia, the United States, EU and a number of other nations have imposed sanctions against the Russian Federation, Ukrainian and Russian individuals, companies and organizations.

U.S. and EU Ukraine-related sanctions

The post-March 2014 United States and EU sanctions targeting the Russian Federation include, in particular, the restrictive measures that the U.S. President enacted through a number of executive orders empowering OFAC, in the specified circumstances, to make blocking designations, including travel restrictions and freezing of funds, ("**Blocking Sanctions**"), to restrict transacting in, providing financing for, or otherwise dealing in (i) new debt of longer than 14 days maturity in respect of certain financial sector entities or their new equity, (ii) new debt of longer than 60 days maturity for certain persons in the energy sector or (iii) new debt of longer than 30 days maturity of certain defense industry companies ("**Financial Sectoral Sanctions**") and to prohibit providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects (being developed with participation of certain Russian entities including Gazprom, Gazprom Neft and their subsidiaries) that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory ("**Technological Sectoral Sanctions**"). On October 31, 2017, the U.S. Department of the Treasury widened the scope of the restrictions of the Technological Sectoral Sanctions in order to apply such restrictions to new projects commenced after January 29, 2018 outside Russia where the designated entity has control or has an interest not less than 33 per cent.

The EU introduced a largely similar sanctions framework apart from the restrictions imposed by the Countering America's Adversaries Through Sanctions Act of 2017. The EU's blocking sanctions generally have a similar effect as the sanctions administered by OFAC and involve travel restrictions and the freezing of funds and economic resources of the designated persons.

As of the date of this Base Prospectus, the Blocking Sanctions have been imposed with respect to an alleged interference of Russia in "the democratic processes and institutions" in Ukraine, against prominent Russian politicians, executive branch officials, members of the Russian Parliament, public figures, certain owners of large businesses in Russia as well as their assets and enterprises, and major defence companies of Russia. Further, OFAC has introduced the Financial Sectoral Sanctions against (a) major Russian banks, such as Gazprombank ("**GPB**"), Vnesheconomobank ("**VEB**"), VTB Bank (PJSC) ("**VTB**"), JSC Rosselkhozbank ("**Rosselkhozbank**") and Sberbank, (b) our subsidiary Gazprom Neft as well as other energy companies, including Rosneft and Novatek, and (c) State Corporation Rostec and other military industrial corporations. While we own approximately 46% of ordinary shares of GPB (or approximately a 48% economic interest in GPB, after taking into account GPB's treasury shares), which we use as a provider of banking services, GPB does not form part of the Group and its financial results are treated as results of an associate in the Group's Financial Statements.

Furthermore, almost all of the largest Russian oil and gas companies, including ourselves and our subsidiaries, together with Gazprom Neft, and other major energy companies such as Rosneft, PJSC Lukoil ("**Lukoil**") and Surgutneftegaz have been named as targets of the Technological Sectoral Sanctions. Gazprom, its subsidiaries and our Yuzhno-Kirinskoye field, as well as a number of other leading Russian energy companies, are listed on the Entity List. Such designation on the Entity List results in any export, re-export from one foreign country to another, and certain in-country transfers, of all items subject to the U.S. Export Administration Regulations that can be used directly or indirectly in exploration for, or production of, oil or gas in Russian deepwater (greater than 500 feet or approximately 152 meters) or Arctic offshore locations or shale formations in Russia, or where the vendor is unable to determine whether the item will be used in such project, being prohibited without a license from the BIS.

The EU has put in place the individual sanctions against broadly the same individuals, organizations and companies, subject to a number of exceptions.

On April 6, 2018, a number of Russian companies and companies with assets in Russia (such as En+ and Rusal) and a number of Russian nationals, including Mr. Miller, Chairman of Gazprom's Management Committee, and Mr. Akimov, a member of the Board of Directors of Gazprom, were targeted by the Blocking Sanctions under the authority granted to OFAC pursuant to the Executive Order of the U.S. President No.13661 "Blocking Property of Additional Persons Contributing to the Situation in Ukraine" and other U.S. sanctions legislation. Following the designations, OFAC issued several general licenses to minimize immediate disruptions to U.S. persons and other non-sanctioned parties, including a license permitting, to a limited extent, a transfer of debt, equity or other holdings in the designated sanctioned entities (e.g. En+ and Rusal) to non-U.S. persons within a certain period of time.

The Blocking Sanctions introduced by the United States against Mr. Miller and Mr. Akimov do not make Gazprom or any other member of the Group subject to such sanctions. Neither Mr. Miller nor Mr. Akimov are subject to any sanctions under EU rules and regulations.

The U.S. and EU sanctions apply to entities owned and/or controlled by sanctions-designated entities and individuals and, accordingly, may extend beyond Russia and Ukraine. In particular, U.S. sanctions apply to any entity in which the sanctioned persons or entities, directly or indirectly, severally or in the aggregate, own 50% or more, and EU sanctions apply to any entity or body whose proprietary rights are owned for more than 50%, or which is controlled, by the designated entities.

Separately, a set of comprehensive sanctions has been developed and given effect by the U.S. and EU that focus specifically on the Crimea region. Generally, subject to some exemptions, the U.S. executive order and the EU regulations prohibit virtually all investments into, imports from, and exports to the territory of the Crimea, aiming at severely restraining any U.S. or EU-related business contacts with this territory.

Gazprom is a Russian company and is not a U.S. or EU person and has no general obligation under applicable U.S. or EU law to comply with the respective sanctions regimes. However, U.S. sanctions law applies to any actions undertaken in the territory of the United States, including those by non-U.S. persons, and the EU sanctions laws provide that, where a transaction or business falls within the scope of applicable EU sanctions, the EU sanctions regulations shall apply, among others, to any legal person, entity or body in respect of any business done in whole or in part within the EU.

As of the date of this Base Prospectus, except for (a) limited sanctions imposed on Gazprom and its subsidiaries, including Gazprom Neft, as discussed in this risk factor, which sanctions, pursuant to their terms, also apply to their respective subsidiaries, and (b) Mr. Miller, Chairman of Gazprom's Management Committee, and Mr. Akimov, a member of the

Board of Directors of Gazprom, no entity within the Group and no officer or director of Gazprom has been designated as subject to either U.S. or EU sanctions.

The report under Section 241 of the Countering America's Adversaries Through Sanctions Act of 2017 prepared and released to Congress by the U.S. Treasury Department (the "**Report**") references, in addition to Mr. Miller and Mr. Akimov, two members of the Board of Directors of Gazprom, Mr. D. Manturov, Minister of Industry and Trade of the Russian Federation, and Mr. A. Novak, Minister of Energy of the Russian Federation. The Report states, and the OFAC further clarified, that it is not a sanctions list, and the inclusion of individuals or entities in it, its appendices, or its annex does not and in no way should be interpreted to impose sanctions on those individuals or entities, and moreover, the inclusion of individuals or entities in the Report, its appendices, or its classified annexes does not, in and of itself, imply, give rise to, or create any other restrictions, prohibitions, or limitations on dealings with such persons by U.S. or non-U.S. persons. However, no assurance could be given that a person included into the Report will not be selected from the Report and targeted by any U.S. and/or EU or other sanctions in the future.

Gazprom has dealings, such as banking operations and construction and service contracts, with certain Russian persons and their controlled entities that are currently identified by OFAC as targets of the Blocking Sanctions, the Financial Sectoral Sanctions and the Technological Sectoral Sanctions and by the Council of the EU as subjects of the similar restrictions. However, as we continuingly assess the effects of the sanctions on our operations and activities, we believe that our dealings with the persons covered by the Blocking Sanctions or similarly sanctioned persons under the EU Ukraine-related sanctions programs are not material in the context of the overall business of the Group or the Group's consolidated operations and results.

Should either the United States or EU decide to expand their respective sanctions programs to include other Group companies, additional existing or future counterparties of Gazprom, other sectors of the Russian economy or otherwise, such an expansion could result in greater financial difficulties for such persons, our dealings with designated persons could increase or the suspension or potential curtailment of business operations between the Group and the designated persons could occur. The introduction of additional large-scale sanctions on Russian companies or sectors of the Russian economy, including the Russian energy sector (such as sanctions bills that have been introduced into U.S. Congress), may further negatively affect the Russian economy and investment climate and lead to an acceleration of capital flight from Russia, weakening of the ruble and further deterioration of the Russian financial and other markets. Our counterparties and business partners may be forced to revisit their relationship with us because of compliance, political, reputation or other reasons, and our contracts with them may be terminated. In addition, our assets in European and other countries may be blocked as a result of new sanctions. Any of the foregoing could result in a material adverse effect on our business, financial condition, results of operations and prospects.

While we would consider and, to the extent possible, take measures available to us to discharge our obligations under the Loans, or facilitate the discharge of the Issuer's obligations under the Notes, as the case may be, an expansion of sanctions imposed on the Russian energy sector or financial services sector, including possible restrictions on transacting in U.S. dollars or euro, could negatively affect, among other things, the ability of Noteholders to receive payments under the Notes. Further, should we become subject to further U.S. or EU related sanctions, there may be significant restrictions or bans imposed on dealings with us which may also restrict or prohibit dealings with the Issuer, the Agents, the Trustee or the Notes, including their sale, purchase or transfer, which could negatively affect the Noteholders. See also "—Risks Relating to the Notes and the Trading Market—An expansion of U.S. or EU sanctions programs could adversely impact the trading market for the Notes."

The sanctions restricting our ability to purchase required equipment, technology and related services for deepwater oil exploration and production, Arctic oil exploration and production, or shale oil projects in Russia, as well as the same prohibitions with respect to similar gas projects imposed by the United States, have caused, and may continue to cause, delays in implementing some of our projects and/or increased our costs associated with finding alternative suppliers or developing substitute equipment or technology. We may not be able to substitute certain equipment quickly or at all with similar equipment of other producers or develop alternative equipment in Russia due to strict environmental requirements and standards applied in certain jurisdictions in which we operate, a lack of technical expertise or infrastructure or because such equipment is unique, or for other reasons. If we are unsuccessful in procuring necessary equipment and technology for our projects without significant delay or at all, our plans for developing respective projects could be materially revised.

On December 18, 2014, the U.S. Ukraine Freedom Support Act of 2014 was enacted, under which the U.S. President must impose sanctions on Gazprom if the U.S. President determines that Gazprom is withholding significant natural gas supplies from the NATO member countries, or further withholds significant natural gas supplies from countries such as Ukraine, Georgia, or Moldova.

Further, pursuant to the Countering America's Adversaries Through Sanctions Act of 2017, the U.S. President has an authority to impose, at its discretion, and in coordination with allies of the United States, sanctions with respect to a person,

if the U.S. President determines that the person knowingly makes an investment that directly and significantly contributes to the enhancement of the ability of the Russian Federation to construct energy export pipelines or sells, leases, or provides to the Russian Federation, for the construction of Russian energy export pipelines, goods, services, technology, information, or support that could directly and significantly facilitate the maintenance or expansion of the construction, modernization, or repair of energy export pipelines by the Russian Federation, in each case exceeding U.S.$1,000,000 in fair market value, or exceeding U.S.$5,000,000 in aggregate fair market value over a 12-month period (the "**Export Pipelines Investment**"). Pursuant to the public guidance issued by the U.S. Department of State on October 31, 2017, any Export Pipelines Investment made in respect of a pipeline project initiated before August 2, 2017 would not be subject to sanctions. The U.S. Department of State considers a pipeline project to have been initiated when a contract for the project is signed. Further, implementation of the export pipeline related sanctions would not target investments or other activities related to the standard repair and maintenance of pipelines in existence on, and capable of transporting commercial quantities of hydrocarbons, as of August 2, 2017 or any investments and loan agreements made to construct export pipelines prior to August 2, 2017.

Additionally, under the Countering America's Adversaries Through Sanctions Act of 2017 and the Ukraine Freedom Support Act of 2014, the U.S. President is required to impose, unless he determines that it is not in the national interest of the United States to do so, sanctions with respect to a foreign person if the U.S. President finds that the foreign person knowingly makes a significant investment in a special Russian crude oil project, defined as a project intended to extract crude oil from the exclusive economic zone of the Russian Federation in waters more than 500 feet deep, Russian Arctic offshore locations, or shale formations located in the Russian Federation (the "**Special Crude Oil Investment**"). Moreover, the Countering America's Adversaries Through Sanctions Act of 2017 mandates the U.S. President to impose sanctions on a foreign person if the U.S. President determines that such person knowingly and materially violates, attempts to violate, conspires to violate or causes a violation of a restriction introduced under any relevant executive order, the Countering America's Adversaries Through Sanctions Act of 2017 and the Ukraine Freedom Support Act of 2014 or facilitates a significant transaction or transactions for or on behalf of any person subject to U.S. Russian sanctions or his or her relatives.

The risk of the U.S. President imposing sanctions on a person making the Export Pipelines Investment or a Special Crude Oil Project Investment may result in delays in or otherwise impair or prevent the completion of the relevant projects by the Group. The Group's export pipeline projects, in particular those initiated on or after August 2, 2017, and deepwater, Arctic offshore or shale projects that have the potential to produce oil in the Russian Federation or elsewhere in the world may face difficulties. Such consequences, if they were to materialize, could have adverse effects on the Group's business operations and financial results.

On August, 27 2018 the U.S. State Department imposed new sanctions on Russia under the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (the "**CBW Act**"). The initial round of sanctions under the CBW Act includes, among other things, termination of sales of any defence articles and services and the prohibition on the export to Russia of certain national security-sensitive goods and technology. If within three months after the initial determination made under the CBW Act, the U.S. President determines that certain conditions set out in the CBW Act are not met, further sanctions, including, among other things, a prohibition on U.S. financial institutions to provide financing to the Russian state, additional bans on exports of goods and technologies and a possible suspension or revocation of the authority of Russian state-owned or controlled air carriers to provide transportation to or from the U.S., may be introduced.

The U.S. and EU sanctions programs that target Russian persons and the application of these sanctions continue to be subject to interpretation and implementation by various regulators and market participants (and, in particular, the scope of anti-evasion restrictions under the Countering America's Adversaries Through Sanctions Act of 2017, as well as many other terms and expressions thereunder, are vaguely formulated and there is limited guidance on their application) which may deviate from our interpretation and application of these sanctions to ourselves and our counterparties, and no assurance can be given that the potential impact of such dealings or of such varying interpretations would not have a material adverse effect on our business, financial condition and results of operations or the legal positions of the Noteholders and/or the value of the Notes. Should the manner in which the sanctions are applied or interpreted change, the ability of Russian companies to transact with U.S. or EU persons could be affected, and, as such, Russian companies may be unable to make scheduled payments of principal and interest on their borrowings.

At the date of this Base Prospectus, the Borrower has no specific plans in relation to any of the proceeds it would borrow under a Loan. The Borrower shall not use the proceeds of such Loan for the purpose of funding any person (other than the Borrower), activity, business or transaction (whichever is applicable pursuant to the nature and scope of the relevant sanctions regime), that is, as of the date of such funding, subject to any sanctions (i) administered or enforced by the U.S. Government (including, without limitation, OFAC or the U.S. Department of State), or any enabling legislation or executive order relating thereto, or (ii) imposed by the European Union, the United Kingdom, the United Nations, the Swiss State Secretariat for Economic Affairs (SECO), including sanctions imposed against certain states, organizations and individuals under the European Union's Common Foreign & Security Policy. Please refer to "Use of Proceeds." and "Glossary of Selected Terms."

Canadian Ukraine-related sanctions

Canada has introduced economic sanctions targeting a number of former Ukrainian governmental officials, Russian governmental officials, Russian businessmen, Russian companies and banks and other persons. The list of such persons designated under Canadian sanctions legislation is largely similar to the list of persons designated in the United States and the EU. The designations in Canada were made in March 2014, under the authority of the Special Economic Measures (Russia) Regulations, the Special Economic Measures (Ukraine) Regulations, and the Freezing Assets of Corrupt Foreign Officials (Ukraine) Regulations, and were subsequently expanded several times in the following years. In November 2017, Canada also designated certain Russian nationals under the Justice for Victims of Corrupt Foreign Officials Regulations.

Under these Canadian regulations, all persons in Canada (meaning individuals, bodies corporate, trusts, partnerships, funds, unincorporated associations or organizations in Canada) and all Canadians (meaning Canadian citizens and Canadian-incorporated entities) outside Canada (collectively, "**Canadian Persons**") are prohibited from dealing in property held by or on behalf of persons that are designated under the Special Economic Measures (Ukraine) Regulations, the Freezing Assets of Corrupt Foreign Officials (Ukraine) Regulations, the Justice for Victims of Corrupt Foreign Officials Regulations or Schedule 1 of the Special Economic Measures (Russia) Regulations. Canadian Persons may not facilitate any transactions related to a dealing with such designated persons, make goods available to such designated persons or provide financial or other related services to or for the benefit of such designated persons or their property.

Canada has also introduced sanctions against companies operating within specific sectors of the Russian economy, including, among others, financial services and energy sectors. As of the date of this Base Prospectus, Canadian Persons are prohibited from:

(i) transacting in, providing financing for, or otherwise dealing in new securities, or in new debt of longer than 30 days' maturity, in relation to a number of major Russian banks – including GPB – that are designated under Schedule 2 of the Special Economic Measures (Russia) Regulations;

(ii) transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days' maturity in relation to Russian energy companies – including Gazprom and our major oil producing subsidiary, Gazprom Neft – that are designated under Schedule 3 of the Special Economic Measures (Russia) Regulations;

(iii) exporting, selling, supplying or shipping any goods designated under Schedule 4 of the Special Economic Measures (Russia) Regulations to Russia or a person in Russia for use in offshore oil exploration or production at a depth greater than 500 meters, oil exploration or production in the Arctic, or shale oil exploration or production, or providing any financial, technical or other services in relation to such goods.

Other sanctions

Australia, Norway, Switzerland, Japan and certain other countries have also imposed sanctions on various Russian individuals and companies that, depending on particular jurisdiction, include any or all of the following: travel bans, asset freezes, restrictions on access to capital markets and prohibitions on exports of various equipment and technology. In addition, Ukraine has adopted a law on sanctions which envisages a possibility of imposing various restrictions and prohibitions against various domestic and foreign individuals, legal entities and foreign states in response to, among others, actual or potential threats to national interests, national security, sovereignty and territorial integrity of Ukraine. Potential restrictive measures include asset freezes, trade restrictions, suspension or prohibition of transit of resources through Ukraine, and other restrictions. In particular, Ukraine has imposed limited sanctions against our subsidiaries, LLC Gazprom flot and LLC Aviapredpriyatie Gazprom avia, restricting certain of their activities including, among other things, flights, transit of goods through Ukraine, entry into ports and landing in Ukraine.

Our efforts to develop our business outside the Russian Federation may not yield the expected results.

We are currently implementing hydrocarbon exploration and production projects in the FSU countries, Europe, Africa, Middle East, South America and South-East Asia. We are also considering enhancing our presence in the Asia-Pacific region and South America. Currently, we have 12 registered representative offices abroad in Azerbaijan, Algeria, Belgium, Brazil, Iran, Kazakhstan, Qatar, China, Latvia, Moldova, Turkmenistan and Ukraine. We are also implementing a number of priority market development strategies in our traditional and new overseas markets. We factor in local business peculiarities and specific risks at the prospective project validation stage. In addition, our foreign representative offices interact with governmental authorities, companies and other organizations in the relevant countries and regions. Despite our efforts, the development of our business outside the Russian Federation may not yield the expected results owing to economic, political or other factors relating to our overseas operations.

Risks Relating to the Russian Federation

We are a Russian company and substantially all of our fixed assets are located in, and a significant portion of our revenues are derived from, Russia. There are certain risks associated with an investment in Russia.

Emerging markets such as Russia are subject to greater risks than more developed markets, including, in certain cases, significant economic, political, social and legal risks. Financial turmoil in any emerging market could disrupt our business, as well as cause the price of the Notes to suffer.

Generally, investing in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with investing in, emerging markets. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set out in this Base Prospectus may become outdated relatively quickly. The Moscow Exchange stock indices are highly volatile and sensitive to the fluctuations in global oil prices and global stock indices. During financial turmoil, investors may move their money to more stable, developed markets, resulting in sharp declines in prices of debt and equity instruments, and in extreme cases, causing market regulators to temporarily suspend trading on the Moscow Exchange. Deterioration of economic conditions in developed markets could result in cash outflow from emerging markets. As was the case in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. See also "—Economic Risks—Economic instability in Russia could adversely affect our business."

Political Risks

Political and governmental instability or conflict could adversely affect the value of investments in Russia, including the Notes.

Russia has changed from a one-party state with a centrally-planned economy to a federal republic with democratic institutions and a market-oriented economy in a relatively short period of time. However, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven. Such political instability increased after the State Duma elections in December 2011 and the Presidential elections in March 2012 when the country experienced public protests in Moscow calling for political reform.

Future changes in the Government, the State Duma or the presidency, major policy shifts or eventual lack of consensus between the president, the Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments in Russia generally and the Notes in particular, and our prospects could be harmed.

Emerging markets such as Russia are also subject to heightened volatility based on economic, military and political conflicts. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia, the accession of Crimea to Russia in March 2014, the ongoing crisis in Eastern Ukraine and the subsequent economic sanctions imposed on certain Russian companies and individuals by the U.S., EU, Canada and other countries resulted in significant overall price declines in the Russian stock exchanges. The reaction of those countries, resulting geopolitical tensions and ensued sanctions programs have had and could continue to have an adverse effect on the Russian economy, accelerating capital flight from Russia and resulting in volatility on the Russian market. See "—Risks Relating to Our Business—The sanctions imposed by the U.S. and EU, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition." There is no assurance that Russia will not introduce any measures to address capital outflow from Russia, including by adopting regulations imposing restrictions on transactions on capital and debt markets or otherwise, any of which could adversely affect investor interest and Russian economy generally. The emergence or escalation of any tensions in Russia or neighboring regions could negatively affect the economy of Russia and other countries that may be involved. Such tensions or conflicts may lead to reduced liquidity, trading volatility and significant reductions in the price of listed Russian securities, with a resulting negative effect on the liquidity, stability and trading price of the Notes and our ability to raise debt or equity capital in the international capital markets.

Conflicts between federal and regional authorities and other domestic political conflicts could create an uncertain operating environment that may hinder our long-term planning ability and could adversely affect the value of investments in Russia.

Russia is a federation of various sub-federal political units. Some of these political units exercise considerable autonomy over their internal affairs pursuant to agreements with the federal authorities. In practice, the division of authority between federal and regional authorities, in certain instances, remains uncertain and contested. This uncertainty could hinder our

long-term planning efforts and may create uncertainties in our operating environment, any of which may prevent us from effectively and efficiently carrying out our business strategy.

For example, to achieve consistency in the regulation of natural gas supplies throughout Russia, the federal authorities have assumed responsibility for the development and implementation of state policy with respect to the supply of natural gas and the industrial and environmental safety of such supplies in Russia. However, regional and local authorities have a significant degree of autonomy in exercising their rights over the use of land and natural resources (including natural gas). Accordingly, the relationship between the relevant federal, regional and local authorities as well as between us and such authorities can have a significant impact on the conditions under which we can operate in any particular region. See also "—Risks Relating to the Russian Legal System and Russian Legislation—The Russian legal system and Russian legislation are at a developmental stage and this may create an uncertain environment for investment and for business activity."

In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict. The conflict in Chechnya, for example, brought normal economic activity within Chechnya to a halt for a period of time and disrupted the economies of neighboring regions. Violence and attacks relating to this conflict also spread to other parts of Russia and included terrorist attacks in Moscow, Volgograd and other Russian regions. In the future, such tensions, military conflict or terrorist activities could have significant political consequences, including the imposition of a state of emergency in some or all of Russia or heightened security measures, which could disrupt normal economic activity in Russia and materially adversely affect our business and the value of the Notes.

Economic Risks

Economic instability in Russia could adversely affect our business.

The Russian economy has been subject to abrupt downturns. As Russia produces and exports large quantities of crude oil, natural gas and other commodities, the Russian economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in the first half of 2008 but experienced significant volatility and decreases in the period from 2008 through 2016. Russian banks and the Russian economy generally, were adversely affected by the global financial crisis in 2009. During the crisis, the Russian economy was characterized by extreme volatility in debt and equity markets, reductions in foreign investment and gross domestic product. The Russian economy experienced a downturn from the middle of 2012 and was in recession in 2015 primarily as a result of recession and debt crisis in Europe and, subsequently, due to increased political tensions, the ongoing crisis in Eastern Ukraine, the subsequent economic sanctions imposed on certain Russian companies and individuals by the U.S., EU, Canada and other countries, as well as the significant crude oil price decline from the second half of 2014 through the beginning of 2016. A further deterioration in economic situation in Russia may impact our profitability. See "—Negative economic developments and conditions in the markets in which we operate can adversely affect our business and results of operations."

Current macroeconomic challenges, low or negative economic growth in Japan and Europe, the U.S. and EU sanctions programs, increase in interest rates in the United States and market volatility may result in a deterioration of macroeconomic conditions and downturn in the global energy markets. The Russian economy remains vulnerable to further external shocks. Events occurring in one geographic or financial market sometimes result in an entire region or class of investments being disfavored by international investors—so-called "contagion effects." Russia was adversely affected by contagion effects in the past, and it is possible that the market for Russian investments, including the Notes, will be similarly affected in the future by negative economic or financial developments in countries whose economies or credit ratings are similar to those of Russia.

In addition, the deterioration of economic conditions, along with other circumstances, in 2014-2018 led to the failure or bailout of some Russian banks and to significant liquidity constraints for others. As a result of inspections conducted by the CBR, banking licenses of a number of Russian banks were revoked, raising further concerns about the stability of the Russian banking system. Possible imposition of more stringent regulations or interpretations of the existing banking regulations by the CBR may lead to weaker capital adequacy and the insolvency of some banks. In particular, as we own approximately 46% of ordinary shares of GPB (or approximately a 48% economic interest in GPB, after taking into account GPB's treasury shares), deterioration in GPB's financial position could directly affect the value of our investment and result in the recognition of an impairment loss or prompt further recapitalization of GPB, which would, in turn, adversely affect our results of operations and financial condition in the relevant period. In 2018 and 2017, we provided perpetual interest-free subordinated loans to GPB in the aggregate amount of RR25,542 million and RR9,458 million, respectively. As the loans have no maturity and bear no interest, GPB recognized them as part of its equity capital. In addition, in January 2019, we provided perpetual interest-free subordinated deposits to GPB in the aggregate amount of RR90,000 million.

In addition, a significant portion of our cash assets has been placed on short-term and long-term bank deposits amounting to approximately RR423 billion as of September 30, 2018. Should the financial condition of these banks deteriorate, our

ability to withdraw cash from such deposits may be limited, which may have a material adverse effect on our financial position and results of operations.

If the economic conditions in Russia deteriorate, a resulting decrease in domestic demand for the products we produce, including natural gas, crude oil, oil and gas refined products, electricity and heat, could adversely affect our financial results.

There can be no assurance that current economic and political conditions, or a future economic crisis, will not negatively affect investors' confidence in the Russian markets, economy or ability to raise capital in the international debt markets, any of which, in turn, could have a material adverse effect on the Russian economy. In addition, possible future declines in the price of crude oil, natural gas or other commodities could disrupt the Russian economy and adversely affect our operating results and financial condition.

We face inflation and foreign exchange rate risks that could adversely affect our results of operations.

Approximately 60% of our gross sales (including customs duties and excise tax, net of VAT) are mainly denominated or linked to prices in U.S. dollars or euros, while most of our costs are denominated in rubles. The relative movement of inflation and exchange rates therefore significantly affects our results of operations. In particular, our operating margins are generally adversely affected by appreciation of the ruble against the U.S. dollar or euro, because this will generally cause our costs to increase relative to our sales revenues. The pressure on operating margins arising from ruble appreciation in real terms may be intensified by high inflation in Russia, which can further increase our costs. In addition, the relatively high rate of inflation in Russia reduces the value of our ruble-denominated cash assets, including ruble deposits, domestic debt instruments and accounts receivable. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors Affecting our Results of Operations—Impact of inflation and changes in exchange rates on export sales and operating margins."

Even though the ruble's decline in real terms against the U.S. dollar or euro normally has a positive effect on our profit margin as it reduces our costs in real terms in relation to our sales revenue, it does however increase the ruble equivalent of our debt denominated in foreign currencies and the ruble equivalent of the cost of such debt which could be a factor adversely affecting our results of operations.

We are required to repatriate our export sales revenues, which could adversely affect our business. In addition, if we are required to convert any portion of our export sales into rubles in the future, it may also adversely affect our business.

We are subject to the requirement of the mandatory repatriation of our export sales revenues. This may adversely affect our business, results of operations and our ability to repay any Loan and thus the Issuer's ability to repay the corresponding portion of the Notes.

Currently, the CBR does not require any portion of our proceeds from export sales to be converted into rubles. In the past, however, we were required to convert into rubles a percentage of our proceeds from export sales, and at times this percentage was as high as 75%. There can be no assurance that the CBR will not require us to convert into rubles a percentage of our export sales in the future.

Russia's physical infrastructure is in poor condition, which could disrupt normal business activity.

Russia's physical infrastructure largely dates back to the Soviet period and in certain respects has not been adequately maintained and developed due to insufficient funding. In some areas the rail and road networks, power generation and transmission, communication systems and building stock are particularly affected. Road conditions throughout areas of Russia are poor, with many roads not meeting minimum requirements for usability and safety. Breakdowns and failures of any part of Russia's physical infrastructure may disrupt our normal business activity.

Further deterioration of Russia's physical infrastructure and/or significant increases in charges and tariffs may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations, any or all of which could have a material adverse effect on our business and the value of the Notes.

Social Risks

Social instability caused by weakening economic conditions and turmoil in the financial markets in Russia could increase support for renewed centralized authority, nationalism or violence and thus materially adversely affect our ability to conduct our business effectively.

Weakening economic conditions and turmoil in the financial markets in Russia may result in high unemployment or the failure of state and private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the increasing cost of living. These conditions led to a certain amount of labor and social unrest in the past, which may reoccur or worsen in the future. Such labor and social unrest may have widespread political, social and economic consequences, such as increased support for a renewal of centralized authority, increased nationalism, including restrictions on foreign involvement in the economy of Russia, and increased tension between the Government and its people. Any of these consequences could restrict our operations and lead to a loss of revenue, materially adversely affecting us.

Risks Relating to the Russian Legal System and Russian Legislation

The Russian legal system and Russian legislation are at a developmental stage and this may create an uncertain environment for investment and for business activity.

Russia is still developing the legal framework required by a market economy. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the Constitution of the Russian Federation, by the Civil Code of the Russian Federation (the "**Civil Code**"), by other federal laws and by decrees, orders and regulations issued by the President, the Government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap or contradict one another. Several fundamental Russian laws have only become effective within the past 5 to 10 years while they are continuing to change as the Russian legal system develops. The recent nature of much Russian legislation and the rapid evolution of the Russian legal system impact the enforceability of laws and can result in ambiguities, inconsistencies in legal interpretations and other anomalies. In addition, Russian legislation sometimes leaves substantial gaps in the regulatory infrastructure. Among the possible risks of the current Russian legal system are:

- inconsistencies among (1) federal laws, (2) decrees, orders and regulations issued by the president, the Government, federal ministries and regulatory authorities, and (3) regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- limited court personnel with the ability to interpret new principles of Russian legislation, particularly business and corporate law;
- gaps in the regulatory structure due to delay in legislation or absence of implementing legislation;
- a high degree of discretion on the part of governmental authorities; and
- the inadequacy of bankruptcy procedures and certain violations in bankruptcy proceedings.

All of these weaknesses could affect our ability to enforce our rights under contracts, or to defend ourselves against claims by others.

The difficulty of enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions as well as the ongoing judicial reform could prevent us or investors from obtaining effective redress in court proceedings.

The independence of the judicial system and its immunity from economic and political influences in Russia is also developing. The court system is understaffed. Russia is a civil law jurisdiction and, as such, judicial precedents generally have no binding effect on subsequent decisions. Additionally, court claims are often used in furtherance of personal aims different from the formal substance of the claims. We may be subject to such claims, and courts may render decisions with respect to those claims that are adverse to us and our investors.

State authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without due process or prior notice, and sometimes in a manner that is contrary to law. Unlawful or unilateral state actions could include the withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities could also use common defects in matters surrounding share issuances and registration as a basis for court claims and other demands to invalidate such issuances and registrations and/or to void transactions, often to further interests different from the formal substance of the claims. Such state action, if directed at us, could have a material adverse effect on our business, and on the value of the Notes to be issued under the Programme.

There are also legal uncertainties relating to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalization. However, it is possible that these protections may not be enforced in the event of an attempted

nationalization, or in the event our business is reorganized. Our failure to receive what we believe to be adequate compensation in the event of the nationalization of any of our entities, their assets or portions thereof, or their break-up into separate companies, could have a material adverse effect on our operations and revenues, and on the value of the Notes.

The rights of our shareholders, the public reporting requirements and the Russian accounting regulations to which we are subject differ from comparable listed companies in other jurisdictions.

Our corporate affairs are governed by Russian laws, our Charter and internal regulations adopted pursuant to our Charter. The rights of shareholders and the responsibilities of members of the Board of Directors and Management Committee under Russian law are different from, and may be subject to certain requirements not generally applicable to, corporations organized in the United States, the United Kingdom or other jurisdictions. See "Management of Gazprom—Description of Gazprom's Management."

We are subject to Russian law, which requires us to make certain periodic public disclosures. For instance, we are required to publish our annual unconsolidated financial statements in accordance with Russian accounting regulations, together with an independent auditor's report. The Group consists of a large number of companies with a wide geographical range of operations. A majority of the companies in the Group are governed by Russian law, including Russian accounting regulations. Due to the foregoing factors, we believe that it may take us more time than many other companies to prepare and publish our financial reports in accordance with IFRS.

In addition, Russian law requires certain disclosures be made by public joint stock companies, such as the disclosure of annual reports, any material facts affecting the financial condition and the business of the relevant company, certain board of directors' resolutions and lists of affiliated persons. We developed and adopted a corporate governance code for Gazprom. Nonetheless, despite these requirements and initiatives, there may be less publicly-available information about us than there is available for comparable listed companies in, for example, the United States or the United Kingdom.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

Russian legislation provides that a company (the "**effective parent**") which (i) is capable of making decisions for another company (the "**effective subsidiary**") or (ii) has approved transactions consummated by the effective subsidiary bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out such decisions or with consent of the effective parent. Shareholders of the effective subsidiary may claim damages incurred by the effective subsidiary as a result of the action or inaction of the effective parent. In addition, the effective parent is secondarily liable for the effective subsidiary's debts if the effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of the effective parent. Accordingly, in our position as the effective parent we could be liable for the debts of our effective subsidiaries. This liability could have an adverse effect on us.

Some transactions conducted by us involving interested parties as defined under Russian law may require a prior approval of disinterested directors or disinterested shareholders and our failure to obtain such approvals could have an adverse effect on us.

Although Russian law does not require the prior approval of an interested party transaction, a company's sole executive body, or a member of its collective executive body, or its board of directors, or any shareholder(s) holding at least 1% of the company's voting shares may request such prior approval by disinterested directors and/or shareholders pursuant to the special approval procedures set forth by law. If the approval procedures are not followed, a transaction could be declared invalid upon a claim by the company, a member of its board of directors, or any of its shareholder(s) holding at least 1% of the company's voting shares subject to certain conditions provided by law. See "Certain Transactions." An interested party or several interested parties could be held jointly and severally liable for damages regardless of whether the transaction in question is declared invalid or not.

Transactions between members of Gazprom Group may also, in certain circumstances, be considered to be interested party transactions, even when the companies involved are controlled by Gazprom.

Our Russian subsidiaries are subject to the same (or similar) legal requirements regarding the conclusion of interested party transactions. Our failure to follow the required procedures for conclusion of interested party transactions could adversely affect the Group's business, financial condition and results of operations.

Changes in Russian tax law could adversely affect the Group's business.

Generally, taxes payable by Russian companies are substantial and include, amongst others: corporate income tax, VAT, property tax and payroll related social security payments.

Laws related to these taxes, such as the Russian Tax Code, have been in force for a relatively short period of time in comparison with tax legislation in more developed economies, and the Government's implementation of such legislation is often unclear or inconsistent. Historically, the system of tax collection has been relatively ineffective, resulting in continuous changes being introduced into existing laws.

Although the quality of the Russian tax legislation has generally improved with the introduction of the Russian Tax Code, the possibility exists that the Government may impose arbitrary and/or onerous taxes and penalties in the future, which could adversely affect the Group's business. Russia's inefficient tax collection system increases the likelihood of such events. A large number of changes have been introduced to various chapters of the Russian Tax Code since its adoption.

Since Russian federal, regional and local tax laws and regulations are subject to frequent changes and, in addition, some of the sections of the Russian Tax Code relating to the aforementioned taxes are comparatively new, interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax regulations may exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and leading to the inconsistent enforcement of these laws and regulations in practice.

Furthermore, the taxpayers, the Ministry of Finance of the Russian Federation and the Russian tax authorities often interpret tax laws and regulations differently. In some instances, the Russian tax authorities have applied new interpretations of tax laws and regulations retroactively. In addition, there have been cases where letters of the tax authorities clarifying certain tax matters have been cancelled by the Ministry of Finance of the Russian Federation. Private clarifications to specific taxpayers' queries with respect to particular situations issued by the Ministry of Finance of the Russian Federation are not binding on the Russian tax authorities and there can be no assurance that the Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Ministry of Finance of the Russian Federation. Moreover, there can be no assurance that Russian legislation and regulations will not be altered, in whole or in part, or that Russian tax authorities and/or Russian courts or other regulatory authorities will not interpret these rules and regulations in such a way that the arrangements described in this Base Prospectus would be subject to different tax treatment than the treatment described herein, whether retroactively or otherwise, or would be adversely affected in some other way. During the past several years the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax audits of companies operating in various industries, including the oil and gas industry.

As taxpayers and the Russian tax authorities often interpret tax laws differently, taxpayers often have to resort to court proceedings to defend their position against the tax authorities. In the absence of binding precedent or consistent court practice, rulings on tax or other related matters by different courts relating to the same and similar circumstances may also be inconsistent or contradictory.

The Russian tax system is, therefore, impeded by the fact that, at times, it continues to be characterized by inconsistent judgment of local tax authorities and the failure by tax authorities to address many of the existing problems. It is, therefore, possible that transactions and activities of Gazprom and the Group that have not been challenged in the past may be challenged in the future, which may have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the trading price of the Notes.

Tax returns, together with related documents are subject to review and investigation by the Russian tax authorities, which are enabled by Russian law to impose severe fines and interest charges on taxpayers. Subject to certain exceptions, tax returns remain open and subject to inspection by the Russian tax authorities for the period of three calendar years immediately preceding the year in which the decision to conduct a tax inspection is taken. A repeat tax audit may be conducted under certain conditions. Therefore, previous tax audits do not necessarily preclude subsequent claims relating to the audited period. The Russian Tax Code provides for the possibility of an extension of the three-year statute of limitations under certain conditions. Since there are precedents in which the Russian tax authorities tend to apply new interpretations of tax laws retroactively, tax audits of periods for which the statute of limitations has expired and repeated tax audits may have a material adverse effect on the Group's business, financial condition and results of operations and impose additional administrative burden on us by diverting the attention of our management and employees, requiring resources for defending Gazprom's tax filing position, including for any tax litigation.

The Russian transfer pricing legislation which is currently in effect allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions between certain related parties (except for those conducted at state regulated prices and tariffs). Due to a number of uncertainties in the interpretation of the current Russian transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge the Group's prices and make adjustments which could affect our tax position unless we are able to justify the use of market prices with respect to "controlled" transactions supported by the appropriate transfer pricing documentation. The imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on the Group's tax position, business, results of operations and financial condition.

The concept of consolidated group of taxpayers was incorporated into the Russian Tax Code and became effective on January 1, 2012. These rules introduced consolidated tax reporting that enables the consolidation of the financial results of Russian companies which form one group (the "**Tax Group**") for corporate income tax purposes. The Tax Group's corporate income tax base should be based on income and expenses of its participants. The consolidated profits cannot be reduced by tax losses accumulated by the participants of the Tax Group prior to its establishment. Moreover, intragroup

transactions are to be included in the consolidated tax base and are arguably not subject to transfer pricing control. There are several requirements which should be met for consolidated group creation, including thresholds established for the level of revenue and the amount of corporate income tax payable by the Tax Group. We have created the consolidated group of taxpayers, consisting of the Group's Russian entities, with Gazprom being the responsible member. There is no assurance that the consolidated taxpayer regime will not be changed in future. If the application of the consolidated group of taxpayers regime is subsequently challenged by the Russian tax authorities or minority shareholders of Gazprom or its consolidated tax subsidiaries this may result in the increase of our tax burden and have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

These changing conditions create tax risks in Russia that are more significant than those typically found in jurisdictions with more developed tax systems and complicate tax planning and related business decisions of the Group. In addition, there can be no assurance that the current tax rates will not be increased, that new taxes will not be introduced or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future which may affect Gazprom's overall tax efficiency and may result in significant additional tax liabilities. In addition, Gazprom is subject to periodic tax audits that may result in additional tax assessments both in respect of the current and prior tax periods. Gazprom's tax burden may become greater than the estimated amount that it has paid or accrued on its balance sheet. There also can be no assurance that the Russian Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. In general, it is expected that Russian tax legislation will progressively become more sophisticated. The Group cannot provide investors with any assurance that additional Russian tax exposures will not arise. Such additional tax exposures could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, and the value of the Notes.

Russian tax anti-avoidance initiatives may have an adverse impact on the Group´s business, financial condition and results of international operations.

The Russian Federation is actively involved in introducing measures against tax avoidance by way of using low tax jurisdictions and other aggressive international tax planning structures. Starting from January 1, 2015 the following rules (concepts) introduced into the Russian Tax Code became effective: (1) "controlled foreign companies" (CFC) rules, pursuant to which undistributed profits of certain foreign organizations as well as foreign structures (not being legal entities) owned and/or controlled by Russian tax residents should be subject to taxation in Russia; (2) the concept of tax residency for legal entities whereby foreign legal entities would be deemed Russian tax residents if their place of management is located in Russia; and (3) beneficial ownership concept which provides that treaty relief should only be available to foreign income recipients which qualify as beneficial owners of income.

The Group includes companies incorporated and operating outside of Russia. It is possible that with the evolution of such rules (concepts) the Group might become subject to additional taxation in Russia in respect of its operations performed outside of the Russian Federation through its foreign legal entities. These rules (concepts) are being regularly updated where some of the amendments have retrospective effect.

In 2017 anti-avoidance rules were introduced by Article 54.1 of the Russian Tax Code. A similar "unjustified tax benefit" concept introduced by the Plenum of the Supreme Arbitration Court of the Russian Federation in its Resolution No. 53 ("Resolution No. 53") has been in existence for more than 10 years in Russian law. Unjustified tax benefit concept has been widely used by Russian tax authorities to challenge the tax positions of Russian taxpayers, inter alia, with respect to application of tax treaty benefits. However, the Ministry of Finance of the Russian Federation in its recent letter stated that the concepts expressed in Resolution No.53 and evolved in the relevant court practice should not be applied by the Russian tax authorities in the course of tax audits following the enactment of new anti-avoidance rules. The new anti-avoidance rules (a) establish the framework within which taxpayers enjoy tax benefits and (b) prohibit any wilful misconduct resulting in a non-payment or underpayment of taxes by misrepresenting information on commercial events and objects of taxation. In addition to that prohibition, taxpayers may reduce their tax base and/or payable amount of tax if they can document that (i) tax avoidance is not the primary purpose of a transaction and (ii) the contractual obligation is performed directly by the party named in the contract or by a person to whom such obligation has been transferred by contract or by law. The new rules apply retrospectively to all periods that may be subject to tax audits. Due to the fact that the court practice related to application of the new rules is still limited and underdeveloped, no assurance could currently be given as to the exact effect such rules may have on taxpayers, including Russian companies of the Group.

Implementation and further evolution of the abovementioned rules (concepts) and some other tax anti-avoidance initiatives are likely to impose additional administrative and tax burden on the Group. The Group might be subject to additional tax liabilities as a result of the application of such anti-avoidance rules to transactions carried out by the Group, which could have a material adverse effect on the Group's business, financial condition, results of operations and the value of the Notes.

Certain provisions of the customs laws and regulations may lead to disputes with customs authorities in so far as they relate to retroactive changes in gas prices.

Our hydrocarbon exports are subject to customs regulation. As a result of retroactive price revisions followed by corresponding revisions of customs value of exported gas, we have, at times, disputes with the Russian customs authorities concerning payments and/or refunds of export customs duties.

In the case of a downward retroactive revision of contract prices and related customs value, the overpaid portion of export customs duty should be refunded. However, customs authorities may argue otherwise in an attempt to collect more customs levies even though the courts upheld the position of Gazprom Export in the past. In addition, customs authorities may impose penalties on us for failure to pay customs duties assessed in accordance with their calculations in the cases of an upward retroactive revision of contract prices when the initially declared customs value increases and additional customs duties should be paid.

Our possible inability or failure to successfully dispute such claims of customs authorities can adversely affect our financial position and results of operations.

Risks Relating to the Notes and the Trading Market

The right of the Issuer to receive payments under the Loans (and therefore the Issuer's ability to make payments under the corresponding series of the Notes as they fall due) is effectively subordinated to any liabilities of our subsidiaries and we and many of our subsidiaries, as Russian companies, are subject to Russian bankruptcy laws and procedures. The ability of Noteholders to recover in full could be adversely affected if we, or any of these subsidiaries, declares bankruptcy, liquidates or reorganizes.

Certain of our operations are conducted through our subsidiaries and to a certain extent we depend on the earnings and cash flows of these subsidiaries to meet our debt obligations, including our obligations under each Loan. In addition, our subsidiaries' assets constitute a material part of our operating assets. Finally, our subsidiaries have material liabilities, including accounts payable and accrued charges, taxes payable, restructured tax liabilities, other long-term liabilities and provisions for liabilities and charges. Because our subsidiaries do not guarantee the payment obligations of our parent company, Gazprom, under each Loan or the Issuer's payment obligations under the Notes, neither the Issuer nor holders of Notes will have any direct claim on our subsidiaries' cash flows or assets. In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, their creditors will generally be entitled to payment of their claims from the cash flows and assets of those subsidiaries before any cash flows or assets are made available for distribution to us as a shareholder. This may adversely affect our ability to service our payment obligations under any Loan.

In addition, Noteholders' claims in the Specified Currency of the relevant Notes may be converted into rubles in any Russian bankruptcy proceedings and therefore, in addition to the general risks of less than full recovery associated with any bankruptcy (or similar) proceedings, Noteholders may be adversely affected by movements in the currency exchange rates between the ruble and the Specified Currency of the Notes.

An expansion of U.S. or EU sanctions programs could adversely impact the trading market for the Notes.

If U.S. or EU sanctions programs are expanded, including, among other things, in relation to the Russian energy or financial services sector as described under "—The sanctions imposed by the U.S. and EU, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition" above, the trading market for the Notes and the rights of the Noteholders could be adversely affected.

If U.S. or EU sanctions programs are expanded to include additional existing or future clients, shareholders, suppliers or other counterparties of Gazprom, some Noteholders may sell their interests at a loss in any Notes due to internal compliance requirements or any laws or regulation applicable to such Noteholders. In addition, the secondary market for the Notes may become less liquid due to the current negative market environment and the imposition of certain sanctions on Gazprom and Gazprom Neft. See "—The sanctions imposed by the U.S. and EU, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition."

The U.S. and EU sanctions programs that target Russian persons are relatively recent and the application of these sanctions remains subject to interpretation and implementation by various regulators and market participants, including at a national level in different EU member states, which may deviate from our interpretation and application of these sanctions to ourselves and our counterparties, and no assurance can be given that the potential impact of such dealings or of such varying interpretations would not have a material adverse effect on our business, financial condition and results of operations or the legal positions of the Noteholders and/or the value of the Notes. Should the manner in which the sanctions are applied or interpreted change, the ability of Russian companies to transact with U.S. or EU persons could be affected, and, as such, Russian companies may be unable to make scheduled payments of principal and interest on their borrowings.

The expansion of the existing sanctions and the introduction of any further large-scale sanctions on us or the Russian energy sector may negatively impact our ability to make scheduled payments of principal and interest under the Loans, as any such payments could be frozen as a consequence of such sanctions before receipt by the Issuer. Any such freezing of payments will be beyond our control as it will result from the enforcement of sanctions by the relevant payment processing banks. Consequently, the Issuer's and the Agents', or the Trustee's, as the case may be, ability to make scheduled payments

of principal and interest under the Notes may be impaired. While we would consider and, to the extent possible, take measures available to us to discharge our obligations under the Loans, or facilitate the discharge of the Issuer's obligations under the Notes, as the case may be, the scrutiny exercised by international banks when clearing foreign currency payments or expansion of sanctions against us could result in the Noteholders not receiving timely scheduled payments under the Notes or not receiving such payments at all and/or as a consequence an Event of Default may occur under the Loans. Moreover, should any member of the Group become subject to either U.S. or EU sanctions, the relevant clearing systems, brokers and other market participants as well as Euronext Dublin may refuse to permit trading in or otherwise facilitate transfers of the Notes and certain Noteholders may be unable to continue to hold the Notes as a result of applicable law or internal compliance requirements all of which could compound to significantly reduce the trading market for the Notes or may otherwise materially impact the value of the Notes.

If we wish to incur secured indebtedness, we may be required by the International Bank for Reconstruction and Development to equally and ratably pledge our assets, which may affect our ability to obtain secured financing.

The Russian Federation is subject to a negative pledge clause in its borrowings from the International Bank for Reconstruction and Development (the "**IBRD**") in accordance with Article 6.02 of the IBRD's General Terms for loan and guarantee agreements. The negative pledge clause prevents us, as an entity owned or controlled by, or operating for the account or benefit of, the Russian Federation, from pledging any of our assets to secure further borrowings unless the IBRD is equally and ratably secured. In this context, if we wish to incur our own secured indebtedness, there is a risk that we may be required by the IBRD to equally and ratably pledge our assets with regard to the Russian Federation's indebtedness.

The lack of a public market for the Notes could reduce the value of your investment.

There may not be an existing market for the Notes at the time they are issued. Each Series of Notes is expected to be listed and admitted to trading on the Main Securities Market of Euronext Dublin (or another stock exchange). However, there can be no assurance that a liquid market will develop for the Notes that holders of the Notes will be able to sell their Notes, or that such holders will be able to sell their Notes for a price that reflects their value.

Payments we make under the Loans may become subject to Russian withholding tax.

In general, interest payments on borrowed funds made by a Russian legal entity or organization to a non-Russian legal entity or organization having no registered presence and/or no permanent establishment or no tax residency in Russia are subject to Russian withholding tax at the rate of 20% (or such other rate that may be effective at the time of payment), which could be reduced or eliminated pursuant to the terms of an applicable double tax treaty subject to treaty clearance formalities to be satisfied by the foreign legal entity in a timely fashion and provided that the foreign interest income recipient can qualify as the person having the actual right to income as defined in the Russian tax legislation.

Generally, no withholding tax should arise on interest on the loan provided to the Russian borrower in connection with issuance of the notes by a foreign entity (the "**Eurobond structure**") by virtue of the special exemption envisaged by the Russian Tax Code. Specifically, the Russian Tax Code provides, among other things, that Russian borrowers should be fully released from the obligation to withhold income tax from interest and other payments on debt obligations made to foreign entities provided that certain conditions are met throughout the term of the respective debt obligation and the notes. Therefore, Gazprom should be released from the obligation to withhold Russian income tax from interest and other payments provided that the respective conditions are met throughout the term of the respective Loan and the Notes of the respective Series. See "Taxation—Russian Federation" for more information about the specific conditions and certain practical issues that might arise in connection with such compliance.

Importantly, the Russian Tax Code does not provide an exemption to the foreign interest income recipients from Russian withholding tax. However, there is currently no requirement and mechanism in the Russian tax legislation for foreign income recipients being the legal entities and organisations to self-assess and pay the tax on the Russian-source income to the Russian tax authorities in case the tax was not withheld at source. There can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not change their position on the matter in connection with Eurobond structures or would not make attempts to collect the tax from the foreign income recipients, including the Issuer or the Noteholders.

If interest and/or any other amounts due under any Loan become payable to the Trustee pursuant to the Trust Deed, there is some residual uncertainty whether the Trustee can qualify for the "entity authorized to receive interest income payable on the issued bonds" and hence whether the release from the obligation to withhold income tax from interest and other payments on any Loan would be available to Gazprom under the Russian Tax Code. See "Taxation—Russian Federation." It is not expected that under such circumstances the Trustee will, or will be able to, claim a Russian withholding tax exemption or reduction under any applicable double tax treaty due to the nature of its functions. In addition, while some Noteholders that are persons not residing in Russia for tax purposes may be eligible for the exemption from or the reduction in Russian withholding tax or personal income tax, as applicable, under double tax treaties entered into between their countries of tax residence and the Russian Federation, where such treaties exist and to the extent they are applicable, there

can be no assurance that the respective treaty relief will be available to them due to difficulties related to the advance tax relief. See "Taxation—Russian Federation."

In addition, on June 7, 2017, 68 jurisdictions, including Russia, signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the "**MLI**"). Several additional jurisdictions have signed the MLI since then. A number of jurisdictions have expressed their intention to sign the MLI. The MLI sets forth additional requirements for the application of the double taxation treaty benefits, including the reduced tax rates. Currently, it is not entirely clear how each individual double tax treaty to which the Russian Federation is a party would be affected by the MLI. It is expected that changes to specific bilateral treaties would come into effect after the parties to the treaties deposit their instruments of ratification, acceptance or approval of the MLI, subject to an additional phase-in period. These MLI-related changes, when implemented, might negatively affect the availability of certain double taxation treaty benefits to Non-Resident Noteholders.

If interest payments or any other amounts due under any Loan become subject to Russian withholding tax (as a result of which the Issuer or the Trustee will reduce the respective payments made under the corresponding Series of the Notes by the amount of such withholding tax) we will be obligated under the terms of the relevant Loan Agreement to increase the respective payments or to make such additional payments, respectively, as may be necessary to ensure that the net amount of payments received by the Issuer or the Trustee will not be less than the amount it would have received in absence of such withholding. It is unclear however whether provisions of the relevant Loan Agreement obliging us to gross up any payments under any Loan will be enforceable under Russian law as currently in effect. There is a risk that gross-up for withholding tax will not take place insofar as Russian law is concerned and that payments we make under any Loan will be reduced by the amount of Russian income tax withheld by Gazprom at the rate of 20% (or such other rate as may be in force at the time of payment) or, potentially, with respect to Non-Resident Noteholders – Individuals (as defined under "Taxation—Russian Federation—Taxation of the Notes—General") Russian personal income tax at a rate of 30% (or such other rate as may be in force at the time of payment). See "Taxation—Russian Federation."

If we are obligated to increase any payments on any or all Loans or to make additional payments on any or all Loans as described above, we may (without premium or penalty), subject to certain conditions, prepay any Loan in full. In such case, all outstanding Notes of the corresponding Series will each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of repayment. See "Terms and Conditions of the Notes" and "Taxation—Russian Federation."

Tax might be withheld upon disposal of the Notes in Russia, reducing their value.

Where proceeds from the sale or other disposal of the Notes (including proceeds attributable to accrued and unpaid interest on the Notes) are deemed to be received from a source within Russia by a Non-Resident Noteholder Individual, Russian personal income tax at a tax rate of 30% (or such other tax rate as could be effective at the time of such sale or other disposal) will apply to the gross amount of sales or other disposal proceeds realized upon such sale or other disposal of the Notes less any available duly documented cost deductions (including the acquisition cost of the Notes and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes), provided that the duly executed documentation supporting cost deductions is made available in a timely manner to the tax agent that is required to calculate and withhold Russian personal income tax in a timely manner. If no documentation supporting the cost deduction is provided to the tax agent, Russian personal income tax will be determined based on the gross amount of sales or other disposal proceeds. Russian personal income tax base should be determined in rubles. For this purpose, deductible costs and sales or other disposal proceeds should be converted into rubles based on the exchange rate of the Central Bank of Russia as of the date when the costs were incurred and sales or other disposal proceeds were received. This may result in taxable income occurring for Russian personal income tax purposes even though there may be no gain or a capital loss in the currency in which the Notes are traded.

Although technically Russian personal income tax due on proceeds from sale or disposal of the Notes may be reduced or eliminated based on provisions of an applicable double tax treaty entered into between Russia and the country of tax residency of a particular Non-Resident Noteholder Individual subject to timely compliance by that Non-Resident Noteholder Individual with the treaty clearance formalities, in practice such Non-Resident Noteholder Individual may not be able to obtain the advance treaty relief in relation to sales or disposal proceeds and/or accrued interest income, as may be relevant, received from a source within Russia. Obtaining a refund of Russian personal income taxes that were excessively withheld in relation to this income can be difficult, or impossible in some cases. Further, even though the Russian Tax Code requires only a Russian professional asset manager or broker acting in a similar capacity to withhold the tax from payment to an individual associated with disposition of securities, there is no guarantee that other Russian companies or foreign companies operating in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax.

Generally, there should be no Russian tax on gains from sale or other disposition of the Notes imposed on Non-Resident Noteholder Legal Entity. There is, however, some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the Notes (i.e. debt obligations) where proceeds from sale or other disposition of the Notes are received from a source within Russia by a Non-Resident Noteholder Legal Entity. The uncertainty is driven by isolated instances in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the Eurobonds. Although the

Ministry of Finance of the Russian Federation in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest on the Eurobonds paid to a non-Russian organization should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having registered tax presence in Russia which purchases the Notes from the Non-Resident Noteholder Legal Entity or acts as an intermediary for other persons may seek to assess Russian withholding tax at the rate of 20% (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds of the Notes.

While some Non-Resident Noteholders might be eligible for an exemption from or a reduction in Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice.

An imposition or possibility of imposition of this withholding tax, as applicable, under such circumstances could adversely affect the value of the Notes. See "Taxation — Russian Federation".

An investment in the Notes is subject to ERISA restrictions.

A Series of Notes issued under the Programme may be regarded for purposes of the United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), as equity interests in a separate entity whose sole asset is the Loan corresponding with that Series. Accordingly, the Notes should not be acquired by any "benefit plan investor" within the meaning of Section 3(42) of ERISA (a "**Benefit Plan Investor**"). Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made representations that it is not a Benefit Plan Investor. Potential purchasers should read the sections entitled "Certain U.S. Employee Benefit Plan Considerations" and "Transfer Restrictions."

Ratings of the Notes.

In general, European regulated investors are restricted under Regulation (EC) No 1060/2009 (the "**CRA Regulation**") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances while the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Where a Series of Notes is rated, the rating assigned to the Notes and details of the relevant rating agency will be specified in the applicable Final Terms or Series Prospectus. Whether or not each credit rating applied for in relation to the relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms or Series Prospectus.

FORWARD-LOOKING STATEMENTS

Certain statements in this Base Prospectus are not historical facts and are "forward-looking" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. This Base Prospectus contains certain forward-looking statements in various locations, including, without limitation, under the headings "Overview," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Gazprom." We may from time to time make written or oral forward-looking statements in reports to our shareholders and in other communications. Examples of such forward- looking statements include, but are not limited to:

- statements of our plans, objectives or goals, including those related to products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by us from time to time (but that are not included in this Base Prospectus) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

Words such as "believes," "anticipates," "expects," "estimates," "intends" and "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the prevailing global and domestic economic environment;
- inflation, interest rate and exchange rate fluctuations;
- the prices of natural gas and crude oil;
- our ability to finance our anticipated capital expenditures at least in part through the global capital markets, revenue from operations or otherwise;
- the effects of, and changes in, the policies of the Government;
- the inherent uncertainties in estimating our reserves of natural gas, gas condensate and crude oil;
- the effects of competition in the geographic and business areas in which we conduct operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- our ability to increase market share for our products and control expenses;
- acquisitions or divestitures;
- technological changes;
- the effects of international political events on our businesses;
- our ability to manage operational risks in our gas and crude oil exploration, production and transportation activities and other business operations; and
- our success at managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise except as otherwise required by applicable law or under the Prospectus Directive. We do not

make any representation, warranty or prediction that the results or events anticipated by such forward-looking statements will be achieved or occur, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

ENFORCEABILITY OF JUDGMENTS

Gazprom is a public joint stock company incorporated under the laws of Russia, and most of our assets are currently located outside the United States and the United Kingdom. In addition, all of our directors and executive officers are residents of countries other than the United States and the United Kingdom. As a result, it may not be possible for you to:

- effect service of process within the United States or the United Kingdom upon us or any of our directors or executive officers named in this Base Prospectus; or

- enforce, in the U.S. or English courts, judgments obtained outside the U.S. or English courts against us or any of our directors and executive officers named in this Base Prospectus in any action, including actions under the civil liability provisions of the U.S. securities laws or any state or territory of the United States.

In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions located outside the United States or the United Kingdom, liabilities predicated upon the U.S. securities laws or upon English laws.

A final and conclusive judgment obtained against the Issuer in a court in the United Kingdom would be recognized and enforced by the Luxembourg courts without re-examination of the merits of the case subject to and in accordance with the Regulation (EU) No. 1215/2012 of the European Parliament and of the Council of December 12, 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (recast), provided that the judgment in question qualifies as a judgment (as defined therein), or, as the case may be, subject to and in accordance with the Council Regulation 805/2004 of April 21, 2004 creating a European enforcement order for uncontested claims, provided that the judgment in question has been certified as a European Enforcement Order (as referred to therein).

Judgments rendered by a court in any jurisdiction outside Russia will be recognized and enforced, without re-examination of the issues, by courts in Russia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between Russia and the country where the judgment is rendered and/or a federal law is adopted in Russia that provides for the recognition and enforcement of foreign court judgments. No such treaty exists between the United States and Russia or the United Kingdom and Russia for the reciprocal enforcement of foreign court judgments and no relevant federal law on enforcement of foreign court judgments has been adopted in Russia. However, we are also aware of at least two instances in which Russian courts have recognized and enforced foreign court judgments (including a judgment of an English court), on the basis of the principle of reciprocity and (in case of enforcement of an English court judgment) the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognize and enforce an English court judgment on these grounds.

Each Loan Agreement will be governed by English law and provide for disputes, controversies and causes of action brought by the Issuer against us to be settled by arbitration in accordance with the Rules of the LCIA (formerly the London Court of International Arbitration). Russia and Luxembourg are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, a final conclusive award obtained by arbitration under the Rules of the LCIA will be enforceable in Luxembourg subject to exequatur proceedings as provided in the New York Convention and articles 1241, 1242, 1250 and 1251 of the Luxembourg *Nouveau Code de Procédure Civile*, and Russian courts should generally recognize and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom on the basis of the New York Convention, subject to qualifications provided for in the New York Convention and compliance with Russian laws as interpreted by Russian courts. However, any arbitral award pursuant to arbitration proceedings in accordance with the Rules of the LCIA and the application of English law to the Loan Agreements may be limited, in particular, by mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies. The Arbitrazh Procedure Code of the Russian Federation also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts which grounds are substantially similar to those provided by the New York Convention. The Arbitrazh Procedure Code and other Russian procedural laws as well as their interpretation by Russian courts could change, and other grounds for Russian courts to refuse recognition and enforcement of foreign arbitral awards could arise.

SUPPLEMENTAL BASE PROSPECTUS

Each of Gazprom and the Issuer will agree to comply with any undertakings given by it from time to time to Euronext Dublin in connection with listed Notes and, without prejudice to the generality of the foregoing, Gazprom and the Issuer will each, so long as any of its Notes remains outstanding and admitted to trading on the Main Securities Market, in the event of any significant new factor, material mistake or inaccuracy relating to the information contained in this Base Prospectus, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Notes to be listed on Euronext Dublin.

Gazprom has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment by investors of any Notes and the corresponding Loan and whose inclusion in this Base Prospectus or removal is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of Gazprom and the Issuer, and the rights attaching to such Notes and Loan, Gazprom shall prepare an amendment or supplement to this Base Prospectus or publish a replacement base prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

Gazprom and the Issuer may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the terms and conditions described herein, in which event a Series Prospectus or a supplemental prospectus, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

PRESENTATION OF CERTAIN INFORMATION

References

In this Base Prospectus, the terms "**we**," "**us**," "**our**" and "**Group**" refer to Public Joint Stock Company Gazprom (also known as PJSC Gazprom) and its consolidated subsidiaries, taken as a whole, unless the context otherwise requires. The term "**Gazprom**" refers to PJSC Gazprom.

Unless the context otherwise requires, in this Base Prospectus the term "**Gazprom Neft**" refers to Gazprom Neft PJSC and its consolidated subsidiaries, taken as a whole.

The term "**Russia**" refers to the Russian Federation. The term "**FSU**" refers to the countries of Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. The term "**Europe**" refers to Western Europe and Central and Eastern Europe. The term "**Europe and Other Countries**" refers to countries other than Russia and the FSU countries. Definitions of certain other terms used in this Base Prospectus may be found under the heading "Glossary of Selected Terms."

We measure our gas condensate and crude oil in metric tons. This Base Prospectus contains conversions of certain volumes from tons into barrels solely for the convenience of the reader. The conversion of volumes from metric tons to barrels varies at each of our fields due to different geological conditions. In this document, however, we use a conversion rate for all conversions of tons to barrels of one ton of crude oil = 7.33 barrels of crude oil and one ton of gas condensate = 8.18 barrels of gas condensate. This Base Prospectus also contains conversions of cubic meters of natural gas and barrels of gas condensate and crude oil into barrels of oil equivalent solely for the convenience of the reader. In this Base Prospectus, we use a conversion rate for all conversions of one mcm of natural gas = 6.49 barrels of oil equivalent, one barrel of gas condensate = one barrel of oil equivalent and one barrel of crude oil = one barrel of oil equivalent.

Unless otherwise indicated, the proved and probable gas reserves of Gazprom and its subsidiaries are expressed in this Base Prospectus in terms of "separator" gas. See the D&M Letter. Generally, separator gas is gas that has not been treated and therefore includes an amount of gas that is not sold to customers.

Our reserves and production calculation methodology is consistent with IFRS consolidation principles. Thus, our subsidiaries' reserves and production information is included in full in our total reserves and production, disregarding our effective share in such subsidiaries. Reserves and production information of our joint arrangements determined to be joint operations for accounting purposes is included in our reserves and production data pro rata to our interest in such joint operations. Consistent with IFRS consolidation principles, the information on hydrocarbon reserves and production of our associates and joint arrangements determined to be joint ventures for accounting purposes is not included in our total reserves and production figures. However, material information on the AB_1C_1 hydrocarbon reserves of our associates is presented separately.

Reproduction of information

Information contained under the heading "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters" includes extracts from information and data publicly released by official and other sources, including Russian governmental agencies and bodies. Each of the Issuer and Gazprom accepts responsibility for accurately reproducing such information and data and, as far as Gazprom or the Issuer is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading, but neither the Issuer, nor Gazprom accepts responsibility in respect of such information and data or its accuracy.

Financial information

On June 26, 2015, the general shareholders meeting of Gazprom approved the change of Gazprom's legal name from OAO Gazprom to PJSC Gazprom.

The financial information of Gazprom and its subsidiaries as at and for the nine months ended September 30, 2018 and 2017 has been derived from the unaudited interim consolidated condensed financial information for the nine months ended September 30, 2018 (the "**Unaudited consolidated interim condensed financial information**"), prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting."

The financial information of Gazprom and its subsidiaries as at and for the years ended December 31, 2017, 2016 and 2015 has been derived from the audited consolidated financial statements as at and for the years ended December 31, 2017 and 2016 (the "**Annual Consolidated Financial Statements**"), prepared in accordance with International Financial Reporting

Standards (each such Standard and any of them taken together, "**IFRS**") as issued by International Accounting Standards Board.

Unaudited consolidated interim condensed financial information together with Annual Consolidated Financial Statements herein referred as the "**Group's Financial Statements**."

For the purposes of compliance with IFRS 9 Financial instruments applied from January 1, 2018, the Group has changed the presentation of information in the consolidated statement of comprehensive income as follows: (i) the line item "Change in impairment and other provisions" has been replaced by two line items "(Impairment loss) reversal of impairment loss on financial assets" and "(Profit on recovery) impairment loss on non-financial assets", the latter is presented as part of the "Operating expenses"; and (ii) the line item "Gain (loss) on disposal of available-for-sale financial assets" has been reclassified to the "Operating expenses". Due to such modifications, and to align the presentation of the relevant financial information with our Unaudited consolidated interim condensed financial information, the presentation of our consolidated statement of comprehensive income for the nine-month period ended September 30, 2017 and for the years 2017, 2016 and 2015 in this Base Prospectus differs from that in our previously published Unaudited consolidated interim condensed financial information and Audited consolidated financial statements for the periods indicated.

Non-IFRS or Alternative Performance Measures

In this Base Prospectus, the Group uses in the analysis of its business, financial position and results of operations the following metrics which it considers to constitute Alternative Performance Measures as defined in the European Securities and Markets Authority Guidelines:

- Adjusted EBITDA,
- LTM Adjusted EBITDA,
- Adjusted EBITDA margin,
- Total Debt,
- Net Debt,
- Adjusted Net Debt,
- Net Debt/Adjusted EBITDA,
- Net Debt/LTM Adjusted EBITDA,
- Adjusted Net Debt/Adjusted EBITDA,
- Adjusted Net Debt/LTM Adjusted EBITDA,
- Free Cash Flow,
- Adjusted Free Cash Flow (collectively, the "**APMs**").

The APMs are presented as supplemental measures of the Group's operating performance, financial condition and leverage, as applicable, which Gazprom believes are frequently used by securities analysts, investors and other interested parties in the evaluation of energy companies' performance. For further information on the reconciliation of APMs to measures disclosed in the Group's Financial Statements, see "Selected Consolidated Financial Information—Alternative Performance Measures."

All of these measures have limitations as analytical tools, and investors should not consider any one of them in isolation, or any combination of them together, as a substitute for analysis of our operating results as reported under IFRS.

For example, some of limitations of Adjusted EBITDA or LTM Adjusted EBITDA are as follows:

- Adjusted EBITDA or LTM Adjusted EBITDA does not reflect the impact of finance income and expense, which can be significant and could further increase if the Group incurs more borrowings, on the Group's operating performance.

- Adjusted EBITDA or LTM Adjusted EBITDA does not reflect the impact of profit tax expense on the Group's operating performance.

- Adjusted EBITDA or LTM Adjusted EBITDA does not reflect the impact of depreciation and amortization on the Group's performance. The assets of the Group which are being depreciated, depleted and/or amortized will need to be replaced in the future and such depreciation and amortization expense may approximate the cost of replacing these assets in the future. By excluding this expense from Adjusted EBITDA or LTM Adjusted EBITDA, such measure does not reflect the Group's future cash requirements for these replacements.

- Adjusted EBITDA or LTM Adjusted EBITDA does not reflect share of net income of associated undertakings and joint ventures.

- Adjusted EBITDA or LTM Adjusted EBITDA does not reflect the impact of impairment and other provisions, except for provisions for impairment of accounts receivable.

Similarly, net debt is not a balance sheet measure under IFRS and it should not be considered as an alternative to other measures of financial position. We use net debt to provide an assessment of our overall indebtedness, because it is a commonly used measure in the investment analyst community. However, the use of net debt effectively assumes that total borrowings can be reduced by cash. It is unlikely that we would use all available cash to reduce total borrowings all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Our calculation of net debt may be different from the calculation used by other companies and therefore comparability may be limited.

Other energy companies may calculate the APMs differently or may use each of them for different purposes than the Group, limiting their usefulness as comparative measures.

We rely primarily on our IFRS operating results and use the APMs only to supplement the IFRS operating results. See the Group's Financial Statements included elsewhere in this Base Prospectus. The APMs are not defined by, or presented in accordance with, IFRS. The APMs are not measurements of our operating performance under IFRS and should not be considered as alternatives to sales, net profit for the period, net cash from operating activities or any other measures of performance under IFRS or as measures of the Group's liquidity. In particular, Adjusted EBITDA or LTM Adjusted EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of its business.

Currencies

In this Base Prospectus, references to "**Russian Roubles**," "**rubles**" and "**RR**" are to the lawful currency for the time being of Russia; references to "**U.S. dollars**," "**dollars**" and "**U.S.$**" are to the lawful currency for the time being of the United States of America; references to "**£**" are to the lawful currency for the time being of the United Kingdom and references to "**€**" and "**euro**" are to the lawful currency for the time being of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended. References to "**CHF**" are to the lawful currency for the time being of Switzerland.

Exchange rates

The table below sets out, for the periods and dates indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on the official exchange rate quoted by the CBR. Fluctuations in the exchange rates between the ruble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

	High	**Low**	**Average[1]**	**Period End**
2019 (through January 30, 2019)	67.19	65.92	66.54	66.34
2018	69.97	55.67	62.91	69.47
2017	60.75	55.85	58.30	57.60
2016	83.59	60.27	66.83	60.66
2015	72.88	49.18	60.75	72.88
2014	67.79	32.66	39.15	56.26
2013	33.47	29.93	31.97	32.73
2012	34.04	28.95	31.07	30.37
2011	32.68	27.26	29.39	32.20

Source: The CBR.

Note:

(1) The average of the exchange rates on the last business day of each month for the relevant annual period, and on each business day for any other period.

This Base Prospectus contains conversions of certain amounts into dollars at specified rates solely for the convenience of the reader.

No representation is made that the U.S. dollar or ruble amounts referred to in this Base Prospectus could have been or could be converted into rubles or U.S. dollars, as the case may be, at the above exchange rates or at all.

OVERVIEW OF THE PROGRAMME

The following overview contains basic information about the Notes and Loans and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "Facility Agreement" and "Terms and Conditions of the Notes" appearing elsewhere in this Base Prospectus.

Summary of Loans under the Programme

Each transaction will be structured as a Loan to Gazprom by the Issuer. The Issuer will issue Notes to Noteholders for the sole purpose of funding such Loan (and such Loan will in effect provide 100% collateralization on the relevant Issue Date) for such Notes. Each Series will be constituted by a supplemental trust deed which is supplemental to an amended and restated principal trust deed dated December 7, 2005 as amended by the Deed of Amendment dated July 17, 2012 (together, the "**Trust Deed**"), each entered into between the Issuer and Deutsche Bank Trust Company Americas (the "**Trustee**"). Pursuant to the Trust Deed, the Issuer will: (i) charge as security certain of its rights and interests under such Loan to the Trustee for the benefit of the Noteholders of the corresponding Series of Notes; and (ii) assign its rights under the relevant Loan Agreement to the Trustee as security (other than certain Reserved Rights, as defined in the Trust Deed) (together, the "**Security Interests**") for its payment obligations in respect of such Series of Notes. As a consequence of the assignment of the rights under the relevant Loan Agreement, the Trustee shall assume the rights of the Issuer (other than certain Reserved Rights, as defined in the Trust Deed) as set out in the relevant provisions of the Trust Deed. If and when the charge of certain of the Issuer's rights and interests under any Loan is enforced, the Trustee will assume the rights of the Issuer under such Loan as set out in the relevant provisions of the Trust Deed, and the Trustee will assume certain rights and obligations towards the Noteholders, as more fully set out in the Trust Deed.

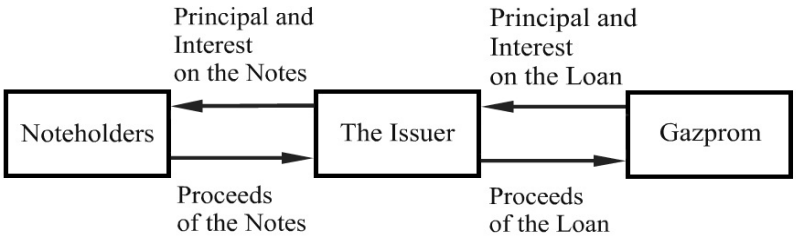
Each Series of Notes will be issued on a limited recourse basis and the Issuer will not have any obligations to the Noteholders of such Series of Notes save for to account to the Noteholders of the relevant Series for amounts equivalent to the amounts of payments of principal and interest received by the Issuer under the corresponding Loan if and to the extent received by it from Gazprom. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered pursuant to the corresponding Loan, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts. The Issuer will have no other financial obligations under the relevant Series of Notes and no assets of the Issuer (including the Issuer's rights with respect to any Loan relating to any other Series of Notes) will be available to such Noteholders.

The Issuer will agree in the Trust Deed not to agree to any amendments to or modification or waiver of, and not to authorize any breach of, the relevant Loan Agreement unless the Trustee has given its prior written consent. The Issuer will agree to act at all times in accordance with any instructions of the Trustee with respect to the relevant Loan Agreement, except as provided in the Trust Deed and except in respect of Reserved Rights (as defined in the Trust Deed). The Issuer will notify the relevant Noteholders of any amendments, modifications, waivers or authorizations made with the Trustee's consent in accordance with the Terms and Conditions of the relevant Notes, which amendments, modifications, waivers or authorizations will be binding on the Noteholders. The Issuer does not intend to provide post-issuance transaction information regarding the Notes or the performance of each Loan.

Payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes, except as required by law. If any deduction or withholding is required by law, the Issuer must, except in certain limited circumstances, pay additional amounts to the extent it receives corresponding amounts from Gazprom pursuant to the relevant Loan Agreement. In addition, payments under each Loan Agreement will be made without deduction or withholding for or on account of taxes, except as required by law. If any deduction or withholding is required by law with respect to payments under the Notes or the corresponding Loan Agreement, Gazprom must, except in certain limited circumstances, increase the amounts payable under such Loan Agreement by an amount equivalent to the required tax payment.

Gazprom may prepay each Loan at its principal amount, together with accrued and unpaid interest and additional amounts, if any, if Gazprom is required to increase the amount payable or to pay additional amounts on account of the taxes in respect of which it is required to pay additional amounts under the relevant Loan Agreement or if it is required to pay additional amounts on account of certain costs incurred by the Issuer. As set forth in each Loan Agreement, the Issuer may, at its own discretion, require Gazprom to prepay the relevant Loan if it becomes unlawful for the relevant Loan or the corresponding Notes to remain outstanding. Each Loan has characteristics that demonstrate a capacity to produce funds to service any payments due and payable on the corresponding Notes.

Set forth below is a diagram of the structure for the Notes and the Loans:



Notes to be issued under the Programme and the corresponding Loans

Issuer	Gaz Capital S.A., a public limited liability company ("*société anonyme*") incorporated in Luxembourg with its registered office at 14, rue Edward Steichen, L-2540 Luxembourg, Grand Duchy of Luxembourg, registered with the Luxembourg trade and companies register (*Registre de Commerce et des Sociétés, Luxembourg*) under the number B 95071 (the "**Issuer**").
Gazprom (as the Borrower).....	Public Joint Stock Company Gazprom (the "**Borrower**" or "**Gazprom**") with its registered office and business headquarters at 16 Nametkina Street, 117420 Moscow, Russia.
Description	Programme for the Issuance of Loan Participation Notes with limited recourse pursuant to which the Issuer may issue loan participation notes (the "**Notes**").
Programme Size	Up to U.S.$40,000,000,000 (or its equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. Gazprom may increase the amount of the Programme in accordance with the Dealer Agreement (as defined herein). For the purpose of calculating the aggregate principal amount of Notes outstanding, Notes issued at a premium shall be treated as having been issued at the amount of their net proceeds received by the Issuer.
Arrangers.....	Deutsche Bank AG, London Branch and UBS AG, London Branch (the "**Arrangers**").
Dealers.....	Deutsche Bank AG, London Branch, J.P. Morgan Securities plc, Mizuho International plc, Renaissance Securities (Cyprus) Limited, UBS AG, London Branch and UniCredit Bank AG. Pursuant to the terms of the Dealer Agreement, the Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Series of Notes or in respect of the whole Programme. References in this Base Prospectus to "**Permanent Dealers**" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "**Dealers**" are to all Permanent Dealers and all persons appointed as dealers in respect of one or more Series of Notes.
Trustee.....	Deutsche Bank Trust Company Americas.
Principal Paying Agent.....	Deutsche Bank AG, London Branch, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another principal paying agent is appointed in respect of that Series. References in this Base Prospectus to "**Principal Paying Agent**" are to Deutsche Bank AG, London Branch or such other alternative principal paying agent, as the case may be.
Registrars.....	Deutsche Bank Luxembourg S.A., and/or, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company Americas, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that an alternative registrar is appointed in respect of that Series. References in this Base Prospectus to "**Registrar**" are to Deutsche Bank Luxembourg S.A., Deutsche Bank Trust Company Americas or such alternative registrar, as the case may be.
Paying Agents	Deutsche Bank AG, London Branch and Deutsche Bank Luxembourg S.A., and/or, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company

	Americas, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another paying agent is appointed in respect of that Series. References in this Base Prospectus to "**Paying Agents**" are to Deutsche Bank AG, London Branch, Deutsche Bank Luxembourg S.A., Deutsche Bank Trust Company Americas or such alternative paying agent, as the case may be.
Transfer Agents	Deutsche Bank AG, London Branch, and Deutsche Bank Luxembourg S.A., and/or, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company Americas, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another transfer agent is appointed in respect of that Series. References in this Base Prospectus to "**Transfer Agents**" are to Deutsche Bank AG, London Branch, Deutsche Bank Luxembourg S.A., Deutsche Bank Trust Company Americas or such alternative transfer agent, as the case may be.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. The specific terms of each Series will be completed in a final terms document (each, "**Final Terms**") which shall complete the Terms and Conditions of the Notes or a series prospectus (each, a "**Series Prospectus**"), which shall either complete or restate the Terms and Conditions of the Notes as the case may be.
Issue Price of Notes	Notes may be issued at their principal amount or at a discount or premium to their principal amount.
Status of the Notes	Each Series of Notes will constitute limited recourse secured obligations of the Issuer to apply the proceeds from the issue of the Notes solely for financing the corresponding Loan and to account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to such Loan, all as more fully described in "Terms and Conditions of the Notes—1. Status."
Ranking of the Loans	None of the Loans will be secured by any collateral. Each Loan will rank equal in right of payment with other outstanding and unsecured indebtedness of Gazprom but will effectively rank below all of our secured debt and the debt and other liabilities of Gazprom's subsidiaries.
Security	Each Series of Notes will be secured by way of first fixed charge on: • all principal, interest and other amounts payable by Gazprom to the Issuer under the relevant Loan Agreement and the right to receive all sums payable by Gazprom under any claim, award or judgment relating to such Loan Agreement; and • all of the Issuer's rights, title and interest in and to all sums of money held from time to time in an account specified in the relevant Final Terms or Series Prospectus, as the case may be, together with the debts represented thereby (including interest from time to time earned thereon) pursuant to the Trust Deed, in each case, other than certain Reserved Rights and any amounts in respect thereof.
Assignment of Rights	The Issuer with full title guarantee will assign absolutely its rights under the relevant Loan Agreement (save for those rights charged or excluded above) to the Trustee upon the closing of the offering of the corresponding Series of Notes.
Form of the Notes	The Notes will be issued in registered form. Each Series of Notes will be represented by a global unrestricted Note (each a "**Regulation S Global Note**") and, in the case of Rule 144A Notes, a global restricted Note (each a "**Rule 144A Global Note**" and together with any Regulation S Global Notes, the "**Global Notes**"), in each case without interest coupons. Global Notes will be exchangeable for Notes in definitive form in the limited circumstances specified in the Global Notes.
Clearing Systems	DTC (in the case of Rule 144A Notes), Clearstream, Luxembourg and Euroclear (in the case of Regulation S Notes or the Rule144A Notes) and, in relation to any Series, such other clearing system as may be agreed between the Issuer, the Borrower, the Paying Agent, the Trustee and the relevant Dealer.
Initial Delivery of Notes	On or before the issue date for each Series, the Regulation S Global Notes shall be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and the Rule 144A Global Notes, if any, will be deposited with Deutsche Bank Trust Company Americas as custodian for DTC. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing

	system provided that the method of such delivery has been agreed in advance by the Issuer, the Borrower, the Paying Agent, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Borrower and the relevant Dealers.
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, Gazprom and the relevant Dealers.
Specified Denomination	Notes will be in such denominations as may be specified in the relevant Final Terms or Series Prospectus, as the case may be, subject to (i) the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes); and (ii) unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 ("**FSMA**") will have a minimum denomination of £200,000 (or their equivalent in other currencies). Notes resold pursuant to Rule 144A shall be in denominations of U.S.$200,000 (or its equivalent rounded upwards as agreed between the Issuer, Gazprom and the relevant Dealer(s)) or higher integral multiples of U.S.$1,000.
Rate of Interest	The Notes may be issued on a fixed rate or floating rate basis.
Fixed Rate Notes	Fixed interest will be payable in arrears on the date or dates in each year specified in the relevant Final Terms or Series Prospectus.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series and corresponding Loan as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or (ii) by reference to LIBOR or EURIBOR (or such other benchmark as may be specified in the relevant Series Prospectus) as adjusted for any applicable margin.
Interest Periods and Interest Rates .	The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms, or Series Prospectus, as the case may be.
Redemption	The relevant Final Terms, or Series Prospectus, as the case may be, will specify the redemption amounts payable and whether there will be any put or call options. Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of FSMA must have a minimum redemption amount of £200,000 (or its equivalent in other currencies).
Issuer's Restrictions and Covenants	So long as any Note remains outstanding, the Issuer will not, without the consent of the Trustee, among other things, incur any other indebtedness for borrowed moneys (other than issuing loan participation notes for the purposes of making loans to Gazprom), or enter into other transactions or engage in any business (other than transactions contemplated by this Base Prospectus), declare any dividends or have any subsidiaries. See "Terms and Conditions of the Notes—4. Restrictive Covenants."
Withholding Tax and Increased Costs	If any payments to be made by the Issuer under any Notes become subject to any withholding tax imposed by the Russian Federation or the country of incorporation of the Issuer or any taxing authority thereof, the Issuer will be required (subject to certain customary exemptions (including the ICMA Standard EU Tax exemption Tax Language) and subject to receiving funds from Gazprom in respect thereof) to pay an additional amount to compensate Noteholders for any amounts so withheld. If any payments to be made by Gazprom under a Loan Agreement become subject to any withholding tax imposed by the Russian Federation or the country of incorporation of the Issuer (or following the enforcement of the security created in the Trust Deed, the then jurisdiction of the Trustee) or any taxing authority thereof, or certain other circumstances result in the Issuer incurring any increased costs

	associated with the corresponding Loan, Gazprom will be required to pay an additional amount necessary to compensate the Issuer for the tax withheld or the increased cost to the Issuer.
Early Redemption.....	If Gazprom is required to pay additional amounts under a Loan Agreement as described above, it will have the right to prepay the corresponding Loan, upon not less than 10 days' notice to the Issuer, in whole (but not in part) at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of repayment on the next Interest Payment Date (in the case of a Floating Rate Loan) or at any time (in the case of a Fixed Rate Loan). If it becomes unlawful for the Issuer to fund a Loan or allow such Loan to remain outstanding under the relevant Loan Agreement or allow the corresponding Notes to remain outstanding, as more fully described in the Facility Agreement, the Issuer may require such Loan to be repaid in full, upon giving notice to Gazprom and the Trustee, at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of repayment. In such circumstances, the Issuer will be required to redeem the Notes corresponding to such Loan, at their principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of such repayment.
Relevant Events.....	In the case of certain events in relation to an Issuer (as defined in the "Terms and Conditions of the Notes"), the Trustee may, subject as provided in the Trust Deed, enforce the security created in the Trust Deed in favor of the Noteholders.
Certain Restrictions and Covenants	The Issuer will have the benefit of certain covenants made by Gazprom, including a negative pledge and restrictions on mergers and disposals, all as fully described in the relevant Loan Agreement.
Events of Default.....	In the case of an Event of Default (as defined in the relevant Loan Agreement), the Trustee may, subject as provided in the Trust Deed, require the Issuer to declare all amounts payable under the relevant Loan Agreement by Gazprom to be due and payable.
Use of Proceeds of the Notes and the Loans	The gross proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to the Borrower. Except as otherwise specified in the relevant Final Terms or Series Prospectus, the proceeds of such Loan will be used by the Borrower for general corporate purposes. At the date of this Base Prospectus, the Borrower has no specific plans in relation to any of the proceeds it would borrow under a Loan. The Borrower shall not use the proceeds of such Loan for the purpose of funding any person (other than the Borrower), activity, business or transaction (whichever is applicable pursuant to the nature and scope of the relevant sanctions regime), that is, as of the date of such funding, subject to any sanctions (i) administered or enforced by the U.S. Government (including, without limitation, OFAC or the U.S. Department of State), or any enabling legislation or executive order relating thereto, or (ii) imposed by the European Union, the United Kingdom, the United Nations, the Swiss State Secretariat for Economic Affairs (SECO), including sanctions imposed against certain states, organizations and individuals under the European Union's Common Foreign & Security Policy.
Further Issues	The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series.
Listing and Admission to Trading..	Application will be made, where specified in the relevant Final Terms or Series Prospectus, as the case may be, for a Series of Notes to be listed on the Official List of Euronext Dublin and to admit them to trading on its regulated market or such other stock exchange as shall be specified in the relevant Final Terms or Series Prospectus, as the case may be, or the Series of Notes will remain unlisted.
Rating	A Series of Notes issued under the Programme may be rated or unrated. If a Series of Notes is rated, such rating will be specified in the relevant Final Terms or Series Prospectus. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms or Series Prospectus. See "Risk Factors—Ratings of the Notes." Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any

	particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or Gazprom could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analyzed independently from any other rating.
Governing Law.....	The Notes will be governed by English law. The provisions of articles 470-1 to 470-19 of the Luxembourg law of August 10, 1915, as amended, on commercial companies are excluded.
Selling Restrictions	United Kingdom, United States, Russian Federation, Canada and any other jurisdiction relevant to any Series. See “Subscription and Sale.”

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

Our financial information set forth herein, unless otherwise indicated, has been extracted or derived from the Group's Financial Statements. IFRS differs in certain respects from U.S. GAAP. The summary consolidated financial information set forth below should be read in conjunction with the Group's Financial Statements and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" below and in this Base Prospectus.

	Nine months ended September 30,		Year ended December 31,		
	2018	2017	2017	2016	2015
	(amounts in millions of RR)				
Statement of Comprehensive Income					
Sales	5,901,591	4,641,596	6,546,143	6,111,051	6,073,318
Net gain (loss) from trading activity	7,048	(14,409)	(16,352)	3,382	3,704
Operating expenses[1]	(4,450,034)	(3,876,133)	(5,697,056)	(5,280,876)	(4,762,444)
(Impairment loss) reversal of impairment loss on financial assets	(73,654)	(55,020)	38,670	(106,918)	(77,156)
Operating profit	1,384,951	696,034	871,405	726,639	1,237,422
Finance income	416,893	338,349	426,705	1,018,997	990,346
Finance expense	(635,122)	(318,337)	(407,044)	(543,370)	(1,409,087)
Share of profit of associates and joint ventures	149,180	83,830	126,940	82,872	106,560
Profit tax	(251,816)	(184,251)	(251,127)	(288,034)	(120,042)
Profit for the period	1,064,086	615,625	766,879	997,104	805,199
Profit for the period attributable to non-controlling interest	46,836	33,791	52,577	45,467	18,143
Profit for the period attributable to owners of Gazprom	1,017,250	581,834	714,302	951,637	787,056
Other comprehensive income (loss) for the period, net of tax	425,908	(71,242)	4,390	(159,653)	162,874
Comprehensive income for the period	1,489,994	544,383	771,269	837,451	968,073
Comprehensive income for the period attributable to non-controlling interest	55,591	40,200	60,429	30,548	29,482
Comprehensive income for the period attributable to owners of Gazprom	1,434,403	504,183	710,840	806,903	938,591

	As of September 30,	As of December 31,		
	2018	2017	2016	2015
	(amounts in millions of RR)			
Balance Sheet				
Assets				
Total current assets, of which	3,827,069	3,469,266	3,234,346	3,993,722
Cash and cash equivalents[2]	885,721	869,007	896,728	1,359,095
Accounts receivable and prepayments	1,085,447	1,122,724	1,084,967	1,114,207
Inventories	938,999	772,314	711,199	804,364
Other current assets[3]	728,325	554,283	334,938	473,860
Non-current assets, of which	16,108,093	14,769,504	13,684,592	13,058,318
Property, plant and equipment	13,377,197	12,545,079	11,502,747	11,003,881
Total assets	19,935,162	18,238,770	16,918,938	17,052,040
Liabilities and Equity				
Current liabilities, of which	2,492,947	2,589,516	1,921,808	2,124,701
Accounts payable and provisions for liabilities and charges	1,364,943	1,378,182	1,197,005	1,298,006
Short-term borrowings, promissory notes and current portion of long-term borrowings	782,760	874,805	447,080	646,372
Non-current liabilities, of which	4,116,455	3,633,773	3,555,291	4,012,717
Long-term borrowings, promissory notes	2,729,567	2,391,713	2,382,543	2,795,843
Total liabilities	6,609,402	6,223,289	5,477,099	6,137,418
Total equity, of which	13,325,760	12,015,481	11,441,839	10,914,622
Non-controlling interest	449,661	386,395	347,308	325,036

Alternative Performance Measures

	Nine months ended September 30,		Year ended December 31,		
	2018	2017	2017	2016	2015
	(amounts in millions of RR, except ratios)				
APMs					
Adjusted EBITDA[4]	1,865,565	1,154,168	1,467,692	1,323,258	1,883,847
LTM Adjusted EBITDA [4]	2,179,089	NA	NA	NA	NA
Adjusted EBITDA margin[5]	32%	25%	22%	22%	31%
Total Debt[6]	3,512,327	NA	3,266,518	2,829,623	3,442,215
Net Debt[7]	2,626,606	NA	2,397,511	1,932,895	2,083,120
Adjusted Net Debt[8]	2,204,020	NA	2,067,983	1,746,630	1,951,528
Net Debt/Adjusted EBITDA[9]	NA	NA	1.63	1.46	1.11
Net Debt/LTM Adjusted EBITDA[10]	1.21	NA	NA	NA	NA
Adjusted Net Debt/Adjusted EBITDA[11]	NA	NA	1.41	1.32	1.04
Adjusted Net Debt/LTM Adjusted EBITDA[12]	1.01	NA	NA	NA	NA
Free Cash Flow[13]	234,753	(375,006)	(218,758)	202,271	389,903
Adjusted Free Cash Flow[14]	368,587	(53,185)	24,016	124,620	381,281

Notes:

(1) For the purposes of compliance with IFRS 9 Financial instruments applied from January 1, 2018, the Group has changed the presentation of information in the consolidated statement of comprehensive income as follows: (i) the line item "Change in impairment and other provisions" has been replaced by two line items "(Impairment loss) reversal of impairment loss on financial assets" and "(Profit on recovery) impairment loss on non-financial assets", the latter is presented as part of the "Operating expenses"; and (ii) the line item "Gain (loss) on disposal of available-for-sale financial assets" has been reclassified to the "Operating expenses". Due to such modifications, and to align the presentation of the relevant financial information with our Unaudited consolidated interim condensed financial information, the presentation of our consolidated statement of comprehensive income for the nine-month period ended September 30, 2017 and for the years 2017, 2016 and 2015 in this Base Prospectus differs from that in our previously published Unaudited consolidated interim condensed financial information and Audited consolidated financial statements for the periods indicated.

(2) Balances included within cash and cash equivalents represent cash on hand, balances with banks and term deposits with the original maturity of three months or less.

(3) This line item has been extracted without adjustment from, and has the meaning given to it under, the Group's Financial Statements. Other current assets include short-term deposits in the amount of RR421,221 million, RR327,969 million, RR144,035 million and RR126,528 million as of September 30, 2018, and December 31, 2017, 2016 and 2015, respectively.

(4) Sum of operating profit, depreciation, impairment loss or reversal of impairment loss on financial assets and non-financial assets, less charges of impairment allowances for expected credit losses on accounts receivable and impairment allowances on prepayments. Adjusted EBITDA or LTM Adjusted EBITDA should not be considered as an alternative to profit, operating profit, net cash provided by operating activities or any other measure of performance under IFRS and may not be comparable to similar non-GAAP measures used by other companies. Adjusted EBITDA has limitations as analytical tool. See "Presentation of Certain Information".

(5) Adjusted EBITDA divided by sales.

(6) Sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings and long-term promissory notes payable.

(7) Sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings and long-term promissory notes payable, net of cash and cash equivalents.

(8) Net Debt less short-term and long-term bank deposits.

(9) Net Debt divided by Adjusted EBITDA.

(10) Net Debt divided by LTM Adjusted EBITDA.

(11) Adjusted Net Debt divided by Adjusted EBITDA.

(12) Adjusted Net Debt divided by LTM Adjusted EBITDA.

(13) Net cash flow from operating activities less cash capital expenditures.

(14) Free Cash Flow less net effect of cash transfers to and from short-term bank deposits on cash flow from operating activities.

Adjusted EBITDA reconciliation

	Nine months ended September 30,		Year ended December 31,		
	2018	2017	2017	2016	2015
	(amounts in millions of RR)				
Operating profit	1,384,951	696,034	871,405	726,639	1,237,422
Less:					
Change of impairment allowances for expected credit losses on accounts receivable and impairment allowances on prepayments	74,181	55,004	(38,049)	118,815	81,994
Plus:					
Impairment loss (reversal of impairment) on financial and non-financial assets	78,659	64,559	(54,922)	143,870	213,219
Plus:					
Depreciation	476,136	448,579	613,160	571,564	515,200
Adjusted EBITDA	**1,865,565**	**1,154,168**	**1,467,692**	**1,323,258**	**1,883,847**

LTM Adjusted EBITDA reconciliation

	(amounts in millions of RR)
Adjusted EBITDA for the year ended December 31, 2017	1,467,692
Less:	
Adjusted EBITDA in the nine-month period ended September 30, 2017	1,154,168
Plus:	
Adjusted EBITDA in the nine-month period ended September 30, 2018	1,865,565
LTM Adjusted EBITDA	**2,179,089**

Adjusted EBITDA Margin reconciliation

	Nine months ended September 30,		Year ended December 31,		
	2018	2017	2017	2016	2015
	(amounts in millions of RR)				
Adjusted EBITDA	1,865,565	1,154,168	1,467,692	1,323,258	1,883,847
Divide by:					
Sales	5,901,591	4,641,596	6,546,143	6,111,051	6,073,318
Adjusted EBITDA margin	**32%**	**25%**	**22%**	**22%**	**31%**

Total Debt reconciliation

	As of September 30,		As of December 31,		
	2018	2017	2017	2016	2015
	(amounts in millions of RR)				
Short-term borrowings, promissory notes and current portion of long-term borrowings	782,760	NA	874,805	447,080	646,372
Plus:					
Long-term borrowings, promissory notes	2,729,567	NA	2,391,713	2,382,543	2,795,843
Total Debt	**3,512,327**	**NA**	**3,266,518**	**2,829,623**	**3,442,215**

Net Debt reconciliation

	As of September 30,		As of December 31,		
	2018	2017	2017	2016	2015
	(amounts in millions of RR)				
Short-term borrowings, promissory notes and current portion of long-term borrowings	782,760	NA	874,805	447,080	646,372
Plus:					
Long-term borrowings, promissory notes	2,729,567	NA	2,391,713	2,382,543	2,795,843
Less:					
Cash and cash equivalents	885,721	NA	869,007	896,728	1,359,095
Net Debt	**2,626,606**	**NA**	**2,397,511**	**1,932,895**	**2,083,120**

Adjusted Net Debt reconciliation

	As of September 30,		As of December 31,		
	2018	2017	2017	2016	2015
	(amounts in millions of RR)				
Net Debt	2,626,606	NA	2,397,511	1,932,895	2,083,120
Less:					
Short-term bank deposits	421,221	NA	327,969	144,035	126,528
Less:					
Long-term bank deposits	1,365	NA	1,559	42,230	5,064
Adjusted Net Debt	**2,204,020**	**NA**	**2,067,983**	**1,746,630**	**1,951,528**

Net Debt/Adjusted EBITDA reconciliation

	Nine months ended September 30,		Year ended December 31,		
	2018	2017	2017	2016	2015
	(amounts in millions of RR, except ratios)				
Net Debt	2,626,606	NA	2,397,511	1,932,895	2,083,120
Divide by:					
Adjusted EBITDA	1,865,565	1,154,168	1,467,692	1,323,258	1,883,847
Net Debt/Adjusted EBITDA	**NA**	**NA**	**1.63**	**1.46**	**1.11**

Net Debt/LTM Adjusted EBITDA reconciliation

	(amounts in millions of RR, except ratios)
Net Debt as of September 30, 2018	2,626,606
Divide by:	
LTM Adjusted EBITDA	2,179,089
Net Debt/ LTM Adjusted EBITDA	**1.21**

Adjusted Net Debt/Adjusted EBITDA reconciliation

	Nine months ended September 30,		Year ended December 31,		
	2018	2017	2017	2016	2015
	(amounts in millions of RR, except ratios)				
Adjusted Net Debt	2,204,020	NA	2,067,983	1,746,630	1,951,528
Divide by:					
Adjusted EBITDA	1,865,565	1,154,168	1,467,692	1,323,258	1,883,847
Adjusted Net Debt/Adjusted EBITDA	**NA**	**NA**	**1.41**	**1.32**	**1.04**

Adjusted Net Debt/LTM Adjusted EBITDA reconciliation

	(amounts in millions of RR, except ratios)
Adjusted Net Debt as of September 30, 2018	2,204,020
Divide by:	
LTM Adjusted EBITDA	2,179,089
Adjusted Net Debt/LTM Adjusted EBITDA	**1.01**

Free Cash Flow reconciliation

	Nine months ended September 30,		Year ended December 31,		
	2018	2017	2017	2016	2015
	(amounts in millions of RR)				
Net cash flow from operating activities	1,426,348	612,817	1,187,022	1,571,323	2,030,927
Less:					
Cash capital expenditures	1,191,595	987,823	1,405,780	1,369,052	1,641,024
Free Cash Flow	**234,753**	**(375,006)**	**(218,758)**	**202,271**	**389,903**

Adjusted Free Cash Flow reconciliation

	Nine months ended September 30,		Year ended December 31,		
	2018	2017	2017	2016	2015
	(amounts in millions of RR)				
Free Cash Flow	234,753	(375,006)	(218,758)	202,271	389,903
Less:					
Effect of cash transfers to and from short-term bank deposits on cash flow from operating activities	(133,834)	(321,821)	(242,774)	77,651	8,622
Adjusted Free Cash Flow	**368,587**	**(53,185)**	**24,016**	**124,620**	**381,281**

SUMMARY RESERVES INFORMATION

We estimate our reserves of natural gas, gas condensate and crude oil using the Russian reserves system, which differs significantly from PRMS Standards, in particular with respect to the manner in which and the extent to which economic and commercial factors are taken into account in calculating reserves. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters."

Our reserves and production calculation methodology is consistent with IFRS consolidation principles. Thus, our subsidiaries' reserves and production information is included in full in our total reserves and production, disregarding our effective share in such subsidiaries. Reserves and production information of our joint arrangements determined to be joint operations for accounting purposes is included in our reserves and production data pro rata to our interest in such joint operations. Consistent with IFRS consolidation principles, the information on hydrocarbon reserves and production of our associates and joint arrangements determined to be joint ventures for accounting purposes is not included in our total reserves and production figures. However, material information on the AB_1C_1 hydrocarbon reserves and production of our associates and joint ventures is presented separately. See "Gazprom—Reserves and Production—Reserves.".

The following table shows our total AB_1C_1 natural gas, gas condensate and crude oil reserves and the percentage share of AB_1C_1 reserves evaluated by DeGolyer and MacNaughton in accordance with PRMS Standards as well as the proved, probable and possible reserves determined as a result of their evaluation as of the dates indicated. The D&M Letter contains additional information on the proved and probable gas, gas condensate and crude oil reserves of our subsidiaries evaluated in accordance with PRMS Standards as of December 31, 2017. The correlation between AB_1C_1 reserves and proved and probable reserves may differ in the fields that have not yet been evaluated. Moreover, the correlation may vary at different times for the same fields. Amounts in barrels differ from those provided in the D&M Letter because in this Base Prospectus we use a conversion rate from metric tons of crude oil to barrels of one ton = 7.33 barrels, a conversion rate from one thousand cubic meters of natural gas to barrels of oil of one mcm = 6.49 barrels, and a conversion rate from metric tons of gas condensate to barrels of gas condensate of one ton = 8.18 barrels. Amounts in barrels provided in the D&M Letter are calculated based on the specific gravities of each field.

	As of December 31,			As of December 31,		
	2017	2016	2015	2017	2016	2015
	Gas, bcm			Gas, mmboe		
ABC_1	35,355.4	36,443.9	36,147.3	229,456.5	236,520.9	234,596.0
of which evaluated ABC_1	94%	95%	94%	94%	95%	94%
Proved	18,253.4	18,596.5	18,791.2	118,464.5	120,691.3	121,954.9
Probable	5,893.2	5,258.6	4,913.8	38,246.9	34,128.3	31,890.6
Proved + probable	24,146.6	23,855.1	23,705.0	156,711.4	154,819.6	153,845.5
Possible	6,593.2	6,146.4	5,942.3	42,789.9	39,890.1	38,565.5
	Gas condensate, million tons			Gas condensate, mmboe		
ABC_1	1,595.6	1,534.9	1,499.5	13,052.0	12,555.5	12,265.9
of which evaluated ABC_1	93%	94%	92%	93%	94%	92%
Proved	797.7	759.2	699.5	6,525.2	6,210.3	5,721.9
Probable	308.0	259.7	233.8	2,519.4	2,124.3	1,912.5
Proved + probable	1,105.6	1,018.9	933.3	9,044.6	8,334.6	7,634.4
Possible	765.7	637.9	705.9	6,263.4	5,218.0	5,774.3
	Crude oil, million tons			Crude oil, mmboe		
ABC_1	2,045.3	2,078.5	2,082.0	14,992.1	15,235.4	15,261.1
of which evaluated ABC_1	94%	93%	92%	94%	93%	92%
Proved	736.8	789.5	792.7	5,400.7	5,787.0	5,810.5
Probable	623.2	589.2	562.7	4,568.1	4,318.8	4,124.6
Proved + probable	1,360.0	1,378.7	1,355.4	9,968.8	10,105.9	9,935.1
Possible	646.0	672.0	808.7	4,735.2	4,925.8	5,927.8
				Gas, gas condensate, crude oil, mmboe		
ABC_1				257,500.6	264,311.8	262,123.0
of which evaluated ABC_1				94%	95%	94%
Proved				130,390.4	132,688.6	133,487.3
Probable				45,334.4	40,571.5	37,927.7
Proved + probable				175,724.8	173,260.1	171,415.0
Possible				53,788.5	50,033.9	50,267.6

The following table shows the AB_1C_1 natural gas, gas condensate and crude oil reserves of our associates and joint ventures

in Russia pro rata to our effective interests therein as of the end of the respective periods:

	As of December 31,		
	2017	**2016**	**2015**
Natural gas (bcm)	1,003.8	999.1	1,035.5
(bboe)	6.5	6.5	6.7
Oil and gas condensate (million tons)	679.1	676.0	679.0
(bbls)	5.1	5.0	5.1
Total (bboe)	**11.6**	**11.5**	**11.8**

SUMMARY PRODUCTION INFORMATION

The following table sets forth our summary production data for the periods indicated. Our production activities are more fully described in "Gazprom—Reserves and Production":

	Nine months ended September 30,		Year ended December 31,		
	2018	**2017**	**2017**	**2016**	**2015**
Natural gas (bcm)	365.1	340.6	472.1	420.1	419.5
(mmboe)	2,369.7	2,210.7	3,063.6	2,726.6	2,722.7
Gas condensate (million tons)	11.5	11.6	15.9	15.9	15.3
(mmbls)	94.4	95.1	130.4	129.6	125.5
Crude oil (million tons)	36.2	36.7	48.6	47.2	44.0
(mmbls)	265.7	269.1	356.5	345.6	322.8
Total (mmboe)	**2,729.8**	**2,574.9**	**3,550.5**	**3,201.9**	**3,171.0**

The following table sets forth summary production data of our associates and joint ventures in Russia attributable to the Group for the periods indicated:

	For the nine months ended September 30,		For the year ended December 31,		
	2018	**2017**	**2017**	**2016**	**2015**
Natural gas (bcm)	20.0	20.0	27.0	27.2	25.5
(mmboe)	129.7	129.9	175.2	176.5	165.5
Gas condensate (million tons)	3.6	3.7	5.0	5.2	4.7
(mmbls)	29.7	30.2	40.9	42.5	38.4
Crude oil (million tons)	8.3	8.2	10.9	9.9	9.6
(mmbls)	60.7	60.0	79.9	72.6	70.4
Total (mmboe)	**220.2**	**220.0**	**296.0**	**291.6**	**274.3**

SUMMARY SALES AND OPERATING INFORMATION

The following table summarizes certain sales and operating information for the periods indicated. You should read this information together with the Group's Financial Statements included elsewhere in this Base Prospectus and the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations." See "Gazprom" for a full description of our sales and operations.

	Nine months ended September 30,		Year ended December 31,		
	2018	2017	2017	2016	2015
	(amounts in millions of RR, except volumes)				
Gas (bcm)	375.5	354.9	506.9	476.4	445.9
Domestic sales[1]	636,873	587,978	875,685	819,924	805,615
FSU[2]	261,226	223,119	323,037	340,437	480,204
Europe and Other Countries[2]	2,715,098	1,952,011	2,823,939	2,685,551	2,776,860
Total	**3,613,197**	**2,763,108**	**4,022,661**	**3,845,912**	**4,062,679**

Note:

(1) Net of VAT.

(2) Gross sales (including customs duties and excise tax).

The following table sets out our average prices per mcm of natural gas (including customs duties, excise tax and net of VAT) for the periods indicated in nominal terms (actual prices realized at the time). Our sales to Europe and Other Countries and the FSU are denominated in convertible currencies, mainly in U.S. dollars and euros.

	Nine months ended September 30,				Year ended December 31,					
	2018		2017		2017		2016		2015	
	Average price, U.S.$[1]	Average price, RR	Average price, U.S.$[1]	Average price, RR	Average price, U.S.$[1]	Average price, RR	Average price, U.S.$[1]	Average price, RR	Average price, U.S.$[1]	Average price, RR
Europe and Other Countries	237.7	14,647.3	192.8	11,233.1	200.2	11,670.5	176.0	11,763.3	245.6	15,057.3
FSU	156.4	9,635.4	158.9	9,259.2	158.4	9,237.0	153.6	10,263.1	194.2	11,911.0
Russia	63.4	3,906.5	64.3	3,746.2	65.3	3,808.3	57.1	3,815.5	59.4	3,641.3

Note:

(1) Calculated based on average exchange rate for respective periods.

Information with respect to sales of gas condensate, crude oil and refined products including Gazprom Neft's operations is set forth under "Gazprom—Distribution".

USE OF PROCEEDS

The gross proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to the Borrower. Except as otherwise specified in the relevant Final Terms or Series Prospectus, the proceeds of such Loan will be used by the Borrower for general corporate purposes. At the date of this Base Prospectus, the Borrower has no specific plans in relation to any of the proceeds it would borrow under a Loan. The Borrower shall not use the proceeds of such Loan for the purpose of funding any person (other than the Borrower), activity, business or transaction (whichever is applicable pursuant to the nature and scope of the relevant sanctions regime), that is, as of the date of such funding, subject to any sanctions (i) administered or enforced by the U.S. Government (including, without limitation, OFAC or the U.S. Department of State), or any enabling legislation or executive order relating thereto, or (ii) imposed by the European Union, the United Kingdom, the United Nations, the Swiss State Secretariat for Economic Affairs (SECO), including sanctions imposed against certain states, organizations and individuals under the European Union's Common Foreign & Security Policy.

CAPITALIZATION

The following table shows our consolidated cash and cash equivalents, short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable and total capitalization, consisting of long-term borrowings, long-term promissory notes payable and total equity, as of September 30, 2018, extracted from our Unaudited consolidated interim condensed financial information. For further information regarding our financial condition, see "Summary Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Group's Financial Statements included elsewhere in this Base Prospectus.

	As of September 30, 2018 (RR million)
Cash and cash equivalents	885,721
Short-term borrowings and current portion of long-term borrowings	782,661
Short-term promissory notes payable	99
Total	782,760
Long-term borrowings	2,729,567
Long-term promissory notes payable	-
Total equity, of which:	13,325,760
Share capital[(1)]	325,194
Treasury shares	(235,919)
Retained earnings and other reserves	12,786,824
Non-controlling interest	449,661
Total capitalization	16,055,327

Notes:

(1) Authorized, issued and paid-in share capital consists of 23.7 billion ordinary shares, each with a historical par value of RR5.

Borrowings

In October 2018, the Group signed an agreement to open a long-term credit line with Sberbank for a total amount of RR10,000 million, with a tenor of up to 2023. In November 2018, in accordance with this agreement, the Group obtained RR5,300 million due in 2019.

In October 2018, the Group obtained a long-term loan from Intesa Sanpaolo Bank Luxembourg in the amount of €1,200 million due in 2023.

In October 2018, the Group obtained a long-term loan from J.P. Morgan Europe Limited in the amount of €1,100 million due in 2023.

In October 2018, the Group obtained a long-term loan from GPB in the amount of RR15,000 million due in 2021.

In November 2018, our subsidiary Nord Stream 2 AG obtained long-term loans from Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation and Finance B.V. in an aggregate amount of €340 million in accordance with a long-term financing agreement signed by the parties in April 2017.

In November 2018, the Group issued Loan Participation Notes in the amount of €1,000 million at an interest rate of 2.949% due in 2024.

In December 2018, our subsidiary Gazprom Neft obtained RR30,030 million due in 2021 and an aggregate amount of RR50,000 million due in 2023, under agreements with certain Russian banks.

In December 2018, our subsidiary LLC Gazprom neftekhim Salavat ("**Gazprom neftekhim Salavat**") obtained an aggregate amount of RR12,850 million due in 2020 and an aggregate amount of RR5,583 million due in 2022, under agreements signed with certain Russian banks in the period from 2015 through 2017.

In December 2018, our subsidiary GAZPROM Germania GmbH ("**Gazprom Germania**") obtained a €100 million loan due in September 2019 with an option for extension through September 2021, under agreements signed with certain European banks in 2016.

In December 2018, the Group obtained a long-term loan from Citibank in the amount of €425 million due in 2023.

In December 2018, the Group issued bonds in the amount of JPY65 billion at an interest rate of 1.01% due in 2028.

In January 2019, the Group obtained a long-term loan from MUFG Bank, Ltd in the amount of €500 million due in 2023.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Group's Financial Statements included elsewhere in this Base Prospectus. This review includes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including the risks discussed under "Risk Factors" above.

Overview

We are one of the world's largest gas and oil companies in terms of reserves, market capitalization and production. Our revenues are primarily derived from sales of natural gas, crude oil and other hydrocarbon products to Western and Central Europe, the Russian Federation and other Former Soviet Union countries.

We divide our operations into the following principal activities:

- 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 UGSFs;
- 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 comprise production of other products and sales of various goods, works and services.

Our main business segments are mutually dependent, with a significant portion of the revenues of one segment comprising a part of the costs of another segment. In particular, our Distribution of gas segment purchases natural gas from our Production of gas segment and transportation services from our Transportation segment. Our Refining segment purchases gas from our Production of gas segment and crude oil and gas condensate from our Production of crude oil and gas condensate segment. We establish internal transfer prices with reference to the specific funding requirements of the individual subsidiaries within each segment. Accordingly, the results of operations of these segments on a stand-alone basis do not necessarily represent each segment's underlying financial position and results of operations as if it were a stand-alone business. For this reason, we do not analyze any of our main segments separately in the discussion that follows.

Summary of Significant Accounting Policies and Accounting Estimates

The principal accounting policies and the critical accounting estimates in applying accounting policies followed by the Group in 2018 year are consistent with those disclosed in the Annual consolidated financial statements for the year ended December 31, 2017, except for the application of new standards that became effective on January 1, 2018. Profit tax in the interim periods is accrued using a tax rate that would be applicable to expected total annual earnings.

Impact of New Accounting Developments

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

a) Classification and measurement of financial assets

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

Financial assets measured subsequently at amortised cost

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

There are no changes in classification of financial assets that previously were also measured at amortised cost.

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

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

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

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

These instruments were previously recognised by the Group in available-for-sale financial assets with changes in fair value recognised in other comprehensive income.

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

Financial assets that do not meet the criteria of recognition as financial assets measured at amortised cost or measured at fair value through other comprehensive income are measured at fair value through profit or loss. Such financial assets of the Group mainly include derivative financial instruments and financial instruments held for trading, as well as some equity instruments for which the Group has not made a decision to recognise changes in fair value in other comprehensive income.

These instruments previously met the fair value with changes recognised through profit or loss criteria.

b) Impairment of financial assets

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

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

If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the allowance for expected credit losses for that financial asset is measured at an amount equal to 12-month expected credit losses.

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

The applying of the new model resulted in insignificant increase in the amount of the allowance for expected credit losses.

c) Classification and measurement of financial liabilities

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

- financial liabilities at fair value through profit or loss. Such liabilities, including derivative instruments, are measured subsequently at fair value;
- financial guarantee contracts. After initial recognition financial guarantee contracts are measured at the higher of the amount of loss allowance and the amount initially recognised less cumulative revenue recognised in accordance with IFRS 15 Revenue from Contracts with Customers;

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

The Group does not choose to classify any financial liabilities as measured at fair value through profit or loss.

The Group previously applied similar classification and measurement of financial liabilities.

d) Hedge accounting

The Group's management has made a decision to apply the hedge accounting requirements of IFRS 9 Financial Instruments.

The Group applies hedge accounting to derivatives designated as hedging instruments. The Group applies the cash flow hedge accounting model to manage variability in cash flows that results from fluctuations in foreign exchange rates attributable to highly probable forecast transactions.

A qualifying instrument must be designated in its entirety as a hedging instrument.

The portion of fair value changes of hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. Any remaining gains or losses on the hedging instrument represent hedge ineffectiveness that is immediately recognised as a profit or loss.

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

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

Previously the Group applied hedge accounting to the same derivatives designated as hedging instruments.

Thus, application of IFRS 9 Financial Instruments has not had a significant effect on the consolidated interim condensed financial information of the Group. The Group applied IFRS 9 Financial Instruments retrospectively and used an option not to restate prior periods in respect of new requirements. The effect of applying IFRS 9 Financial Instruments was recognised in the opening balance of retained earnings and other reserves and non-controlling interest in the consolidated interim condensed statement of changes in equity of the Group as at January 1, 2018.

	January 1, 2018
	(RR million)
Impairment loss on financial assets measured at amortised cost, net of tax	(2,696)
Revaluation of financial assets measured at fair value through profit or loss	1,015
Decrease in the cost of investment in associate GPB	(11,545)
Total decrease in equity	**(13,226)**

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

Revenue is recognised as the obligation to perform is fulfilled by transferring a promised good or service to a customer. As asset is transferred when the control over such asset is passed to the customer.

Except for the requirement for more detailed disclosure of revenue by geographic segments, application of IFRS 15 Revenue from Contracts with Customers has not had a significant effect on the consolidated interim condensed financial information of the Group. Therefore, comparative data and opening balance of retained earnings and other reserves and non-controlling interest as at January 1, 2018 have not been restated.

Application of Interpretations and Amendments to existing Standards

A number of interpretations and amendments to current IFRSs became effective for the periods beginning on or after January 1, 2018:

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016) provides requirements for recognising a non-monetary asset or a non-monetary obligation arising from a result of committing or receiving prepayment until the recognition of the related asset, income or expense.

- The amendments to IFRS 2 Share-based Payment (issued in September 2016). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IAS 40 Investment Property (issued in December 2016). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property.

The Group has reviewed these interpretations and amendments to standards while preparing consolidated interim condensed financial information. The interpretations and amendments to 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 January 1, 2019. In particular, the Group has not early adopted the standards and amendments:

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after January 1, 2019). The standard replaces the IAS 17 Leases and establishes a general accounting model for all types of lease agreements in the statement of financial position which is consistent 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.
- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after January 1, 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.
- The amendments to IAS 28 Investments in Associates and Joint Ventures (issued in October 2017 and effective for annual periods beginning on or after January 1, 2019). These amendments clarify that long-term interests in an associate or joint venture that form a part of the net investments in the associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments.
- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after January 1, 2019). These amendments clarify which borrowing costs are eligible for capitalisation in particular circumstances.
- The amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements (issued in December 2017 and effective for annual periods beginning on or after January 1, 2019). The amendments clarify how obtaining control (or joint control) of a business that is a joint operation should be accounted if the entity already holds an interest in that business.
- The amendments to IAS 19 Employee Benefits (issued in February 2018 and effective for annual periods beginning on or after January 1, 2019). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs.
- The amendments to IFRS 3 Business Combinations (issued in October 2018 and effective for annual periods beginning on or after January 1, 2020). These amendments clarify the definition of a business and simplify assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

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

Certain Factors Affecting our Results of Operations

The primary factors affecting our results of operations are significant volatility in global and Russian markets which affect demand for hydrocarbons, and the price for which we can sell our natural gas, crude oil and other hydrocarbon products, both internationally and in Russia.

Other factors affecting our results are:

- the impact of fluctuations in ruble exchange rates against the U.S. dollar and the euro;
- our historically high tax burden;
- interest rates;
- gas transportation agreements; and

- impairment of assets.

(see “Risk Factors” for further information)

Current economic environment in Russia

Since Russia produces and exports large quantities of natural gas, crude oil and other commodities, its economy is particularly sensitive to fluctuations in world commodity prices. Rising crude oil prices in 2011 and their relative stability in 2012 and 2013 created favorable conditions for economic growth in Russia in 2011, 2012 and 2013. In 2014 and 2015, crude oil prices significantly decreased which resulted in a slowdown of the Russian economy and a period of recession in 2015. Crude oil prices significantly recovered in 2016, remained relatively flat in 2017, increased in nine-month period of 2018 and declined significantly again at the end of 2018.

The economy of the Russian Federation displays certain characteristics of an emerging market. Russian tax, currency and customs laws are subject to varying interpretations, which contributes to the challenges faced by companies operating in the Russian Federation. The political and economic instability, situation in Ukraine, the current and prospective 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. Management determined impairment allowances by considering the economic conditions and outlook at the end of the reporting period. The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government 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. However, the future economic and regulatory situation and its impact on the Group’s operations may differ from management’s current expectations.

Export price of natural gas

Our results of operations are heavily reliant on natural gas export prices. In the nine-month period ended September 30, 2018 compared to the nine-month period ended September 30, 2017 and in 2017 compared to 2016, average U.S. dollar prices for natural gas we sell in Europe and Other Countries increased. In the nine-month period ended September 30, 2018 compared to the nine-month period ended September 30, 2017, average U.S. dollar prices for natural gas we sell in the FSU countries decreased, and increased in 2017 compared to 2016. U.S. dollar prices for the natural gas we sold in the FSU countries and Europe and Other Countries decreased and in 2016 compared to 2015.

Our natural gas export prices to Europe and Other Countries are indexed mainly to oil product prices as stipulated in our long-term contracts and, therefore, fluctuate based on world oil prices. Due to the formulas underlying our long-term contracts, our prices are not as volatile on a short-term basis as spot crude oil prices. However, in the period from 2010 through 2015, we revised our long-term contract pricing with most of our European customers. In 2010, in response to changes in the European gas market and to improve our competitive position, we amended some of our long-term gas supply contracts with European customers to link prices for certain volumes supplied under our long-term contracts to trading floor quotations for the price of gas. From 2011 through 2013, we developed alternative pricing mechanisms. While we include trading floor quotations in some of our contracts, we generally consider such pricing mechanism to be less reliable for the customers under our long-term contracts as compared to oil product-linked prices due to the volatility and lack of predictability of trading floor quotations. The Gas Directives established common rules for the transmission, distribution, supply and storage of natural gas in the European market and influenced European market structures and the overall level and volatility of prices.

Weather is another factor affecting demand for and, therefore, the price of natural gas. Changes in weather conditions from year to year can influence demand for natural gas and, to some extent, gas condensate and oil products.

The following table shows our average natural gas export prices to Europe and Other Countries and FSU countries for the periods indicated (including customs duties and excise tax):

	Nine months ended September 30,		Year ended December 31,		
	2018	2017	2017	2016	2015
	(Including customs duties and excise tax)				
Our natural gas export price to Europe and Other Countries (U.S.$ per mcm)[1, 3]	237.7	192.8	200.2	176.0	245.6
Our natural gas export price to Europe and Other Countries (U.S.$ per mcf)[1, 2, 3]	6.7	5.5	5.7	5.0	7.0
Our natural gas export price to Europe and Other Countries (RR per mcm)[3, 4]	14,647.3	11,233.1	11,670.5	11,763.3	15,057.3
Our natural gas export price to FSU countries (U.S.$ per mcm)[1, 3]	156.4	158.9	158.4	153.6	194.2
Our natural gas export price to FSU countries (U.S.$ per mcf)[1, 2, 3]	4.4	4.5	4.5	4.3	5.5
Our natural gas export price to FSU countries (RR per mcm)[3, 4]	9,635.4	9,259.2	9,237.0	10,263.1	11,911.0

Notes:

(1) Average realized price in RR converted to U.S.$ at the average exchange rate in the respective reporting period.

(2) One mcm is equivalent to 35,316 cubic feet.

(3) Export prices exclude impact of retroactive price adjustments.

(4) Average realized price in the respective reporting period.

Our business requires significant ongoing capital expenditures in order to maintain natural gas production levels and transportation systems. An extended period of low gas prices would limit our ability to maintain an adequate level of capital expenditures, which in turn could limit our ability to sustain current levels of production and deliveries of gas, thereby adversely affecting our results.

Regulation of domestic natural gas prices and transportation tariffs

Natural gas prices and transportation tariffs in Russia are regulated by the Government. See “Gazprom—Overview—Relationship with the Government”.

Natural gas prices in Russia have remained significantly below export prices (even after netting back export tariffs and transportation costs) primarily due to governmental regulations.

The following table shows our average domestic natural gas prices (net of VAT) for the periods indicated:

	Nine months ended September 30,		Year ended December 31,		
	2018	2017	2017	2016	2015
	(net of VAT)				
Our domestic natural gas price (RR per mcm)[1]	3,906.5	3,746.2	3,808.3	3,815.5	3,641.3
Our domestic natural gas price (RR per mcf)[1, 3]	110.6	106.1	107.8	108.0	103.1
Our domestic natural gas price (U.S.$ per mcm)[2]	63.4	64.3	65.3	57.1	59.4
Our domestic natural gas price (U.S.$ per mcf)[2, 3]	1.8	1.8	1.8	1.6	1.7

Notes:

(1) Average realized price in the respective reporting period.

(2) Average realized price in RR converted to U.S.$ at the average exchange rate in the respective reporting period.

(3) One mcm is equivalent to 35,316 cubic feet.

For more information on regulation of our domestic prices, see “Gazprom—Distribution—Russia—Domestic market conditions”.

During the nine-month periods ended September 30, 2018 and 2017 and years ended December 31, 2017, 2016 and 2015 our sales of gas transportation services were 2.9%, 3.8%, 3.6%, 3.3% and 3.2% of total sales (net of VAT, excise tax and customs duties) for each of these periods.

Price of crude oil

Our net sales of crude oil in the nine-month periods ended September 30, 2018 and 2017 and in the years ended December 31, 2017, 2016 and 2015 were RR500,831 million, RR362,053 million, RR505,160 million, RR368,955 million and RR215,911 million, respectively. This represents approximately 8%, 8%, 8%, 6% and 4% of our net sales for such periods. Our results of operations are affected by the prevailing price of crude oil, both in domestic and international oil markets. Crude oil prices have historically been highly volatile, dependent upon the balance between supply and demand, global and regional economic and political developments in resource-producing regions, particularly in the Middle East, global economic conditions and production levels of OPEC. In 2010 and 2011, the economic recovery after the global financial downturn in 2008 and 2009 resulted in a worldwide increase in global demand. In the period from 2012 until the first half of 2014, crude oil prices remained volatile and relatively high, but fell dramatically from the second half of 2014 through the beginning of 2016. Crude oil prices significantly recovered in 2016, insignificantly increased in 2017, increased in nine-month period of 2018 and declined significantly again at the end of 2018. The Brent crude oil price averaged approximately U.S.$53.8, U.S.$45.1, U.S.$54.7, U.S.$52.5, U.S.$72.4 during 2015, 2016, 2017 and in nine-month periods ended September 30, 2017 and 2018, respectively. Crude oil prices in Russia have historically been lower than in the international market primarily due to additional costs (in particular, customs duties) associated with exporting crude oil. Domestic crude oil prices are contract specific as there is no active market for domestic crude oil and market prices are not available.

Price of electric and heat energy

In nine-month periods ended September 30, 2018 and 2017 and in the years ended December 31, 2017, 2016 and 2015 our electric and heat energy sales were RR361,769 million, RR349,599 million, RR503,819 million, RR481,716 million, RR424,665 million, respectively. This represents approximately 6%, 8%, 8%, 8% and 7% of our net sales (net of VAT, excise tax and customs duties) for such periods. Our operations are affected by applicable electricity tariffs and market (not regulated) prices of and demand for electricity. As of September 30, 2018, prices for wholesale natural gas sales by Gazprom and its affiliated companies, gas transportation and electricity tariffs in Russia were regulated by the FAS.

Impact of inflation and changes in exchange rates on export sales and operating margins

In nine-month periods ended September 30, 2018 and 2017 and in the years ended December 31, 2017, 2016 and 2015, 64%, 59%, 59%, 60% and 62% of our gross sales (including customs duties and excise tax, net of VAT), respectively, were mainly denominated in U.S. dollars or euros, while most of our costs were denominated in rubles. The relative movements of inflation and exchange rates therefore significantly affect our results of operations. In particular, our operating margins are generally adversely affected by appreciation of the ruble against the U.S. dollar or the euro, because this will generally cause our costs to increase relative to our sales revenues. The pressure on operating margins arising from ruble appreciation is further intensified by the relatively high inflation rate in Russia, which can further increase our costs, though this can be offset by domestic price rises when permitted by the FAS. Conversely, our operating margins are generally positively affected by depreciation of the ruble against the U.S. dollar or the euro, because this will generally cause our costs to decrease relative to our sales revenues. However, an appreciation of the U.S. dollar or the euro against the ruble also potentially increases the cost of servicing our indebtedness denominated in these currencies.

The following table sets forth the rates of inflation in Russia, the rates of nominal and real appreciation or depreciation of the ruble against the U.S. dollar and the euro as determined by the CBR for the periods shown:

	Nine months ended September 30,		Year ended December 31,		
	2018	**2017**	**2017**	**2016**	**2015**
Inflation[1, 2]	2.5%	1.7%	2.5%	5.4%	12.3%
Nominal appreciation (depreciation) of the RR against the U.S.$	(13.9%)	4.4%	5.0%	16.8%	(29.5)%
Real appreciation (depreciation) of the RR against the U.S.$	(11.4%)	6.1%	7.5%	22.2%	(17.3)%
Nominal (depreciation) appreciation of the RR against the euro	(10.7%)	(7.3%)	(7.9%)	19.9%	(16.6)%
Real (depreciation) appreciation of the RR against the euro	(8.2%)	(5.6%)	(5.4%)	25.3%	(4.4)%

Notes:

(1) Inflation based on consumer price index (CPI).

(2) Source: Russian Federal State Statistics Service (source: www.gks.ru).

The official ruble to U.S. dollar exchange rates as determined by the CBR increased from 65.5906 to 66.3412 in the period from September 30, 2018 to January 30, 2019 (being the latest practicable date prior to the publication of this Base Prospectus). The official ruble to euro exchange rates as determined by the CBR decreased from 76.2294 to 75.8811 in the

period from September 30, 2018 to January 30, 2019 (being the latest practicable date prior to the publication of this Base Prospectus).

Nominal appreciation (depreciation) of the ruble generally also results in foreign exchange losses (gains) on monetary assets denominated in foreign currencies and foreign exchange gains (losses) on monetary liabilities denominated in foreign currencies. These gains and losses are recorded on a gross basis.

Our historically high tax burden

We provide one of the largest sources of tax revenue to the federal authorities in Russia, as well as to the regional and local authorities in those regions and localities in which we operate.

Given the relative size of our activities in Russia, our tax burden is largely determined by the level of taxes payable in Russia.

We are subject to a number of taxes and similar compulsory payments in Russia, including:

- Profit tax

  The maximum profit tax rate has been 20% since 2009. From January 1, 2015 Russian corporate profit tax has been also applicable to income of foreign companies controlled by Russian entities. A depreciation premium of 10% (30% in respect of certain types of property) was applied in respect of certain types of fixed assets (initially 10% of the amount of capital investment in all types of assets, and increasing to 30% in 2009 for certain types of fixed assets). Also from January 1, 2018 the taxpayer is entitled to apply investment tax deduction by partially reducing profit tax liability by the amount of certain types of investments in fixed assets. If the investment tax deduction is applied depreciation of fixed assets arising as a result of such investments will not be tax deductible in the future. Entities of the Group included in the consolidated taxpayers' group have no right to implement the deduction. For the basic depreciation rate of certain production facilities operating in the aggressive environment (mainly gas pipelines and wells) that were taken into account before January 1, 2014 as well as certain production facilities with high energy efficiency (except buildings), an accelerated depreciation coefficient of 2 is applied.

- Excise tax

  Effective from January 1, 2015 natural gas is subject to a 30% excise tax, if provided by international treaties of the Russian Federation. From January 1, 2007 the excise tax for certain oil products is paid by the producer of the oil products in the processing scheme.

- VAT

  VAT at a standard rate of 18% is payable on the difference between output VAT on sales of goods, works, services and property rights and recoverable input VAT charged by suppliers. Output VAT has been charged on the earliest of: either the date of the shipment of goods, works, services and property rights, or the date of advance payment by the buyer. The importation of goods is also subject to VAT.

  Input VAT has been generally recoverable when purchases (including imports) are accounted for and other requisite requirements provided by Russian tax laws are met. Exports of goods and sales of certain services related to exported goods are subject to a 0% VAT rate upon the submission of confirmation documents to the tax authorities. Input VAT related to export sales is recoverable. A limited list of goods and services are not subject to VAT. Input VAT related to non-VAT goods and services should not be recovered and should be included in the value of purchased goods and services, except in certain cases.

- MET

  Beginning January 1, 2015 generally the MET rates for natural gas and gas condensate have been determined as a product of:

  (1) the base rate of RR35 per mcm for natural gas and RR42 per ton for gas condensate,

  (2) the base value of a unit of fuel equivalent, calculated taking into account various macroeconomic indicators including oil and gas prices and

(3) (A) with respect to natural gas, the coefficient representing the degree of difficulty of extraction of natural gas.

In order to determine the MET rates for natural gas, the product of items (1)-(3) (A) above is added to a coefficient reflecting the transportation costs for natural gas, which has not been applicable for calculating the MET rates for 2018, 2017, 2016 and 2015.

(3) (B) with respect to gas condensate, the coefficient representing the degree of difficulty of extraction of gas condensate and a special multiplying coefficient of 4.4 from January 1 to December 31, 2015, 5.5 from January 1 to December 31, 2016. From January 1, 2017 the coefficient is determined by dividing 6.5 by the coefficient reflecting the export return on a unit of standard fuel for the Group.

Since January 1, 2016 the calculation of the base value of a unit of fuel equivalent for Gazprom and most of the companies in which Gazprom holds direct or indirect interests of more than 50% (except for companies primarily engaged in crude oil production) has been changed several times. In particular, as a result of these changes, the base value of a unit of fuel equivalent and consequently the standard MET rate for Gazprom and aforementioned companies increased by 36.7% in 2016 as compared to 2015, 31.4% for the first, second and third quarters of 2017 as compared to 2016, and by 26.5% in the fourth quarter of 2017 as compared to the period covering the first, second and third quarters of 2017. From January 1 to August 31, 2018 the base value of a unit of fuel equivalent and the standard MET rate for Gazprom and aforementioned companies decreased by 38.3% as compared to the fourth quarter of 2017. Since September 1, 2018 the base value of a unit of fuel equivalent and the standard MET rate for Gazprom and aforementioned companies increased by 46.6% as compared to the period of January-August 2018. See “Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Recent Changes in Russian Tax Regulation”.

The MET rates for oil were RR919, RR919, RR857 and RR766 per ton in 2018, 2017, 2016 and 2015, respectively, multiplied by the oil price ratio (depending on world oil prices), that varied between 10.5 and 16.4 in January-September 2018 (between 6.7 and 10.9 in 2017, between 4.0 and 8.8 in 2016, between 5.7 and 10.5 in 2015).

To calculate the total value of the MET rate for oil, the resulting amount is reduced by the coefficient reflecting certain features of the oil production process (extraction from fields with a high degree of depletion of reserves, production in remote areas (particularly in the Republic of Sakha (Yakutia), the Irkutsk and Krasnoyarsk Regions, in the Arctic, the Yamal Peninsula, the Nenets Autonomous Area, the Black Sea, the Sea of Okhotsk, the Sea of Azov and the Caspian Sea and others). Since 2017, this coefficient is reduced by an additional amount that increased the total tax rate for oil produced in difficult conditions by 357 rubles per ton in 2018 and by 306 rubles per ton in 2017 as compared to 2016.

An increase in the MET rate for oil since 2016 is partly offset by lower export customs duties for crude oil and oil products.

- Export customs duty

  Export customs duty rate on natural gas is 30%.

  Export customs duty on crude oil is currently set by the Government every month based on the average price of Urals blend. The average Urals crude oil blend price is monthly calculated as the price for Urals blend in the international markets (Mediterranean and Rotterdam) for the monitoring period immediately preceding the month of calculation. The average export customs duty rates on crude oil in the nine-month period ended September 30, 2018 and in the years 2017, 2016 and 2015 were approximately U.S.$124, U.S.$87, U.S.$76 and U.S.$120 per ton, respectively.

- Property tax

  The maximum property tax rate is 2.2%. Constituent regions of the Russian Federation may reduce the tax rate down to 0% and are entitled to introduce additional tax benefits relating to the property tax.

  The property tax is calculated based on the average annual value or on the cadastral value of the fixed assets. The property tax rate for some fixed assets may not exceed a rate of 1.6% and 1.9% effective from January 1, 2017 and 2018, respectively (in particular, for pipelines, electric power lines and other facilities forming

an integral part of these assets). The maximum rate of property tax on such assets was 1.3% and 1.0% in 2016 and 2015, respectively.

Effective from January 1, 2016 a 0% property tax rate is established in respect of the trunk pipelines and other facilities forming their integral technological part, gas production sites, helium production sites and storage facilities located in the Republic of Sakha (Yakutia), the Irkutsk Region and the Amur Region. The list of such property is approved by the Government.

Movable property recorded on the balance sheet from January 1, 2013 was exempt from taxation (with certain exceptions). From January 1, 2018 movable property recorded on the balance sheet from January 1, 2013 is taxed by a property tax at a tax rate of 1.1% if the exemption from the local property tax is not stipulated by the law of a constituent region of the Russian Federation.

- Contributions to social funds

  From January 1, 2010 unified social tax was replaced by a range of insurance contributions to the state social funds (the Pension Fund, the Social Insurance Fund and the Mandatory Medical Insurance Fund). The contributions are calculated using the same methodology in relation to the amounts of wages and other remuneration of employees before taxes. Since 2012 the aggregate rate on contributions to social funds has been 30% (including contribution to the Pension Fund of 22%).

  Employee's salaries and other remuneration are subject to an additional 10% contribution to the Pension Fund in the portion exceeding RR1,021,000 per year in 2018 (RR876,000 in 2017, RR796,000 in 2016 and RR711,000 in 2015).

  The portion of employee's salaries and other remuneration exceeding RR815,000 in 2018 (RR755,000 in 2017, RR718,000 in 2016), are not the subject to the contribution to the Social Insurance Fund.

Overall effective profit tax rates (current and deferred profit tax expense as a percentage of the profit before profit tax) in the nine-month periods ended September 30, 2018 and 2017 were 19.1% and 23.0%, respectively. For the years ended December 31, 2017, 2016 and 2015 effective profit tax rates were 24.7%, 22.4% and 13.0%, respectively, while the statutory income tax rate in Russia has been 20% since January 1, 2009. The difference between our effective profit tax rates and the statutory rates has been primarily the result of the impact of non-deductible expenses for tax purposes.

Starting January 1, 2012 significant changes in the tax transfer pricing law were introduced in Russia that impacted all Russian businesses, including the Group. Also, starting January 1, 2012 tax legislation was amended to provide rules on the creation of consolidated taxpayers' groups. Taxpayers may create such a tax group in order to pay profit tax on a consolidated basis by submitting an agreement to create a consolidated taxpayers' group to the tax authorities. Transactions among the members of a consolidated tax group are not subject to tax transfer pricing control. On January 1, 2012 we created a consolidated taxpayers' group, which as of September 30, 2018 consisted of 65 Russian entities.

Interest rates

We have significant short-term and long-term debt obligations with both fixed and variable interest rates. We are exposed to the effects of fluctuations in the prevailing levels of market interest rates on our financial position, results of operations and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest expense will increase or decrease as a result of movements in interest rates. We do not have any significant hedging arrangements to mitigate interest rate risks resulting from our financing activities. See "Liquidity and Capital Resources—Debt obligations."

Gas transportation agreements

We are dependent on the countries through which we transport our gas. In some cases, the contracts are made with gas companies and the terms are agreed on the Government level. Potential gas transportation disputes may impact our ability to deliver gas and our revenues.

Impairment and other provisions

Historically, our results have been affected by impairment loss on financial and non-financial assets (impairment allowance for expected credit losses on accounts receivable and other financial assets, impairment allowance on inventory, property,

plant and equipment (including assets under construction), and other long-term assets) and provisions for granted guarantees.

In the nine-month periods ended September 30, 2018 and 2017 and the years ended December 31, 2016 and 2015, such impairment loss amounted to RR78,659 million, RR64,559 million, RR143,870 million and RR213,219 million, respectively. These amounts include impairment loss in the amounts of RR28,331 million, RR19,354 million in the nine-month periods ended September 30, 2018 and 2017 and RR34,468 million, RR23,050 million in the years ended December 31, 2016 and 2015, respectively, with respect to accounts receivable owed to us by Naftogaz.

In the year ended December 31, 2017, reversal of impairment loss amounted to RR54,922 million. This amount includes reversal of impairment loss in the amount of RR99,800 million in the year ended December 31, 2017, with respect to accounts receivable owed to us by Naftogaz.

Our impairment allowance for expected credit losses on accounts receivable and impairment allowance on prepayments are significant. As of September 30, 2018, December 31, 2017, 2016 and 2015 the aggregate balance sheet impairment allowance for expected credit losses on accounts receivable and impairment allowance on prepayments were RR944,420 million, RR810,838 million, RR884,933 million and RR888,920 million, or 35%, 31%, 33% and 34%, respectively, of the gross accounts receivable and prepayments balance, respectively. Such allowance for expected credit losses on accounts receivable relate mainly to receivables for natural gas sold to Ukraine, Moldova, the Chechen Republic and southern regions of Russia.

Our impairment allowance for property, plant and equipment is also significant. As of September 30, 2018, December 31, 2017, 2016 and 2015 the aggregate balance sheet allowance related to property, plant and equipment was RR352,928 million, RR342,994 million, RR371,022 million and RR301,913 million, or 2.6%, 2.7%, 3.1% and 2.7% of gross property, plant and equipment, respectively. As of September 30, 2018, RR194,714 million out of this aggregate balance sheet allowance related to assets under construction, representing 4.3% of gross amount of assets under construction.

In the nine-month periods ended September 30, 2018 and 2017 and in the years ended December 31, 2016 and 2015 the charge (net of the release) for impairment allowance for property, plant and equipment (including assets under construction) generated expense of RR4,318 million, RR5,138 million, RR79,363 million and RR129,482 million, respectively.

In the year ended December 31, 2017 the release (net of the charge) of impairment allowance for property, plant and equipment (including assets under construction) generated income of RR22,692 million.

Because of our operating cycle, certain significant decisions about capital construction projects are made at the end of our fiscal year. Accordingly, we typically have higher charges (releases) in the fourth quarter of our fiscal year as compared to other quarters. For a discussion of our impairment in the nine-month period ended September 30, 2018 versus the nine-month period ended September 30, 2017 see "Results of Operations — Nine-month period ended September 30, 2018 versus nine-month period ended September 30, 2017" below and in the years ended December 31, 2017, 2016 and 2015, see "Results of Operations—Year ended December 31, 2017 versus year ended December 31, 2016" and "Results of Operations—Year ended December 31, 2016 versus year ended December 31, 2015".

Certain Acquisitions, Dispositions and Changes in Control

Unless specified otherwise, all acquisitions referred to in this section have been completed.

In February 2008, a special-purpose company, Shtokman Development AG, was established to manage engineering, financing, construction and exploitation of installations during the first phase of the development of the Shtokmanovskoye field. Our initial stake in Shtokman Development AG was 51% with Total and Statoil ASA ("**Statoil**") holding the remaining 25% and 24% interests, respectively. In July 2012 and in July 2015, we purchased Statoil's and Total's interests in Shtokman Development AG, respectively, remaining the sole shareholder of Shtokman Development AG.

As of December 31, 2014, LLC Yamal razvitie ("**Yamal Razvitie**"), a 50/50 joint venture between Gazprom Neft and Novatek, owned a 51% interest in LLC SeverEnergia ("**SeverEnergia**"). In August 2015, we contributed RR14,922 million to the share capital of Yamal Razvitie. Accordingly, Novatek contributed a 6.4% interest in the share capital of Artic Russia B.V., which was a subsidiary of Yamal Razvitie, and RR2,512 million to the share capital of Yamal Razvitie. The contributions of RR14,922 million and RR2,512 million were paid by way of conversion of loans previously granted to Yamal Razvitie. As a result of these transactions, Gazprom Neft's effective interest in SeverEnergia increased to 46.7% and the Group's effective interest increased to 44.65%.

In January 2018, Yamal Razvitie and its subsidiary SeverEnergy were reorganised in the form of a merger with JSC Arcticgas ("**Arcticgas**") (a former subsidiary of SeverEnergy). In March 2018, the loans granted by Gazprom Neft were converted to the ordinary shares of an additional share issuance of Arcticgas. As a result of the transaction, Gazprom Neft's direct interest in Arcticgas increased to 50% and the Group's effective interest increased to 47.84%.

In December 2014, the South Stream project was cancelled and an alternative project, TurkStream pipeline, was announced, following which we acquired an additional 50% interest in SST for €883 million. Assets under construction related to the South Stream project were expected to be utilized for the TurkStream pipeline. In November 2015, however, due to a failure to sign an intergovernmental agreement on the project and a deterioration of relations between Russia and Turkey, the TurkStream project was suspended. Due to the significant investments we had made in the cancelled South Stream project and the uncertain status of the TurkStream project at the end of 2015, we recognized impairment attributable to construction in progress of RR56 billion in our Annual Consolidated Financial Statements as of and for the year ended December 31, 2015. The TurkStream project was resumed in August 2016. See "Gazprom—Transport—International projects in gas transportation" and "Risk Factors— Implementation of major international energy project is associated with political and regulatory risks". If it becomes impossible or impractical to continue to implement such projects, they may be suspended or discontinued. As a result, our contractors may bring claims against us to recover damages and we may be required to record significant impairment provisions attributable to such projects in our financial statements.

In September 2015, we completed an asset swap transaction with Wintershall Holding GmbH ("**Wintershall Holding**"). According to the agreement, a 25.01% interest in the capital of LLC Achim Development and 9.00% of ordinary shares, one class A preference share and one class B preference share of JSC Achim Trading (which were recognized under other non-current assets in the Group's Financial Statements) have been transferred to Wintershall Holding in return for a 100% interest in WIBG GmbH ("**WIBG**") (prior to October 8, 2015 known as Wintershall Erdgas Beteiligungs GmbH) and a 50% interest in Wintershall Noordzee B.V. ("**WINZ**") and Wintershall Services B.V. As a result of the asset swap transaction, WIBG and Gazprom Germania held a combined equity interest of 100% in W&G Beteiligungs-GmbH & Co. KG ("**W&G**"), which, in turn, holds a 100% interest in WINGAS GmbH. In addition, WIBG and Gazprom Germania held a combined 100% interest in WIEH GmbH ("**WIEH**", prior to November 6, 2015 known as Wintershall Erdgas Handelshaus GmbH & Co. KG). In turn, WIEH held a 100% interest in WIEE AG (prior to October 1, 2015 known as Wintershall Erdgas Handelshaus Zug AG) ("**WIEE**"), which was subsequently merged with our subsidiary GAZPROM Schweiz AG ("**Gazprom Schweiz**"). Prior to the swap transaction, the Group held an equity interest of 49.98% in W&G and of 50% in WIEH, and the subgroups of these companies were accounted for using the equity method.

In August 2016, W&G was merged with WIBG. Economically, the Group acquired the remaining shares in the natural gas trading and storage companies W&G and WIEH and in their subsidiaries. Consequently, as of September 30, 2015, the Group obtained control over these companies.

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

Results of Operations

The following table summarizes our consolidated results of operations for the periods indicated. Each line-item is also shown as a percentage of our total sales.

	Nine months ended September 30,				Year ended December 31,					
	2018		2017		2017		2016		2015	
	(RR million)	% of sales	(RR million)	% of sales	(RR million)	% of sales	(RR million)	% of sales	(RR million)	% of sales
Sales	5,901,591	100%	4,641,596	100%	6,546,143	100%	6,111,051	100%	6,073,318	100%
Net gain (loss) from trading activity	7,048	0%	(14,409)	0%	(16,352)	0%	3,382	0%	3,704	0%
Operating expenses[(1)]	(4,450,034)	(75%)	(3,876,133)	(84%)	(5,697,056)	(87%)	(5,280,876)	(86%)	(4,762,444)	(78%)
(Impairment loss) reversal of impairment loss on financial assets	(73,654)	(1%)	(55,020)	(1%)	38,670	1%	(106,918)	(2%)	(77,156)	(1%)
Operating profit	**1,384,951**	**23%**	**696,034**	**15%**	**871,405**	**13%**	**726,639**	**12%**	**1,237,422**	**20%**
Net finance (expense) income	(218,229)	(4%)	20,012	0%	19,661	0%	475,627	8%	(418,741)	(7%)
Share of profit of associates and joint ventures	149,180	3%	83,830	2%	126,940	2%	82,872	1%	106,560	2%
Profit before profit tax	**1,315,902**	**22%**	**799,876**	**17%**	**1,018,006**	**16%**	**1,285,138**	**21%**	**925,241**	**15%**
Current profit tax expense	(181,390)	(3%)	(130,819)	(3%)	(241,817)	(4%)	(218,113)	(4%)	(102,223)	(2%)
Deferred profit tax expense	(70,426)	(1%)	(53,432)	(1%)	(9,310)	0%	(69,921)	(1%)	(17,819)	0%
Profit tax	(251,816)	(4%)	(184,251)	(4%)	(251,127)	(4%)	(288,034)	(5%)	(120,042)	(2%)
Profit for the period	**1,064,086**	**18%**	**615,625**	**13%**	**766,879**	**12%**	**997,104**	**16%**	**805,199**	**13%**
Profit for the period attributable to:										
Owners of Gazprom	1,017,250	17%	581,834	13%	714,302	11%	951,637	16%	787,056	13%
Non-controlling interest	46,836	1%	33,791	1%	52,577	1%	45,467	1%	18,143	0%

Note:

(1) For the purposes of compliance with IFRS 9 Financial instruments applied from January 1, 2018, the Group has changed the presentation of information in the consolidated statement of comprehensive income as follows: (i) the line item "Change in impairment and other provisions" has been replaced by two line items "(Impairment loss) reversal of impairment loss on financial assets" and "(Profit on recovery) impairment loss on non-financial assets", the latter is presented as part of the "Operating expenses"; and (ii) the line item "Gain (loss) on disposal of available-for-sale financial assets" has been reclassified to the "Operating expenses". Due to such modifications, and to align the presentation of the relevant financial information with our Unaudited consolidated interim condensed financial information, the presentation of our consolidated statement of comprehensive income for the nine-month period ended September 30, 2017 and for the years 2017, 2016 and 2015 in this Base Prospectus differs from that in our previously published Unaudited consolidated interim condensed financial information and Audited consolidated financial statements for the periods indicated.

Nine-month period ended September 30, 2018 versus nine-month period ended September 30, 2017

Sales

The following table summarizes our sales information for our operating segments in nine-month periods ended September 30, 2018 and 2017:

	Nine months ended September 30,	
	2018	**2017**
Gas sales gross of excise tax and customs duties to customers in:	**(RR million)**	
Russian Federation	636,873	587,978
FSU	261,226	223,119
Europe and Other Countries	2,715,098	1,952,011
	3,613,197	2,763,108
Customs duties	(562,300)	(388,590)
Excise tax	(37,891)	(37,059)
Retroactive gas price adjustments[(1)]	37,686	(5,228)
Total gas sales	3,050,692	2,332,231
Sales of refined products to customers in:		
Russian Federation	1,006,710	820,857
FSU	112,143	82,030
Europe and Other Countries	467,372	323,923
Total sales of refined products	1,586,225	1,226,810
Sales of crude oil and gas condensate to customers in:		
Russian Federation	49,112	56,299
FSU	29,433	20,732
Europe and Other Countries	472,166	310,922
Total sales of crude oil and gas condensate	550,711	387,953
Electric and heat energy sales:		
Russian Federation	346,388	337,333
FSU	3,907	2,089
Europe and Other Countries	11,474	10,177
Total electric and heat energy sales	361,769	349,599
Gas transportation sales:		
Russian Federation	164,475	170,354
FSU	2,053	1,790
Europe and Other Countries	1,764	2,384
Total gas transportation sales	168,292	174,528
Other sales:		
Russian Federation	147,380	141,310
FSU	6,653	4,164
Europe and Other Countries	29,869	25,001
Total other sales	183,902	170,475
Total sales	**5,901,591**	**4,641,596**

Note:

(1) The effect of retroactive gas price adjustments relates to gas deliveries in previous years for which a price adjustment has been agreed or is in the process of negotiations. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded in the consolidated interim condensed financial information when they become probable and a reliable estimate of the amounts can be made. The effects of retroactive gas price adjustments for the nine-month period ended September 30, 2018 were recorded as an increase of sales by RR37,686 million. The effects of retroactive gas price adjustments for the nine-month period ended September 30, 2017 were recorded as a decrease of sales by RR5,228 million. These effects are due to change of related accruals following agreements reached prior to the issuance of the respective consolidated interim condensed financial information and due to recognition of adjustments increasing gas prices for the past periods.

The following table sets out our volumes and sales prices in the nine-month periods ended September 30, 2018 and 2017.

	Nine months ended September 30,	
	2018	2017
	(RR million unless stated otherwise)	
Sales of gas		
Europe and Other Countries		
Gross sales [1]	2,715,098	1,952,011
Customs duties	(536,682)	(367,637)
Excise tax	(37,891)	(37,059)
Net sales	2,140,525	1,547,315
Volumes in billion cubic meters (bcm)	185.4	173.8
Average price, U.S.$ per mcm [2] (including excise tax and customs duties) [3]	237.7	192.8
Average price, RR per mcm [2] (including excise tax and customs duties)	14,647.3	11,233.1
FSU countries		
Gross sales [1]	261,226	223,119
Customs duties	(25,618)	(20,953)
Net sales	235,608	202,166
Volumes in bcm	27.1	24.1
Average price, U.S.$ per mcm [2] (including customs duties) [3]	156.4	158.9
Average price, RR per mcm [2] (including customs duties)	9,635.4	9,259.2
Russian Federation		
Gross sales (net of VAT)	636,873	587,978
Net sales	636,873	587,978
Volumes in bcm	163.0	157.0
Average price, RR per mcm [2] (net of VAT)	3,906.5	3,746.2
Total sales of gas		
Gross sales (net of VAT)	3,613,197	2,763,108
Customs duties	(562,300)	(388,590)
Excise tax	(37,891)	(37,059)
Retroactive gas price adjustments	37,686	(5,228)
Net sales	3,050,692	2,332,231
Volumes in bcm	375.5	354.9
Net sales of refined products (net of excise tax, VAT and customs duties)	1,586,225	1,226,810
Net sales of crude oil and gas condensate (net of VAT and customs duties)	550,711	387,953
Electric and heat energy net sales (net of VAT)	361,769	349,599
Gas transportation net sales (net of VAT)	168,292	174,528
Other sales (net of VAT)	183,902	170,475
Total sales (net of excise tax, VAT and customs duties)	**5,901,591**	**4,641,596**

Notes:

(1) VAT is not charged on sales to Europe and Other Countries as well as FSU countries.

(2) One mcm is equivalent to 35,316 cubic feet.

(3) Calculated on the basis of average exchange rate between RR and U.S.$.

Total sales (net of excise tax, VAT and customs duties) increased by RR1,259,995 million, or 27%, to RR5,901,591 million in the nine-month period ended September 30, 2018 compared to the same period of the prior year. The increase in sales was mainly due to an increase in sales of gas, refined products, crude oil and gas condensate.

Net sales of gas accounted for 52% of total net sales in the nine-month period ended September 30, 2018 (50% for the same period of the prior year).

Net sales of gas increased by RR718,461 million, or 31%, from RR2,332,231 million in the nine-month period ended September 30, 2017 to RR3,050,692 million in the nine-month period ended September 30, 2018.

Net sales of gas to Europe and Other Countries increased by RR593,210 million, or 38%, to RR2,140,525 million in the nine-month period ended September 30, 2018 compared to the same period of the prior year. The change was driven by the increase in average prices in ruble terms (including excise tax and customs duties) by 30% and the increase in volumes of the gas sold by 7% in the nine-month period ended September 30, 2018 compared to the same period of the prior year. At the same time, the average prices in U.S. dollar terms increased by 23% compared to the same period of the prior year.

Net sales of gas to the FSU countries increased by RR33,442 million, or 17%, to RR235,608 million in the nine-month period ended September 30, 2018 compared to the same period of the prior year. The change was due to the increase in volumes of gas sold by 12% and the increase in average prices in ruble terms (including customs duties) by 4% in the nine-month period ended September 30, 2018.

Net sales of gas in the Russian Federation increased by RR48,895 million, or 8%, to RR636,873 million in the nine-month period ended September 30, 2018 compared to the same period of the prior year. This change is explained by the increase in volumes of gas sold by 4% and the increase in average Russian Rubles prices (net of VAT) by 4%.

Net sales of refined products (net of excise tax, VAT and customs duties) increased by RR359,415 million, or 29%, to RR1,586,225 million in the nine-month period ended September 30, 2018 compared to the same period of the prior year. The increase in sales of refined products was mainly due to an increase in average prices in all geographic segments and an increase in Gazprom Neft Group sales volumes.

Net sales of crude oil and gas condensate (net of VAT and customs duties) increased by RR162,758 million, or 42%, to RR550,711 million in the nine-month period ended September 30, 2018 compared to the same period of the prior year. The increase in sales of crude oil was mainly due to an increase in average prices.

Operating expenses

Operating expenses increased by RR573,901 million, or 15% in the nine-month period ended September 30, 2018 to RR4,450,034 million compared to RR3,876,133 million in the same period of the prior year. Operating expenses as a percentage of sales decreased from 84% in the nine-month period ended September 30, 2017 to 75% in the nine-month period ended September 30, 2018. The table below presents a breakdown of operating expenses in each period:

	Nine months ended September 30,	
	2018	**2017**
	(RR million)	
Purchased gas and oil	1,112,961	838,007
Taxes other than on profit	1,054,965	869,742
Staff costs	562,331	514,981
Depreciation	476,136	448,579
Transit of gas, oil and refined products	472,992	440,317
Cost of goods for resale, including refined products	187,334	170,451
Materials	185,621	191,604
Repairs and maintenance	93,925	105,566
Electricity and heating expenses	81,405	77,631
Rental expenses	30,001	28,797
Social expenses	25,157	23,898
Insurance expenses	23,904	21,594
Transportation services	22,971	20,071
Processing services	14,079	11,789
Research and development expenses	8,823	10,236
(Profit on recovery) impairment loss on non-financial assets	5,005	9,539
Derivatives gain	(6,072)	(11,699)

Foreign exchange rate differences on operating items	(20,573)	(9,354)
Other	244,663	273,084
	4,575,628	**4,034,833**
Changes in inventories of finished goods, work in progress and other effects	(125,594)	(158,700)
Total operating expenses[(1)]	**4,450,034**	**3,876,133**

Note:

(1) For the purposes of compliance with IFRS 9 Financial instruments applied from January 1, 2018, the Group has changed the presentation of information in the consolidated statement of comprehensive income as follows: (i) the line item "Change in impairment and other provisions" has been replaced by two line items "(Impairment loss) reversal of impairment loss on financial assets" and "(Profit on recovery) impairment loss on non-financial assets", the latter is presented as part of the "Operating expenses"; and (ii) the line item "Gain (loss) on disposal of available-for-sale financial assets" has been reclassified to the "Operating expenses". Due to such modifications, and to align the presentation of the relevant financial information with our Unaudited consolidated interim condensed financial information, the presentation of our consolidated statement of comprehensive income for the nine-month period ended September 30, 2017 and for the years 2017, 2016 and 2015 in this Base Prospectus differs from that in our previously published Unaudited consolidated interim condensed financial information and Audited consolidated financial statements for the periods indicated.

Purchased gas and oil

Cost of purchased gas and oil increased by RR274,954 million, or 33%, to RR1,112,961 million in the nine-month period ended September 30, 2018 compared to RR838,007 million in the same period of the prior year.

Cost of purchased gas increased by RR148,580 million, or 25%, to RR747,781 million in the nine-month period ended September 30, 2018 compared to RR599,201 million in the same period of the prior year. The change was due to an increase in average prices and an increase in volumes of gas purchased from external suppliers.

Cost of purchased oil included in the purchased gas and oil increased by RR126,374 million, or 53%, to RR365,180 million for the nine-month period ended September 30, 2018 compared to RR238,806 million for the same period of the prior year. This change was mainly due to an increase in prices of oil.

Taxes other than on profit

Taxes other than on profit consist of:

	Nine months ended September 30,	
	2018	**2017**
	(RR million)	
Mineral extraction tax	798,047	622,044
Excise tax	121,108	120,127
Property tax	124,573	118,555
Other taxes	11,237	9,016
Taxes other than on profit	**1,054,965**	**869,742**

Mineral extraction tax (MET) increased by RR176,003 million, or 28%, to RR798,047 million in the nine-month period ended September 30, 2018 compared to RR622,044 million for the same period of the prior year, mainly as a result of an increase in crude oil prices and an increase in the adjusting coefficient of the crude oil MET formula in the nine-month period ended September, 30 2018 compared to the same period of the prior year, and also due to an increase in the MET rate for gas since September 1, 2018.

Foreign exchange rate differences on operating items

Foreign exchange gain increased by RR11,219 million, or 120%, to RR20,573 million in the nine-month period ended September 30, 2018 compared to a foreign exchange gain of RR9,354 million for the same period of the prior year. This change was explained by the appreciation of U.S. dollar and euro against the Russian Ruble by 14% and 11%, respectively, in the nine-month period ended September 30, 2018 compared to the depreciation of U.S. dollar against the Russian Ruble by 4% and the appreciation of euro against the Russian Ruble by 7% for the same period of the prior year.

Impairment loss on financial assets

Impairment loss on financial assets increased by RR18,634 million, or 34%, to RR73,654 million in the nine-month period ended September 30, 2018 compared to loss in the amount of RR55,020 million for the same period of the prior year. The

change is mainly due to an increase in the amount of the allowance for expected credit losses on receivables due from Naftogaz and JSV Moldovagaz.

Operating profit

As a result of the factors discussed above, operating profit increased by RR688,917 million, or 99%, to RR1,384,951 million in the nine-month period ended September 30, 2018 compared to RR696,034 million for the same period of the prior year. The operating profit margin increased from 15% in the nine-month period ended September 30, 2017 to 23% in the nine-month period ended September 30, 2018.

Net finance (expense) income

	Nine months ended September 30,	
	2018	**2017**
	(RR million)	
Foreign exchange gain	363,328	272,945
Foreign exchange loss	(597,702)	(279,615)
Net foreign exchange loss	(234,374)	(6,670)
Interest income	53,565	65,404
Interest expense	(37,420)	(38,722)
Net finance (expense) income	**(218,229)**	**20,012**

The net foreign exchange loss increased by RR227,704 million to RR234,374 million in the nine-month period ended September 30, 2018 compared to the net foreign exchange loss of RR6,670 million for the same period of the prior year. The change is due to the appreciation of U.S. dollar and euro against the Russian Ruble by 14% and 11%, respectively, in the nine-month period ended September 30, 2018 compared to the depreciation of U.S. dollar against the Russian Ruble by 4% and appreciation of euro against the Russian Ruble by 7% for the same period of the prior year.

Interest income decreased by RR11,839 million, or 18%, to RR53,565 million in the nine-month period ended September 30, 2018 compared to RR65,404 million for the same period of the prior year.

Interest expense decreased by RR1,302 million, or 3%, to RR37,420 million in the nine-month period ended September 30, 2018 compared to RR38,722 million for the same period of the prior year.

Share of profit of associates and joint ventures

Share of profit of associates and joint ventures increased by RR65,350 million, or 78%, to RR149,180 million in the nine-month period ended September 30, 2018 compared to RR83,830 million for the same period of the prior year. This change was mainly caused by an increase in the share of profit of Sakhalin Energy, Arcticgas and JSC Messoyakhaneftegas ("**Messoyakhaneftegaz**").

Profit tax

Total profit tax increased by RR67,565 million, or 37%, to RR251,816 million in the nine-month period ended September 30, 2018 compared to RR184,251 million for the same period of the prior year. The effective profit tax rate was 19.1% and 23.0% in the nine-month period ended September 30, 2018 and September 30, 2017, respectively.

Profit for the period attributable to owners of Gazprom

As a result of the factors discussed above, profit attributable to owners of Gazprom increased by RR435,416 million, or 75%, to RR1,017,250 million in the nine-month period ended September 30, 2018 compared to RR581,834 million for the same period of the prior year.

Profit for the period attributable to non-controlling interest

Profit attributable to non-controlling interest increased by RR13,045 million, or 39%, to RR46,836 million in the nine-month period ended September 30, 2018 compared to RR33,791 million for the same period of the prior year.

Year ended December 31, 2017 versus Year ended December 31, 2016

Sales

The following table summarizes our sales information for our operating segments in the years ended December 31, 2017 and 2016:

	Year ended December 31,	
	2017	**2016**
	(RR million)	
Gas sales gross of excise tax and customs duties to customers in:		
Russian Federation	875,685	819,924
FSU	323,037	340,437
Europe and Other Countries	2,823,939	2,685,551
	4,022,661	3,845,912
Customs duties	(581,109)	(537,059)
Excise tax	(51,873)	(39,258)
Retroactive gas price adjustments[(1)]	(49,092)	33,175
Total gas sales	3,340,587	3,302,770
Sales of refined products to customers in:		
Russian Federation	1,115,125	980,352
FSU	117,635	88,883
Europe and Other Countries	454,330	428,327
Total sales of refined products	1,687,090	1,497,562
Sales of crude oil and gas condensate to customers in:		
Russian Federation	71,434	81,302
FSU	29,770	23,528
Europe and Other Countries	438,754	307,128
Total sales of crude oil and gas condensate	539,958	411,958
Electric and heat energy sales:		
Russian Federation	487,283	461,908
FSU	2,937	2,458
Europe and Other Countries	13,599	17,350
Total electric and heat energy sales	503,819	481,716
Gas transportation sales:		
Russian Federation	229,395	192,649
FSU	2,433	2,689
Europe and Other Countries	3,233	3,633
Total gas transportation sales	235,061	198,971
Other sales:		
Russian Federation	199,506	174,378
FSU	6,212	5,858
Europe and Other Countries	33,910	37,838
Total other sales	239,628	218,074
Total sales	**6,546,143**	**6,111,051**

Note:

(1) Retroactive gas price adjustments relate to gas deliveries in 2013-2016 for which a discount was agreed or was 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 in the years ended December 31, 2017 and December 31, 2016 were a decrease of sales by RR49,092 million and an increase of sales by RR33,175 million, respectively. The effects decreasing sales were due to an increase in related accruals following agreements reached prior to the issuance of the respective consolidated financial statements. The effect arising from retroactive gas price adjustments on sales for the year ended December 31, 2017 included the amount of adjustment related to the gas supply contract with Naftogaz reflected in accordance with the arbitration decision. The effects increasing sales were due to recognition of adjustments increasing gas prices for the past periods and due to a reverse of related accruals following agreements reached prior to the issuance of the respective consolidated financial statements.

The following table sets out our volumes and sales prices in the years ended December 31, 2017 and 2016.

	Year ended December 31,	
	2017	**2016**
	(RR million unless stated otherwise)	
Sales of gas		
Europe and Other Countries		
Gross sales[1]	2,823,939	2,685,551
Customs duties	(550,849)	(506,266)
Excise tax	(51,873)	(39,258)
Net sales	2,221,217	2,140,027
Volumes in bcm	242.0	228.3
Average price, U.S.$ per mcm[2] (including excise tax and customs duties)[3]	200.2	176.0
Average price, RR per mcm[2] (including excise tax and customs duties)	11,670.5	11,763.3
FSU countries		
Gross sales[1]	323,037	340,437
Customs duties	(30,260)	(30,793)
Net sales	292,777	309,644
Volumes in bcm	35.0	33.2
Average price, U.S.$ per mcm[2] (including customs duties)[3]	158.4	153.6
Average price, RR per mcm[2] (including customs duties)	9,237.0	10,263.1
Russian Federation		
Gross sales (net of VAT)	875,685	819,924
Net sales	875,685	819,924
Volumes in bcm	229.9	214.9
Average price, RR per mcm[2] (net of VAT)	3,808.3	3,815.5
Total sales of gas		
Gross sales (net of VAT)	4,022,661	3,845,912
Customs duties	(581,109)	(537,059)
Excise tax	(51,873)	(39,258)
Retroactive gas price adjustments	(49,092)	33,175
Net sales	3,340,587	3,302,770
Volumes in bcm	506.9	476.4
Net sales of refined products (net of excise tax, VAT and customs duties)	1,687,090	1,497,562
Net sales of crude oil and gas condensate (net of VAT and customs duties)	539,958	411,958
Electric and heat energy net sales (net of VAT)	503,819	481,716
Gas transportation net sales (net of VAT)	235,061	198,971
Other sales (net of VAT)	239,628	218,074
Total sales (net of excise tax, VAT and customs duties)	**6,546,143**	**6,111,051**

Notes:

(1) VAT is not charged on sales to Europe and Other Countries as well as to FSU countries.

(2) One mcm is equivalent to 35,316 cubic feet.

(3) Calculated on the basis of average exchange rate between RR and U.S.$.

Total sales (net of excise tax, VAT and customs duties) increased by RR435,092 million, or 7%, to RR6,546,143 million in the year ended December 31, 2017 compared to the same period of the prior year. The increase in sales was mainly driven by an increase in sales of refined products and crude oil.

Net sales of gas accounted for 51% of total net sales in the year ended December 31, 2017 (54% in the prior year).

Net sales of gas increased by RR37,817 million, or 1%, from RR3,302,770 million in the year ended December 31, 2016 to RR3,340,587 million in the year ended December 31, 2017.

Net sales of gas to Europe and Other Countries increased by RR81,190 million, or 4%, to RR2,221,217 million in the year ended December 31, 2017 compared to the prior year. The change was driven by an increase in volumes of gas sold by 6% that was partially compensated by the 1% decrease in average ruble prices (including excise tax and customs duties) in the

year ended December 31, 2017 compared to the prior year. However, the average U.S. dollar prices increased by 14% compared to the prior year.

Net sales of gas to the FSU countries decreased by RR16,867 million, or 5%, to RR292,777 million in the year ended December 31, 2017 compared to the prior year. The change was due to a decrease in average ruble prices (including customs duties) by 10% that was partially compensated by an increase in volumes of gas sold by 5% in the year ended December 31, 2017.

Net sales of gas in the Russian Federation increased by RR55,761 million, or 7%, to RR875,685 million in the year ended December 31, 2017 compared to the prior year. This change is mainly explained by an 7% increase in volumes of gas sold.

Net sales of refined products (net of excise tax, VAT and customs duties) increased by RR189,528 million, or 13%, to RR1,687,090 million in the year ended December 31, 2017 as compared to the prior year. The increase in sales of refined products was due to an increase in average prices.

Net sales of crude oil and gas condensate (net of VAT and customs duties) increased by RR128,000 million, or 31%, to RR539,958 million in the year ended December 31, 2017 compared to the prior year. The increase in sales of crude oil was mainly due to an increase in volumes of crude oil sold by Gazprom Neft to customers in Europe and Other countries, which was due to the growth of crude oil production at the Novoportovskoye, Vostochno-Messoyakhskoye and Prirazlomnoye fields and reduction of crude oil delivery to refineries and also due to an increase in average prices in all geographic segments.

Operating expenses

Operating expenses increased by RR416,180 million, or 8%, in the year ended December 31, 2017 to RR5,697,056 million from RR5,280,876 million in the prior year. Operating expenses as a percentage of sales increased from 86% in the year ended December 31, 2016 to 87% in the year ended December 31, 2017.

The table below presents a breakdown of operating expenses in each period:

	Year ended December 31,	
	2017	**2016**
	(RR million)	
Taxes other than on profit	1,246,059	900,397
Purchased gas and oil	1,236,201	1,157,585
Staff costs	682,060	641,036
Depreciation	613,160	571,564
Transit of gas, oil and refined products	593,327	610,275
Materials	261,642	288,497
Cost of goods for resale, including refined products	207,689	185,441
Repairs and maintenance	154,785	147,608
Electricity and heating expenses	109,485	98,992
Rental expenses	37,723	30,152
Social expenses	34,461	35,516
Insurance expenses	30,491	29,967
Transportation services	27,253	28,923
Processing services	16,261	15,568
Research and development expenses	16,175	28,990
Foreign exchange rate differences on operating items	(14,487)	52,880
(Profit on recovery) impairment loss on non-financial assets	(16,252)	36,952
Derivatives (gain) loss	(18,344)	9,863
Other	610,005	413,579
	5,827,694	**5,283,785**
Changes of finished goods, work in progress and other effects	(130,638)	(2,909)
Total operating expenses[(1)]	**5,697,056**	**5,280,876**

Note:

(1) For the purposes of compliance with IFRS 9 Financial instruments applied from January 1, 2018, the Group has changed the presentation of information in the consolidated statement of comprehensive income as follows: (i) the line item "Change in impairment and other provisions" has been replaced by two line items "(Impairment loss) reversal of impairment loss on financial assets" and "(Profit on recovery) impairment loss on non-financial assets", the latter is presented as part of the "Operating expenses"; and (ii) the line item "Gain (loss) on disposal of available-for-sale financial assets" has been reclassified to the "Operating expenses". Due to such modifications, and to align the presentation

of the relevant financial information with our Unaudited consolidated interim condensed financial information, the presentation of our consolidated statement of comprehensive income for the nine-month period ended September 30, 2017 and for the years 2017, 2016 and 2015 in this Base Prospectus differs from that in our previously published Unaudited consolidated interim condensed financial information and Audited consolidated financial statements for the periods indicated.

Taxes other than on profit

Taxes other than on profit consist of:

	Year ended December 31,	
	2017	**2016**
	(RR million)	
MET	915,228	613,662
Excise tax	162,140	144,648
Property tax	154,639	127,053
Other taxes	14,052	15,034
Taxes other than on profit	**1,246,059**	**900,397**

The MET increased by RR301,566 million, or 49% to RR915,228 million in the year ended December 31, 2017 compared to RR613,662 million in the prior year, mainly as a result of changes in the elements of the natural gas and crude oil MET formulas introduced with effect from January 1, 2017.

Property tax increased by RR27,586 million, or 22%, to RR154,639 million in the year ended December 31, 2017 compared to RR127,053 million in the prior year. The change was mainly due to a revaluation of fixed assets as of December 31, 2016 used for the purposes of calculating the tax base for property tax as well as an increase in the tax rate on trunk pipelines, power transmission lines and their integral technological part facilities from 1.3% in 2016 to 1.6% in 2017.

Purchased gas and oil

Cost of purchased gas and oil increased by RR78,616 million, or 7%, to RR1,236,201 million for the year ended December 31, 2017 compared to RR1,157,585 million in the prior year.

Cost of purchased gas increased by RR974 million to RR873,866 million in the year ended December 31, 2017 compared to RR872,892 million in the prior year. The change was due to an increase in volumes of gas purchased from external suppliers that was compensated by a decrease in cost of gas purchased by Gazprom Germania Group in ruble terms.

Cost of purchased oil included in the purchased gas and oil increased by RR77,642 million, or 27%, to RR362,335 million in the year ended December 31, 2017 compared to RR284,693 million in the prior year. This change was mainly related to an increase in prices of oil.

Depreciation

Depreciation increased by RR41,596 million, or 7%, to RR613,160 million in the year ended December 31, 2017 compared to RR571,564 million in the prior year. The increase was primarily due to the growth in the fixed assets base.

Transit of gas, oil and refined products

Transit of gas, oil and refined products expenses decreased by RR16,948 million, or 3% to RR593,327 million in the year ended December 31, 2017 compared to RR610,275 million in the prior year. This decrease was mainly due to a decrease in transit of gas expenses in ruble terms.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased by RR22,248 million, or 12%, to RR207,689 million in the year ended December 31, 2017 compared to RR185,441 million in the prior year. The increase was mainly due to an increase in volumes of petroleum products purchases in Gazprom Neft connected with a decline in refining caused by scheduled maintenance in our refineries.

Foreign exchange rate differences on operating items

Foreign exchange rate gain on operating items amounted to RR14,487 million in the year ended December 31, 2017 compared to a net loss of RR52,880 million in the prior year. This change was mainly explained by the depreciation of

U.S. dollar against the ruble by 5% and by the appreciation of euro against the ruble by 8% in the year ended December 31, 2017 compared to the depreciation of U.S. dollar and euro against the ruble by 17% and 20%, respectively, in the prior year.

Other operating expenses

Other operating expenses increased by RR196,426 million, or 47%, to RR610,005 million in the year ended December 31, 2017 compared to RR413,579 million in the prior year. Expenses related to the recognition of liabilities in accordance with the arbitration decisions for Naftogaz were included in other expenses for the year ended December 31, 2017. Other expenses include gas and gas condensate production expense, services from gas distribution companies, bank charges, security services, legal and consulting services, charity and financial aid, and advertising.

Changes in finished goods, work in progress and other effects

The line item Change in finished goods, work in progress and other effects decreased by RR127,729 million to the negative amount of RR130,638 million in the year ended December 31, 2017 compared to the negative amount of RR2,909 million in the prior year. The change in this line item is explained by an increase in the balances of finished goods in the year ended December 31, 2017 compared to the prior year.

(Impairment loss) reversal of impairment loss on financial assets

The reversal of impairment loss on financial assets amounted to RR38,670 million in the year ended December 31, 2017 compared to the impairment loss on financial assets in the amount of RR106,918 million in the prior year. This change was mainly caused by a reverse of impairment allowance for doubtful accounts receivable of Naftogaz in the year ended December 31, 2017.

Operating profit

As a result of the factors discussed above, operating profit increased by RR144,766 million, or 20%, to RR871,405 million in the year ended December 31, 2017 from RR726,639 million in the prior year. The operating profit margin increased from 12% in the year ended December 31, 2016 to 13% in the year ended December 31, 2017.

Net finance income

	Year ended December 31,	
	2017	**2016**
	(RR million)	
Foreign exchange gain	342,984	925,503
Foreign exchange loss	(353,712)	(471,814)
Net foreign exchange (loss) gain	(10,728)	453,689
Interest income	83,721	93,494
Interest expense	(53,332)	(71,556)
Net finance income	**19,661**	**475,627**

The net foreign exchange loss of RR10,728 million in the year ended December 31, 2017 compared to net foreign exchange gain of RR453,689 million in the prior year were explained by the depreciation of the U.S. dollar against the ruble by 5% and by the appreciation of the euro against the ruble by 8%, respectively, in the year ended December 31, 2017 compared to the depreciation of the U.S. dollar and the euro against the ruble by 17% and 20%, respectively, in the prior year.

Interest income decreased by RR9,773 million, or 10%, to RR83,721 million in the year ended December 31, 2017 from RR93,494 million the prior year.

Interest expense decreased by RR18,224 million, or 25%, to RR53,332 million in the year ended December 31, 2017 compared to RR71,556 million the prior year.

Share of profit of associates and joint ventures

Share of profit of associates and joint ventures increased by RR44,068 million, or 53%, to RR126,940 million in the year ended December 31, 2017 compared to RR82,872 million in prior year. This change was mainly caused by an increase in the share of profit of Sakhalin Energy and Messoyakhaneftegaz.

Profit tax

Total profit tax decreased by RR36,907 million, or 13%, to RR251,127 million in the year ended December 31, 2017 compared to RR288,034 million in the prior year. The effective profit tax rate was 24.7% and 22.4% in the year ended December 31, 2017 and 2016, respectively.

The change in effective profit tax rate was mainly driven by an increase in non-deductible expenses for tax purposes in the year ended December 31, 2017 compared to the same period of the prior year.

Profit for the period attributable to owners of Gazprom

As a result of the factors discussed above, profit in the year attributable to owners of Gazprom decreased by RR237,335 million, or 25%, from RR951,637 million in the year ended December 31, 2016 to RR714,302 million in the year ended December 31, 2017.

Profit for the period attributable to non-controlling interest

Profit in the year attributable to non-controlling interest increased by RR7,110 million, or 16%, to RR52,577 million in the year ended December 31, 2017 compared to RR45,467 million in the prior year.

Year ended December 31, 2016 versus Year ended December 31, 2015

Sales

The following table summarizes our sales information for our operating segments in the years ended December 31, 2016 and 2015:

	Year ended December 31,	
	2016	**2015**
	(RR million)	
Gas sales gross of excise tax and customs duties to customers in:		
Russian Federation	819,924	805,615
FSU	340,437	480,204
Europe and Other Countries	2,685,551	2,776,860
	3,845,912	4,062,679
Customs duties	(537,059)	(582,023)
Excise tax	(39,258)	(79,881)
Retroactive gas price adjustments[(1)]	33,175	26,482
Total gas sales	3,302,770	3,427,257
Sales of refined products to customers in:		
Russian Federation	980,352	981,792
FSU	88,883	105,335
Europe and Other Countries	428,327	468,464
Total sales of refined products	1,497,562	1,555,591
Sales of crude oil and gas condensate to customers in:		
Russian Federation	81,302	77,519
FSU	23,528	27,580
Europe and Other Countries	307,128	155,509
Total sales of crude oil and gas condensate	411,958	260,608
Electric and heat energy sales:		
Russian Federation	461,908	403,084
FSU	2,458	2,524
Europe and Other Countries	17,350	19,057
Total electric and heat energy sales	481,716	424,665
Gas transportation sales:		
Russian Federation	192,649	191,648
FSU	2,689	2,302
Europe and Other Countries	3,633	15
Total gas transportation sales	198,971	193,965
Other sales:		
Russian Federation	174,378	182,594
FSU	5,858	6,497
Europe and Other Countries	37,838	22,141
Total other sales	218,074	211,232
Total sales	**6,111,051**	**6,073,318**

Note:

(1) Retroactive gas price adjustments relate to gas deliveries in 2013-2015 for which a discount was agreed or was in the process of negotiations. The effect of gas price adjustments, including corresponding impacts on profit tax, is recorded when they become probable and a reliable estimate of the amounts can be made. The effect of retroactive gas price adjustments on sales in the years ended December 31, 2016 and December 31, 2015 was an increase in sales of RR33,175 million and RR26,482 million, respectively. This effect is due to the recognition of upward gas price adjustments for the past periods and a reversal of related accruals as a result of agreements reached prior to the issuance of the respective consolidated financial statements.

The following table sets out our volumes and sales prices in the years ended December 31, 2016 and 2015.

	Year ended December 31,	
	2016	**2015**
	(RR million unless stated otherwise)	
Sales of gas		
Europe and Other Countries		
Gross sales[1]	2,685,551	2,776,860
Customs duties	(506,266)	(531,479)
Excise tax	(39,258)	(79,881)
Net sales	2,140,027	2,165,500
Volumes in bcm	228.3	184.4
Average price, U.S.$ per mcm[2] (including excise tax and customs duties)[3]	176.0	245.6
Average price, RR per mcm[2] (including excise tax and customs duties)	11,763.3	15,057.3
FSU countries		
Gross sales[1]	340,437	480,204
Customs duties	(30,793)	(50,544)
Net sales	309,644	429,660
Volumes in bcm	33.2	40.3
Average price, U.S.$ per mcm[2] (including customs duties)[3]	153.6	194.2
Average price, RR per mcm[2] (including customs duties)	10,263.1	11,911.0
Russian Federation		
Gross sales (net of VAT)	819,924	805,615
Net sales	819,924	805,615
Volumes in bcm	214.9	221.2
Average price, RR per mcm[2] (net of VAT)	3,815.5	3,641.3
Total sales of gas		
Gross sales (net of VAT)	3,845,912	4,062,679
Customs duties	(537,059)	(582,023)
Excise tax	(39,258)	(79,881)
Retroactive gas price adjustments	33,175	26,482
Net sales	3,302,770	3,427,257
Volumes in bcm	476.4	445.9
Net sales of refined products (net of excise tax, VAT and customs duties)	1,497,562	1,555,591
Electric and heat energy net sales (net of VAT)	481,716	424,665
Net sales of crude oil and gas condensate (net of VAT and customs duties)	411,958	260,608
Gas transportation net sales (net of VAT)	198,971	193,965
Other sales (net of VAT)	218,074	211,232
Total sales (net of excise tax, VAT and customs duties)	**6,111,051**	**6,073,318**

Notes:

(1) VAT is not charged on sales to Europe and Other Countries as well as to FSU countries.

(2) One mcm is equivalent to 35,316 cubic feet.

(3) Calculated on the basis of average exchange rate between RR and U.S.$.

Total sales (net of excise tax, VAT and customs duties) increased by RR37,733 million, or 1%, to RR6,111,051 million in the year ended December 31, 2016 compared to the prior year. The increase in sales was mainly driven by an increase in sales of crude oil and gas condensate.

Net sales of gas accounted for 54% of total net sales in the year ended December 31, 2016 (56% in the prior year).

Net sales of gas decreased by RR124,487 million, or 4%, from RR3,427,257 million in the year ended December 31, 2015 to RR3,302,770 million in the year ended December 31, 2016.

Net sales of gas to Europe and Other Countries decreased by RR25,473 million, or 1%, to RR2,140,027 million in the year ended December 31, 2016 compared to the prior year due to a 22% decrease in the average ruble prices (including excise

tax and customs duties) in the year ended December 31, 2016 compared to the prior year. Concurrently, the volumes of gas sold increased by 24% compared to the same period of the prior year.

Net sales of gas to the FSU countries decreased by RR120,016 million, or 28%, to RR309,644 million in the year ended December 31, 2016 compared to the prior year. The change was due to a 18% decrease in volumes of gas sold and a 14% decrease in average ruble prices (including customs duties) in the year ended December 31, 2016.

Net sales of gas in the Russian Federation increased by RR14,309 million, or 2%, to RR819,924 million in the year ended December 31, 2016 compared to the prior year due to a 5% increase in the average ruble prices (net of VAT) that was partially compensated by a 3% decrease in volumes of gas sold.

Net sales of crude oil and gas condensate increased by RR151,350 million, or 58%, to RR411,958 million in the year ended December 31, 2016 compared to the prior year. The increase in sales of crude oil was due to an increase in volumes of crude oil sold and an increase in average prices Gazprom Neft charged to customers in Europe and Other Countries.

Net sales of refined products (net of VAT, excise tax and customs duties) decreased by RR58,029 million, or 4%, to RR1,497,562 million in the year ended December 31, 2016 as compared to the prior year primarily due to a decrease in prices and volumes of Gazprom Neft's sales to customers in Europe. In the years ended December 31, 2016 and 2015, Gazprom Neft's sales comprised 73% and 72% of the total amount of net sales of refined products, respectively.

Net sales of electric and heat energy (net of VAT) increased by RR57,051 million, or 13%, to RR481,716 million in the year ended December 31, 2016 compared to the prior year.

Net gas transportation sales (net of VAT) increased by RR5,006 million, or 3%, to RR198,971 million in the year ended December 31, 2016 as compared with RR193,965 million in the year ended December 31, 2015. This increase was primarily due to an increase in transportation volumes and gas transportation tariffs for independent suppliers.

Operating expenses

Operating expenses increased by 11% in the year ended December 31, 2016 to RR5,280,876 million from RR4,762,444 million in the prior year. Operating expenses as a percentage of sales increased from 78% in the year ended December 31, 2015 to 86% in the year ended December 31, 2016.

The table below presents a breakdown of operating expenses in each period:

	Year ended December 31,	
	2016	**2015**
	(RR million)	
Purchased gas and oil	1,157,585	1,048,472
Taxes other than on profit	900,397	805,132
Staff costs	641,036	590,981
Transit of gas, oil and refined products	610,275	534,503
Depreciation	571,564	515,200
Materials	288,497	299,182
Cost of goods for resale, including refined products	185,441	193,348
Repairs and maintenance	147,608	161,578
Electricity and heating expenses	98,992	91,822
Foreign exchange rate differences on operating items	52,880	(25,581)
Impairment loss on non-financial assets	36,952	136,063
Social expenses	35,516	32,485
Rental expenses	30,152	35,600
Insurance expenses	29,967	27,214
Research and development expenses	28,990	30,588
Transportation services	28,923	32,218
Processing services	15,568	18,810
Derivatives loss (gain)	9,863	(88)
Other	413,579	356,726
	5,283,785	**4,884,253**
Changes in inventories of finished goods, work in progress and other effects	(2,909)	(121,809)
Total operating expenses[(1)]	**5,280,876**	**4,762,444**

Note:

(1) For the purposes of compliance with IFRS 9 Financial instruments applied from January 1, 2018, the Group has changed the presentation of information in the consolidated statement of comprehensive income as follows: (i) the line item "Change in impairment and other provisions" has been replaced by two line items "(Impairment loss) reversal of impairment loss on financial assets" and "(Profit on recovery) impairment loss on non-financial assets", the latter is presented as part of the "Operating expenses"; and (ii) the line item "Gain (loss) on disposal of available-for-sale financial assets" has been reclassified to the "Operating expenses". Due to such modifications, and to align the presentation of the relevant financial information with our Unaudited consolidated interim condensed financial information, the presentation of our consolidated statement of comprehensive income for the nine-month period ended September 30, 2017 and for the years 2017, 2016 and 2015 in this Base Prospectus differs from that in our previously published Unaudited consolidated interim condensed financial information and Audited consolidated financial statements for the periods indicated.

Purchased gas and oil

Cost of purchased gas and oil increased by RR109,113 million, or 10%, to RR1,157,585 million for the year ended December 31, 2016 compared to RR1,048,472 million in the prior year.

Cost of purchased gas increased by RR53,565 million, or 7%, to RR872,892 million in the year ended December 31, 2016 compared to RR819,327 million in the prior year due to the completion of the asset swap between Gazprom and Wintershall Holding in September 2015 pursuant to which the Group acquired control over W&G, WIEH and their subsidiaries engaged in natural gas trading and storage.

Cost of purchased oil included in the purchased gas and oil increased by RR55,548 million, or 24%, to RR284,693 million in the year ended December 31, 2016 compared to RR229,145 million in the prior year primarily due to an increase in demand for oil in Europe and Other Countries, and an increased activity of Gazprom Germania Group on the Asian oil markets (China and South Korea), and also to an increase in volumes of oil purchased on the domestic market.

Taxes other than on profit

Taxes other than on profit consist of:

	Year ended December 31,	
	2016	**2015**
	(RR million)	
MET	613,662	591,336
Excise tax	144,648	88,580
Property tax	127,053	112,568
Other taxes	15,034	12,648
Taxes other than on profit	**900,397**	**805,132**

The MET increased to RR613,662 million, or by 4%, in the year ended December 31, 2016 compared to RR591,336 million in the prior year.

Staff costs

Staff costs increased to RR641,036 million, or by 8%, in the year ended December 31, 2016 compared to RR590,981 million in the prior year mainly due to an increase in the average salary and the average number of employees.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased to RR610,275 million, or by 14%, in the year ended December 31, 2016 compared to RR534,503 million in the prior year mainly due to an increase in cost of transit of gas through the territory of Ukraine and Germany denominated in ruble terms and the activity of the Gazprom Germania Group of companies.

Depreciation

Depreciation increased to RR571,564 million, or by 11%, in the year ended December 31, 2016 compared to RR515,200 million in the prior year. The increase was primarily due to the growth in the fixed assets base.

Other operating expenses

Other operating expenses increased by 16% to RR413,579 million in the year ended December 31, 2016 compared to RR356,726 million in the prior year. Other expenses include gas and gas condensate production expense, services from gas distribution companies, bank charges, security services, legal and consulting services, charity and financial aid, and advertising.

Changes in inventories of finished goods, work in progress and other effects

Changes in inventories of finished goods, work in progress and other effects increased by RR118,900 million to the negative amount of RR2,909 million in the year ended December 31, 2016 compared to the negative amount of RR121,809 million in the prior year. The change in this line item is explained by a decrease in the balances of finished goods in the year ended December 31, 2016 compared to an increase in the balances of finished goods in the prior year.

Impairment loss on financial assets

Impairment loss on financial assets increased by RR29,762 million, or 39%, to RR106,918 million in the year ended December 31, 2016 compared to RR77,156 million in the prior year. The change was mainly driven by an increase in impairment allowance for accounts receivable, in particular for Naftogaz.

Operating profit

As a result of the factors discussed above, operating profit decreased by RR510,783 million, or 41%, to RR726,639 million in the year ended December 31, 2016 from RR1,237,422 million in the prior year. The operating profit margin decreased from 20% in the year ended December 31, 2015 to 12% in the year ended December 31, 2016.

Net finance income (expense)

	Year ended December 31,	
	2016	**2015**
	(RR million)	
Foreign exchange gain	925,503	878,181
Foreign exchange loss	(471,814)	(1,342,230)
Net foreign exchange gain (loss)	453,689	(464,049)
Interest income	93,494	112,165
Interest expense	(71,556)	(66,857)
Net finance income (expense)	**475,627**	**(418,741)**

The net exchange gain of RR453,689 million in the year ended December 31, 2016 compared to net exchange loss of RR464,049 million in the prior year was mainly explained by the depreciation of the U.S. dollar and the euro against the ruble by 17% and 20%, respectively, in the year ended December 31, 2016 compared to the appreciation of the U.S. dollar and the euro against the ruble by 30% and 17%, respectively, in the prior year.

Interest income decreased by 17% to RR93,494 million in the year ended December 31, 2016 from RR112,165 million in the prior year.

Interest expense increased by 7% to RR71,556 million in the year ended December 31, 2016 compared to RR66,857 million in the prior year.

Share of profit of associates and joint ventures

Share of profit of associates and joint ventures decreased by RR23,688 million to RR82,872 million in the year ended December 31, 2016 compared to RR106,560 million in the prior year. This change was mainly caused by the decrease in the share of profit of Sakhalin Energy by RR47,397 million that was partially compensated by the increase in the share of profit of GPB and its subsidiaries by RR26,532 million.

Profit tax

Total profit tax increased by RR167,992 million, or 140%, to RR288,034 million in the year ended December 31, 2016 compared to RR120,042 million in the prior year. The effective profit tax rate was 22.4% and 13.0% in the year ended December 31, 2016 and 2015, respectively.

The change in effective profit tax rate was mainly driven by an increase in non-deductible expenses for tax purposes in the year ended December 31, 2016 compared to the prior year.

Profit for the period attributable to owners of Gazprom

As a result of the factors discussed above, profit in the year attributable to owners of Gazprom increased by RR164,581 million, or 21%, from RR787,056 million in the year ended December 31, 2015 to RR951,637 million in the year ended December 31, 2016.

Profit for the period attributable to non-controlling interest

Profit in the year attributable to non-controlling interest increased by RR27,324 million, or 151%, to RR45,467 million in the year ended December 31, 2016 compared to RR18,143 million in the same period of the prior year.

Liquidity and Capital Resources

We make significant capital expenditures to explore for natural gas and crude oil, to develop our natural gas and crude oil fields and to produce natural gas, gas condensate and crude oil and their products, and to maintain and expand the GTS and international pipelines. Our capital expenditures (excluding the effect of acquisitions of subsidiaries) were RR1,108,496 million and RR873,982 million in the nine-month periods ended September 30, 2018 and 2017, respectively, and RR1,504,600 million, RR1,357,336 million and RR1,349,635 million in the years ended December 31, 2017, 2016 and 2015, respectively.

We make significant investments in associates and joint arrangements and acquisitions of subsidiaries. See "Certain Acquisitions, Dispositions and Changes in Control–Acquisitions and dispositions to September 30, 2018".

In the nine-month periods ended September 30, 2018 and 2017, and in the years ended December 31, 2017, 2016 and 2015 our operating cash flows including cash on short-term deposits were sufficient to cover our cash capital expenditures and other investment activities.

Other significant uses of our cash flows include servicing our debt and paying dividends. Interest paid and expensed was RR22,164 million and RR24,086 million in the nine-month periods ended September 30, 2018 and 2017, respectively, and RR34,296 million, RR50,835 million and RR40,100 million in the years ended December 31, 2017, 2016 and 2015, respectively. Interest capitalized and paid was RR99,771 million and RR95,263 million in the nine-month periods ended September 30, 2018 and 2017 respectively, and RR127,159 million, RR132,477 million and RR128,211 million in the years ended December 31, 2017, 2016 and 2015 respectively. Total interest paid, both expensed and capitalized, was RR121,935 million and RR119,349 million in the nine-month periods ended September 30, 2018 and 2017 respectively, and RR161,455 million, RR183,312 million and RR168,311 million in the years ended December 31, 2017, 2016 and 2015 respectively.

We paid dividends (including dividends paid by subsidiaries to non-controlling interest) of RR187,659 million and RR191,730 million in the the nine-month periods ended September 30, 2018 and 2017, respectively, and RR191,875 million, RR186,337 million and RR170,702 million in the years ended December 31, 2017, 2016 and 2015, respectively.

In the nine-month period ended September 30, 2018 and in the year ended December 31, 2016 our repayments of debt exceeded our proceeds from debt. Our repayments of debt net of borrowings (including bonds and promissory notes) were RR98,533 million and RR89,977 million in the nine-month period ended September 30, 2018 and in the year ended December 31, 2016, respectively. In the nine-month period ended September 30, 2017 and in the years ended December 31, 2017 and 2015 our proceeds from debt exceeded our repayments of debt. Our borrowings net of repayments of debt (including bonds and promissory notes) were RR277,738 million, RR376,472 million and RR72,353 million in the nine-month period ended September 30, 2017 and the years ended December 31, 2017 and 2015, respectively.

Our total debt (including long-term borrowings, short-term borrowings, short-term promissory notes payable, long-term promissory notes payable) increased from RR3,266,518 million as of December 31, 2017 to RR3,512,327 million as of September 30, 2018. Our cash and cash equivalents increased from RR869,007 million as of December 31, 2017 to RR885,721 million as of September 30, 2018.

Cash Flows

The following table summarizes our statements of cash flows in the nine-month periods ended September 30, 2018 and 2017 and for the years ended December 31, 2017, 2016 and 2015:

	Nine months ended September 30,		Year ended December 31,		
	2018	2017	2017	2016	2015
			(RR million)		
Net cash from operating activities	1,426,348	612,817	1,187,022	1,571,323	2,030,927
Net cash used in investing activities	(1,184,448)	(1,083,937)	(1,368,131)	(1,445,965)	(1,664,156)
Net cash (used in) from financing activities	(284,824)	62,572	149,944	(460,479)	(138,305)

Net cash from operating activities

Net cash from operating activities increased by RR813,531 million, or 133%, to RR1,426,348 million in the nine-month period ended September 30, 2018 compared to RR612,817 million for the same period of the prior year. This change was mainly driven by an increase in cash from operating activities before working capital changes compared to the same period

of the prior year.

Net cash from operating activities decreased by RR384,301 million, or 24%, to RR1,187,022 million in the year ended December 31, 2017 compared to RR1,571,323 million in the prior year. This change was mainly driven by replacement of cash on short-term deposits included within other current assets and increase in profit tax paid.

Net cash from operating activities decreased by RR459,604 million, or 23%, to RR1,571,323 million in the year ended December 31, 2016 compared to RR2,030,927 million in the prior year. This change was mainly driven by a decrease in cash from operating activities before working capital changes.

Net cash used in investing activities

Net cash used in investing activities increased by RR100,511 million, or 9%, to RR1,184,448 million in the nine-month period ended September 30, 2018 compared to RR1,083,937 million for the same period of the prior year. The change was mainly due to an increase of capital expenditures in the nine-month period ended September 30, 2018 compared to the same period of the prior year.

Net cash used in investing activities decreased by RR77,834 million, or 5%, to RR1,368,131 million in the year ended December 31, 2017 compared to RR1,445,965 million in the prior year. The change was mainly due to the cash received from closed long-term bank deposits in the year ended December 31, 2017 compared to the placement of cash on long-term bank deposits in the prior year that was partially compensated by an increase in investments in associates and joint ventures.

Net cash used in investing activities decreased by RR218,191 million, or 13%, to RR1,445,965 million in the year ended December 31, 2016 compared to RR1,664,156 million in the prior year. The change was mainly due to a decrease in cash used for capital expenditures which was driven by a change in the approach to reflect this flow in 2016, as well as to an increase in interest received in the year ended December 31, 2016. The change in the approach was caused by applying by the Group of Agency agreements for the implementation of investment projects on intercompany transactions. The new approach allowed to speed up the process of VAT refunding from the budget. Based on the changed nature of the settlement transactions with the budget for VAT, the Group made a decision to reflect cash flows for VAT payments as payments to the budget as part of operating activities.

Net cash (used in) from financing activities

Net cash used in financing activities amounted to RR284,824 million in the nine-month period ended September 30, 2018 compared to RR62,572 million of net cash from financing activities for the same period of the prior year. This change was mainly due to the excess of repayment of borrowings over proceeds from borrowings in the nine-month period ended September 30, 2018, compared to the excess of proceeds from borrowings over repayment of borrowings for the same period of the prior year.

Net cash from financing activities amounted to RR149,944 million in the year ended December 31, 2017 compared to net cash used in financing activities amounted to RR460,479 million in the prior year. This change was mainly due to an increase in proceeds from borrowings.

Net cash used in financing activities increased by RR322,174 million to RR460,479 million in the year ended December 31, 2016 compared to RR138,305 million in the prior year. This change was primarily due to an excess of cash used for repayment of borrowings over proceeds from borrowings and the acquisition of treasure shares in the year ended December 31, 2016.

Working Capital

Our working capital surplus (current assets less current liabilities) was RR1,334,122 million as of September 30, 2018 and RR879,750 million as of December 31, 2017. The increase in our working capital by RR454,372 million in the nine-month period ended September 30, 2018 was mainly due to an increase in derivative financial instruments and short-term deposits within other current assets and an increase in inventories and also due to a decrease in the current portion of long-term borrowings.

Management believes that we have sufficient working capital to meet our requirements for at least the next twelve months. However, we are dependent on the short-term credit markets to finance our working capital. We also depend upon regular access to the domestic debt capital markets to meet a significant portion of our financing requirements.

The working capital surplus (current assets less current liabilities) was RR879,750 million as of December 31, 2017 and

RR1,312,538 million as of December 31, 2016. The decrease in the working capital by RR432,788 million in the year ended December 31, 2017 was primarily due to an increase in the current portion of long-term borrowings.

The working capital surplus (current assets less current liabilities) was RR1,312,538 million as of December 31, 2016 and RR1,869,021 million as of December 31, 2015. The decrease in the working capital by RR556,483 million in the year ended December 31, 2016 was primarily due to a decrease in cash and cash equivalents, other current assets and a decrease in inventories. These effects were partially offset by a decrease in current portion of long-term borrowings and accounts payable.

The decrease in cash and cash equivalents of RR462,367 million was mainly due to an excess of cash used in financing and investing activities (including long-term bank deposits placement) over net cash inflow from operating activities.

The decrease in other current assets and VAT recoverable of RR175,171 million was mainly caused by a decrease in prepaid profit tax and VAT.

The decrease in inventories by RR93,165 million was mainly driven by a decrease in cost of gas in pipelines and underground gas storages.

Capital Expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segments in the nine-month periods ended September 30, 2018 and 2017 and in the years ended December 31, 2017, 2016 and 2015 in nominal ruble terms, amounted to the following:

	Nine months ended September 30,			
	2018		2017	
	(RR million)	(%)	(RR million)	(%)
Transportation	405,293	36.6	305,012	34.9
Refining	208,141	18.8	135,645	15.5
Production of crude oil and gas condensate	172,259	15.5	194,635	22.3
Production of gas	168,426	15.2	107,695	12.3
Electric and heat energy generation and sales	35,950	3.2	26,192	3.0
Distribution of gas	27,582	2.5	19,094	2.2
Gas storage	6,396	0.6	12,335	1.4
Other[(1)]	84,449	7.6	73,374	8.4
Total	**1,108,496**	**100**	**873,982**	**100**

	Year ended December 31,					
	2017		2016		2015	
	(RR million)	(%)	(RR million)	(%)	(RR million)	(%)
Transportation	498,550	33.1	406,828	30.0	420,874	31.2
Refining	225,240	15.0	193,243	14.2	136,299	10.1
Production of crude oil and gas condensate	330,424	22.0	326,366	24.0	324,330	24.0
Production of gas	216,450	14.4	235,161	17.3	225,020	16.7
Electric and heat energy generation and sales	58,110	3.9	63,485	4.7	98,963	7.3
Distribution of gas	51,675	3.4	41,785	3.1	25,962	1.9
Gas storage	37,694	2.5	35,542	2.6	48,486	3.6
Other[(1)]	86,457	5.7	54,926	4.1	69,701	5.2
Total	**1,504,600**	**100**	**1,357,336**	**100**	**1,349,635**	**100**

Note:

(1) Primarily includes expenditures for the acquisition of non-productive assets.

Total capital expenditures increased by RR234,514 million, or 27%, from RR873,982 million for the nine-month period ended September 30, 2017 to RR1,108,496 million for the nine-month period ended September 30, 2018.

Total capital expenditures increased by RR147,264 million, or 11%, from RR1,357,336 million in the year ended December 31, 2016 to RR1,504,600 million in the year ended December 31, 2017.

Total capital expenditures increased by RR7,701 million, or 0.6%, from RR1,349,635 million in the year ended December 31, 2015 to RR1,357,336 million in the year ended December 31, 2016.

The following table shows our cash and non-cash capital expenditures (excluding the effect of acquisitions of subsidiaries):

	Nine months ended September 30,	Year ended December 31,

	2018	2017	2017	2016	2015
			(RR million)		
Cash capital expenditures	1,191,595	987,823	1,405,780	1,369,052	1,641,024
Changes in settlements related to capital construction	(158,099)	(172,525)	(4,495)	(115,457)	(75,934)
VAT	-	-	-	-	(240,065)
Other	75,000	58,684	103,315	103,741	24,610
Total capital expenditures[1]	**1,108,496**	**873,982**	**1,504,600**	**1,357,336**	**1,349,635**

Note:

(1) Data presented in this table includes all of our consolidated subsidiaries for the relevant periods.

The Group's investment program for 2018 provides for investment of RR1,921 billion (excluding VAT), including RR811 billion in the Transportation segment, RR310 billion in the Refining segment, RR296 billion for the Production of crude oil and gas condensate segment, RR217 billion in the Production of gas segment, RR128 billion in the Distribution of gas segment, RR75 billion in the Electric and heat energy generation and sales segment and RR16 billion in the Gas storage segment.

Debt Obligations

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable, net of cash and cash equivalents) increased by RR229,095 million, or 10%, from RR2,397,511 million as of December 31, 2017 to RR2,626,606 million as of September 30, 2018. The change was mainly due to an increase in the amount of long-term borrowings denominated in ruble terms caused by the appreciation of U.S. dollar and euro against the ruble.

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable, net of cash and cash equivalents) increased by RR464,616 million, or 24%, from RR1,932,895 million as of December 31, 2016 to RR2,397,511 million as of December 31, 2017. This increase was due to an increase in long-term borrowings.

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable, net of cash and cash equivalents) decreased by RR150,225 million, or 7%, from RR2,083,120 million as of December 31, 2015 to RR1,932,895 million as of December 31, 2016. This decrease was mainly resulted from a decrease in borrowings denominated in ruble terms due to the depreciation of the U.S. dollar and the euro that was partially compensated by a decrease in cash and cash equivalents.

The following table shows our borrowings as of September 30, 2018, December 31, 2017, 2016 and 2015:

	As of September 30,	As of December 31,		
	2018	2017	2016	2015
		(RR million)		
Long-term borrowings				
Fixed interest rate borrowings	2,571,719	2,355,672	2,086,181	2,431,823
Weighted average interest rate for fixed rate borrowings	6.06%	6.26%	6.34%	6.30%
Variable interest rate borrowings	875,707	824,665	682,810	958,340
Weighted average interest rate for variable rate borrowings	3.10%	3.54%	4.11%	3.90%
Total long-term borrowings	**3,447,426**	**3,180,337**	**2,768,991**	**3,390,163**
RR denominated borrowings	645,223	558,509	427,014	362,350
Foreign currency denominated borrowings	2,802,203	2,621,828	2,341,977	3,027,813
Total long-term borrowings	**3,447,426**	**3,180,337**	**2,768,991**	**3,390,163**
Less: current portion of long-term borrowings	717,859	788,624	386,448	594,370
Plus: long-term promissory notes, net of discount	-	-	-	50
Total long-term debt obligations	**2,729,567**	**2,391,713**	**2,382,543**	**2,795,843**
Short-term borrowings				
Fixed interest rate borrowings	32,720	47,690	38,986	17,710
Weighted average interest rate for fixed rate borrowings	7.96%	8.49%	9.75%	9.76%
Variable interest rate borrowings	32,082	38,392	21,545	34,242
Weighted average interest rate for variable rate borrowings	7.16%	8.19%	6.67%	2.09%
Total short-term borrowings	**64,802**	**86,082**	**60,531**	**51,952**
RR denominated borrowings	54,116	74,275	44,251	12,716
Foreign currency denominated borrowings	10,686	11,807	16,280	39,236
Total short-term borrowings	**64,802**	**86,082**	**60,531**	**51,952**
Plus: current portion of long-term borrowings	717,859	788,624	386,448	594,370
Plus: short-term promissory notes	99	99	101	50
Total short-term debt obligations	**782,760**	**874,805**	**447,080**	**646,372**
Total borrowings	**3,512,327**	**3,266,518**	**2,829,623**	**3,442,215**

The following table shows the breakdown by currency of our actual foreign currency denominated long-term borrowings as of September 30, 2018, December 31, 2017, 2016 and 2015 as well as the same balances expressed in rubles:

	As of September 30,	As of December 31,		
	2018	2017	2016	2015
U.S. dollar denominated (expressed in millions of U.S. dollars)	16,980	20,544	21,291	27,494
Euro denominated (expressed in millions of U.S. dollars)[1]	20,997	20,953	15,212	12,877
Other currencies denominated (expressed in millions of U.S. dollars)[1]	4,745	4,021	2,107	1,172
Total long-term foreign currency denominated borrowings expressed in millions of U.S. dollars	**42,722**	**45,518**	**38,610**	**41,543**
Total long-term foreign currency denominated borrowings expressed in millions of RR[2]	**2,802,203**	**2,621,828**	**2,341,977**	**3,027,813**

Notes:

(1) Converted at U.S. dollar exchange rate as of the end of the respective periods.

(2) Converted at the exchange rate as of period-end.

As of December 31, 2015 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoe oil and gas field with the group of international financial institutions with UniCredit Bank AG acting as a facility agent, ordinary shares of OJSC Severneftegazprom ("**Severneftegazprom**") with the pledge value of RR16,968 million and fixed assets of Severneftegazprom with the pledge value of RR26,210 million were pledged to ING Bank N.V. (London branch) until full discharge of the obligations of Severneftegazprom under the project facility agreement. As of December 31, 2015 the carrying value of these fixed assets was RR21,654 million. Due to early repayment of all obligations under the project facility agreement in August 2016, the Group did not have any pledged shares or fixed assets as of December 31, 2016.

As of September 30, 2018 according to the agreements signed within the framework of financing the Nord Stream 2 project with Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation & Finance B.V., 100% of shares of Nord Stream 2 AG held by Gazprom were pledged until a full settlement of the secured obligations.

The following table shows our schedule of repayments for long-term borrowings as of September 30, 2018, December 31, 2017, 2016 and 2015:

	As of September 30,	As of December 31,		
	2018	2017	2016	2015
		(RR million)		
Between one and two years	535,337	481,070	708,355	472,657
Between two and five years	1,136,253	1,087,239	956,731	1,452,110
After five years	1,057,977	823,404	717,457	871,076
Total	**2,729,567**	**2,391,713**	**2,382,543**	**2,795,843**

Recent developments

Borrowings

In October 2018, the Group signed an agreement to open a long-term credit line with Sberbank for a total amount of RR10,000 million, with a tenor of up to 2023. In November 2018, in accordance with this agreement, the Group obtained RR5,300 million due in 2019.

In October 2018, the Group obtained a long-term loan from Intesa Sanpaolo Bank Luxembourg in the amount of €1,200 million due in 2023.

In October 2018, the Group obtained a long-term loan from J.P. Morgan Europe Limited in the amount of €1,100 million due in 2023.

In October 2018, the Group obtained a long-term loan from GPB in the amount of RR15,000 million due in 2021.

In November 2018, our subsidiary Nord Stream 2 AG obtained long-term loans from Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation and Finance B.V. in an aggregate amount of €340 million in accordance with a long-term financing agreement signed by the parties in April 2017.

In November 2018, the Group issued Loan Participation Notes in the amount of €1,000 million at an interest rate of 2.949% due in 2024.

In December 2018, our subsidiary Gazprom Neft obtained RR30,030 million due in 2021 and an aggregate amount of RR50,000 million due in 2023, under agreements with certain Russian banks.

In December 2018, our subsidiary Gazprom neftekhim Salavat obtained an aggregate amount of RR12,850 million due in 2020 and an aggregate amount of RR5,583 million due in 2022, under agreements signed with certain Russian banks in the period from 2015 through 2017.

In December 2018, our subsidiary Gazprom Germania obtained a €100 million loan due in September 2019 with an option for extension through September 2021, under agreements signed with certain European banks in 2016.

In December 2018, the Group obtained a long-term loan from Citibank in the amount of €425 million due in 2023.

In December 2018, the Group issued bonds in the amount of JPY65 billion at an interest rate of 1.01% due in 2028.

In January 2019, the Group obtained a long-term loan from MUFG Bank, Ltd in the amount of €500 million due in 2023.

Contractual Obligations and Other Commitments

The amount of outstanding guarantees provided to third parties increased by RR13,137 million, or 4%, to RR328,676 million between December 31, 2017 and September 30, 2018.

The amount of outstanding guarantees provided to third parties increased by RR35,616 million to RR315,539 million between December 31, 2016 and December 31, 2017 primarily as a result of guarantees issued for LLC Stroygazconsulting in December 2017 that was partially offset by a decrease in guaranteed obligations of Sakhalin Energy.

The amount of outstanding guarantees provided to third parties decreased by RR157,865 million to RR279,923 million between December 31, 2015 and December 31, 2016 primarily as a result of the partial assignment by GPB of the principal

amount of RR54,099 million owed by Ostchem Holding Limited under a loan agreement to a third party in December 2016 and a decrease in guaranteed obligations of Nord Stream AG and Sakhalin Energy.

We have significant obligations to supply gas under long-term contracts with European customers.

Qualitative and Quantitative Disclosures and Market Risks

We are exposed to market risk from changes in commodity prices, foreign currency exchange rates, interest rates and prices of marketable securities. We are exposed to commodity risk as we are a commodity business and our natural gas export sales are linked to oil product prices. We are exposed to foreign exchange risk to the extent that our sales revenues, costs, receivables for gas sales and debt are denominated in currencies other than rubles. We are subject to market risk from changes in interest rates that may affect the cost of our financing.

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the ruble relative to the U.S. dollar and the euro. As of September 30, 2018 RR1,120,612 million and RR1,379,649 million of our borrowings were denominated in U.S. dollars and euro, respectively (out of RR3,512,228 million of our total borrowings, excluding promissory notes, at that date). Increases in the value of the ruble denominated borrowings relative to value of the U.S. dollar or the euro denominated borrowings will decrease our foreign currency denominated costs and expenses and our debt service obligations for foreign currency denominated borrowings in ruble terms. A depreciation of the ruble rate relative to the U.S. dollar and the euro will also result in an increase in the value of our foreign currency borrowings in ruble terms. Share of U.S. dollar denominated borrowings and euro denominated borrowings in credit portfolio of the Group was approximately 32% share and 39% share, respectively, as of September 30, 2018.

We believe that the risks associated with our foreign currency exposure are mitigated by the fact that a significant portion of our revenues, approximately 64% of our gross sales (including customs duties and excise tax, net of VAT) in the nine-month period ended September 30, 2018, are denominated in foreign currency, mainly in U.S. dollar or euro. In the nine-month period ended September 30, 2018 the ruble had depreciated against the U.S. dollar and euro by approximately 14% and 11%, respectively.

A hypothetical, instantaneous and unfavorable 10% change (appreciation of the foreign currency in a net foreign currency liability position) in currency exchange rates would have resulted in additional interest expense of approximately RR9,615 million, RR9,381 million, RR12,302 million, RR13,497 million and RR13,405 million (nominal) in the nine-month periods ended September 30, 2018 and 2017 and in the years ended December 31, 2017, 2016 and 2015, respectively, reflecting the increased costs in ruble terms of servicing our foreign currency denominated borrowings held as of September 30, 2018 and 2017, December 31, 2017, 2016 and 2015, respectively.

A hypothetical, instantaneous and unfavorable 10% change (appreciation of the foreign currency in a net foreign currency liability position) in currency exchange rates as of September 30, 2018 and 2017 and as of December 31, 2017, 2016 and 2015, would have resulted in an estimated foreign exchange loss of approximately RR281,289 million, RR252,964 million, RR263,364 million, RR235,826 million and RR306,705 million (nominal), respectively, on foreign currency denominated borrowings held as of September 30, 2018 and 2017 and as of December 31, 2017, 2016 and 2015, respectively. Such effect would be at least partially offset by increased revenues generated by export contracts denominated in U.S. dollars and euro.

Interest rate risk

We are exposed to interest rate risk in our borrowings that bear interest at variable rates. As of September 30, 2018 and December 31, 2017, 2016, 2015, respectively, we had RR3,512,228 million, RR3,266,419 million, RR2,829,522 million and RR3,442,115 million in total borrowings (excluding promissory notes), of which approximately RR2,604,439 million, RR2,403,362 million, RR2,125,167 million and RR2,449,533 million bore interest at fixed rates and approximately RR907,789 million, RR863,057 million, RR704,355 million and RR992,582 million bore interest at variable rates determined generally by reference to the LIBOR or EURIBOR for U.S. dollar and euro deposits, respectively.

A hypothetical, instantaneous and unfavorable change (increase) of 100 basis points in the interest rate applicable to variable rate financial liabilities held as of September 30, 2018 and as of December 31, 2017, 2016 and 2015 would have resulted in additional net interest expense of approximately RR6,641 million, RR7,837 million, RR8,485 million and RR4,963 million (nominal), respectively, in the nine-month period ended September 30, 2018 and in the years ended December 31, 2017, 2016 and 2015. This sensitivity analysis is based on the assumption of an unfavorable 100 basis point movement of the interest rate applicable to each homogeneous category of financial liabilities. A homogeneous category is defined according to the currency in which financial liabilities are denominated and assumes the same interest rate movement within each homogeneous category (e.g., U.S. dollars and euro).

A hypothetical, instantaneous and unfavorable change (decrease) of 100 basis points in the interest rate would have resulted in an increase in the fair value of fixed rate financial liabilities held as of September 30, 2018 and December 31, 2017, 2016 and 2015 of RR105,883 million, RR105,372 million, RR90,061 million and RR75,010 million, respectively.

Derivatives

For the purpose of reducing commodity risk, interest rate risk, currency risk and other market risks we continue to use a number of derivative instruments. These comprised commodity contracts, interest rate swap contracts, foreign currency derivatives and other derivatives. The objective, when using any derivative instrument, is to ensure that the risk to reward profile of any transaction is optimized. In accordance with our accounting policies, such instruments are accounted for at their fair value, the changes of which are recognized as a profit or loss.

Commodity risk

Substantially all of our natural gas, gas condensate and other hydrocarbon export sales to Europe and Other Countries are sold under long-term contracts. Our natural gas export prices to Europe and Other Countries are based on a formula linked to world oil product prices, which in turn are linked to world crude oil prices. Worldwide political developments and the actions of OPEC affect crude oil prices and thus our natural gas export prices.

Securities price risk

We are exposed to movements in the prices of marketable securities that we hold in our investment portfolio. Specifically, as of September 30, 2018 we held RR437,974 million of marketable corporate shares and bonds. A change in Russia's sovereign credit rating, or an external event that impacts Russian debt and equity securities prices, have an impact on the market value of our trading securities. The fair value of our pension plan assets is also exposed to the prices of marketable securities.

GAZPROM

We are one of the world's largest oil and gas companies in terms of reserves, production and market capitalization. For the year ended December 31, 2017, our sales net of VAT and customs duties were RR6,546,143 million and our operating profit was RR871,405 million. For the nine months ended September 30, 2018 our sales net of VAT and customs duties were RR5,901,591 million and our operating profit was RR1,384,951 million. As of December 31, 2017, we had total assets of RR18,238,770 million and total shareholders' equity (excluding non-controlling interest) of RR11,629,086 million. As of September 30, 2018, we had total assets of RR19,935,162 million and total shareholders' equity (excluding non-controlling interest) of RR12,876,099 million.

Reserves. We estimate our reserves using the Russian reserves system, which differs significantly from PRMS Standards, in particular, with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. As of December 31, 2017, our AB_1C_1 reserves amounted to 35.3 tcm (229.4 bboe) of natural gas, 1,595.6 million tons (13.0 bboe) of gas condensate and 2,045.3 million tons (15.0 bbls) of crude oil, for a total of 257.5 bboe. Almost 60% of these AB_1C_1 hydrocarbon reserves are concentrated in Western Siberia. Other reserves are mostly located on the Barents Sea shelf, in Eastern Siberia, the Far East and in Southern Russia.

Independent petroleum engineering consulting firm DeGolyer and MacNaughton evaluated our reserves as of December 31, 2017. The evaluation was conducted in accordance with PRMS Standards and covered approximately 94% of our AB_1C_1 natural gas reserves, 93% of our AB_1C_1 gas condensate reserves and 94% of our AB_1C_1 crude oil reserves. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Classification of Reserves." As of December 31, 2017, our proved reserves according to an evaluation by DeGolyer and MacNaughton amounted to 18.2 tcm (118.5 bboe) of natural gas, 797.7 million tons (6.5 bboe) of gas condensate and 736.8 million tons (5.4 bbls) of crude oil, for a total of 130.4 bboe, and our probable reserves amounted to 5.9 tcm (38.2 bboe) of natural gas, 308.0 million tons (2.5 bboe) of gas condensate and 623.2 million tons (4.6 bbls) of crude oil, for a total of 45.3 bboe. We believe that the evaluated fields are likely to contain most of our reserves that would be deemed proved or probable upon a full evaluation of our reserves in accordance with PRMS Standards. See "—Reserves and Production."

Exploration and production. In the year ended December 31, 2017, we produced 472.1 bcm (3,063.6 mmboe) of natural gas and 15.9 million tons (130.4 mmboe) of gas condensate, as compared with 420.1 bcm (2,726.6 mmboe) of natural gas and 15.9 million tons (129.6 mmboe) of gas condensate, for the year ended December 31, 2016. In the year ended December 31, 2017, we produced 48.6 million tons (356.5 mmbls) of crude oil, as compared with 47.2 million tons (345.6 mmbls) of crude oil for the year ended December 31, 2016. In the nine months ended September 30, 2018, we produced 365.1 bcm (2,369.7 mmboe) of natural gas, 11.5 million tons (94.4 mmboe) of gas condensate and 36.2 million tons (265.7 mmbls) of crude oil, as compared with 340.6 bcm (2,210.7 mmboe) of natural gas, 11.6 million tons (95.1 mmboe) of gas condensate and 36.7 million tons (269.1 mmbls) of crude oil in the nine months ended September 30, 2017. Our gas production increased in the nine months ended September 30, 2018 as compared to the respective period of 2017 and in 2017 as compared to 2016 primarily due to the growing demand for gas in Russia and our export markets. See "—Distribution." Our natural gas production accounted for approximately 68% of total natural gas production in Russia in 2017. Our natural gas production in Western Siberia accounts for over 90% of our natural gas production. See "—Reserves and Production."

Gas transportation. We own and operate the world's largest gas transportation system, which collects, processes, transports, stores and delivers substantially all the natural gas sold in Russia. As of December 31, 2017, the total length of our GTS in Russia was approximately 172,050 km (not including distribution pipelines and pipelines for the transportation of gas condensate and WFLH) and included 254 compressor stations on the pipelines, with an aggregate capacity of 46,700 MW, and 26 UGSFs with an aggregate capacity of 74.9 bcm. We control and manage the transportation of gas in the GTS network from our central dispatch management center located in Moscow.

We injected into the GTS in Russia 672.1 bcm and 622.6 bcm of natural gas in 2017 and 2016, respectively, and 506.1 bcm and 486.0 bcm of natural gas in the nine months ended September 30, 2018 and 2017, respectively. Our GTS natural gas throughput increased in the nine months ended September 30, 2018 as compared to the corresponding period of 2017 and in 2017 as compared to 2016 primarily due to the growth in deliveries to European and Russian customers. See "—Transport."

Processing, refining and petrochemical production. We refine a large amount of the natural and associated gas, gas condensate and crude oil that we produce. In 2017, we refined 30.8 bcm of natural and associated gas and 64.1 million tons of unstable gas condensate and crude oil, as compared with 31.0 bcm of natural and associated gas and 65.9 million tons of unstable gas condensate and crude oil in 2016, respectively. In the nine months ended September 30, 2018, we refined 21.6 bcm of natural and associated gas and 21.5 million tons of unstable gas condensate and crude oil, as compared with 48.7 bcm of natural and associated gas and 47.1 million tons of unstable gas condensate and crude oil in the nine months

ended September 30, 2017. We also produce a wide range of refined gas and petrochemical products. See "—Refining."

Gas sales. We supply most of the natural gas consumed in Russia and a significant portion of the natural gas consumed in the FSU countries to which we export our natural gas. Our gas export volumes to Europe accounted for approximately 39% of the volume of natural gas consumed in Europe in the nine months ended September 30, 2018, as compared to 34% in 2017 and 33% in 2016, which made us the largest supplier of natural gas to Europe in those years. Most of our exports to Europe are transported by pipelines through Ukraine and Belarus. See "Risk Factors—Risks Relating to Our Business—We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas." In the year ended December 31, 2017, our gas sales volumes were 506.9 bcm as compared with 476.4 bcm in the year ended December 31, 2016. In the nine months ended September 30, 2018, our gas sales increased to 375.5 bcm as compared with 354.9 bcm in the nine months ended September 30, 2017 due to an increase in demand for gas in Russia and our export markets. See "—Distribution."

Electricity. We own significant power generation assets that provide approximately 15% of the electric power generated in Russia. The aggregate power generation capacity of our subsidiaries in Russia was 39.2 GW and heat generation capacity was 70.2 Gcal/h as of September 30, 2018. We generated 156.6 billion kWh and 157.5 billion kWh of electric power and 127.3 million Gcal and 129.5 million Gcal of heat for the years ended December 31, 2017 and 2016, respectively. In the nine months ended September 30, 2018, we generated 111.6 billion kWh of electric power and 85.4 million Gcal of heat as compared to 113.6 billion kWh of electric power and 83.6 million Gcal of heat during the nine months ended September 30, 2017. See "—Electric and heat energy generation and sales—Russia" and "—Distribution—Europe and Other Countries—Europe."

Relationship with the Government. The Russian Federation currently controls more than 50% of Gazprom's ordinary shares. As our controlling shareholder, the Russian Federation has a strong influence over the major decisions made at our shareholder meetings and, as the nominating party for a majority of the members of the Board of Directors, is able to determine our strategy, make policy decisions in relation to the main areas of our business (including investments, borrowings, risk management and asset allocation), and supervise the implementation of such decisions. Currently, the Government regulates the tariffs that we charge for gas transportation through our trunk pipelines to independent gas suppliers, the wholesale prices for gas that we and our affiliated companies produce and sell in the domestic market, as well as some other areas of our business. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation." In addition, we are one of the largest taxpayers to the federal budget.

Strategy

Our strategic goal is to continue to be a leader among global energy companies by diversifying our product markets, increasing the reliability of our supplies, enhancing the efficiency of our operations and using advanced technology and scientific achievements to improve our operations.

To achieve this goal, our development strategy prioritizes investments in our industrial assets in gas production, transportation, processing and storage facilities to achieve efficient and integrated development. Our strategy allows us to make adjustments to our capital expenditure plans in response to any short- or medium-term changes in the demand for gas in both the domestic and international markets. See "—Investment Program."

We believe that our long-term forecasts of demand in our major markets, the projected economic efficiency of our projects and planned expansion of our capacities continue to be reasonable estimates and are based on a conservative approach. Therefore, we believe that our long-term strategic goals and projects are sustainable despite any changes in the economic environment.

We have consolidated our entire oil business within one subsidiary, Gazprom Neft. Gazprom Neft's strategic goal is to become a large international player with a regionally diversified portfolio throughout the value chain. Gazprom Neft is committed to high standards of social and environmental responsibility, and intends to actively engage in the development of Russian regions. Gazprom Neft funds its business through internal sources and financings raised from non-U.S. and non-EU credit and capital markets.

Exploration and production. To pursue the recovery of our hydrocarbon reserves, we perform geological exploration works in our main production regions, the most important of which are the Nadym-Pur-Taz region and the Yamal Peninsula in Western Siberia, as well as in promising gas production regions, such as the Russian continental shelf of the Far East and Arctic seas (including the continental shelf of the Okhotsk (Sakhalin), Barents, Pechora and Kara Seas, Obskaya and Tazovskaya Bays), Eastern Siberia and the Far East. In accordance with our programs for resource development, we plan to ensure the enhanced recovery of our gas reserves. See "—Reserves and Production."

Assuming sufficient demand in Russia and favorable conditions in foreign markets, we expect our annual production (including production in Eastern Siberia and the Russian Far East) to reach approximately 540-560 bcm by 2025.

In order to reach these levels, we have commenced the development of new strategic fields in the Yamal Peninsula in Western Siberia, the Russian continental sea shelf, in Eastern Siberia and the Far East. The development of fields in these regions will require significant investment because of their distance from existing gas transportation facilities, the complexity of well construction in such areas and difficulties in the implementation of new technologies, including those for environmental preservation in severe weather and geological conditions.

We develop resources in Eastern Siberia and the Far East in accordance with the Eastern Program. Gazprom has been appointed the coordinator of the Eastern Program by the Government. Currently, we are engaged in the gradual creation of the Sakhalinskiy, Yakutskiy and Irkutskiy gas production centers as well as gas production in the Kamchatka Territory. The production in these regions is expected to exceed 60 bcm of natural gas by 2025. We hold a 50% plus one share interest in Sakhalin Energy, the project operator of Sakhalin II. In the period from 2010 through 2017, we put on stream the Kshukskoye and Nizhne-Kvakchikskoye fields in the Kamchatka Territory, commissioned the Kirinskoye field on the continental shelf of the Sea of Okhotsk, obtained the license for and performed exploration at the Kovyktinskoye field in the Irkutsk Region and started establishing a large gas production center in the Republic of Sakha (Yakutia) on the base of the Chayandinskoye field. We continue the exploration and development of other fields and areas in Eastern Siberia and the Far East, including on the continental shelf of the Sea of Okhotsk. See "—Reserves and Production—Exploration, development and production regions—Eastern Siberia and the Far East (Siberian and Far East Federal Districts)" and "—Reserves and Production—Exploration, development and production regions—Russian continental shelf."

We also intend to expand our reserves outside Russia and obtain licenses for exploration and development of hydrocarbon reserves in various international regions. Currently, the Group is involved in exploration and/or production projects in Algeria, Angola, Bolivia, Bosnia and Herzegovina, Denmark, Hungary, Iraq, Libya, the Netherlands, Romania, Serbia, United Kingdom, Uzbekistan, Venezuela and Vietnam. We are also considering participating in projects in other countries, in particular, Iran and various countries in South America. See "—Reserves and Production—Exploration, development and production regions—FSU and Europe and Other Countries—Associates and development of associated projects in the region."

Gazprom Neft's strategic objective is to increase its annual hydrocarbon production up to 100 mtoe (including Gazprom Neft's share in production of associates and joint ventures) by 2020 and to maintain it at this level through 2025. Gazprom Neft expects to maintain the proved reserve-to-production ratio at 15 years and the proved and probable reserves replacement ratio at or above 100%. To achieve these objectives, Gazprom Neft intends to enhance profitability of extraction of the remaining resources at its active production sites by applying new production technologies and by optimizing development processes while reducing the cost of production technologies Gazprom Neft currently employs. Gazprom Neft also aims at actively managing its production assets which involves a disposal of non-core assets and reinvestment of the released funds to finance more efficient assets with potential for growth. Gazprom Neft is creating a new production center in the north of the Yamal-Nenets Autonomous Area and seeks to expand its presence on the Russian continental shelf. Gazprom Neft considers unconventional reserves, similar to shale oil by their core qualities, as an additional opportunity to increase production. Gazprom Neft seeks to establish new production centers in Russia after 2020 and maintain its international presence.

Gas transportation and storage. We reconstruct our existing, and develop new, transportation facilities to ensure the transportation of gas from the new production regions, to provide a reliable supply of gas to Russian consumers and to satisfy our contractual export obligations. In determining the sequence of the implementation of our new gas transportation facilities in the long term, we take into account the projected timing for achieving efficient utilization, optimal productivity of the existing gas transportation system and diversification of export routes. Our most significant current gas transportation projects in Russia are the construction of the Power of Siberia pipeline and the GTS extension to enable supply to the Nord Stream II pipeline, including the completion of construction of the second branch and the start of construction of the third branch of the Bovanenkovo-Ukhta and Ukhta-Torzhok trunk pipelines and the Gryazovets-Slavyanskaya CS project. We are also constructing the Nord Stream II and TurkStream pipelines in cooperation with international investors. See "—Transport—Gas transportation projects in Russia" and "—Transport—International projects in gas transportation."

One of our long-term goals is the further development of gas transportation facilities in Eastern Siberia and the Far East. From 2011 to 2017, we commissioned the first stage of the Sakhalin-Khabarovsk-Vladivostok gas transportation system with a pipeline on Sakhalin Island connecting the Kirinskoye field with the Sakhalin-Khabarovsk-Vladivostok gas transportation system and started gasification of the Sakhalin Region and the Primorye Territory. We have put into operation a pipeline from the Kshukskoye and Nizhne-Kvakchikskoye fields located in the Sobolevsk region to Petropavlovsk-Kamchatskiy to develop gas supplies in the Kamchatka Territory. Additionally, we are constructing the Power of Siberia pipeline, a trunk gas pipeline from Yakutia to Blagoveschensk and further to the border with China, to

transport gas from the Yakutskiy and Irkutskiy gas production centers, including the Chayandinskoye and Kovyktinskoye fields, to consumers in the Russian Far East and China. We are also considering the construction of the Power of Siberia II pipeline, which would extend from the fields in Western Siberia to the western part of the Russian-Chinese border, as well as gas transportation projects to supply gas from the Russian Far East to China. See "—Transport—Gas transportation projects in Russia," "—Transport—International projects in gas transportation" and "Distribution—Europe and Other Countries—Asia."

One of the strategic goals we pursue in developing our gas storage business in Russia is the technical re-equipment, reconstruction and expansion of existing storage facilities as well as the construction of new UGSFs in order to increase our daily withdrawal capacity and active gas storage reserve. Our long-term plans contemplate reaching the maximum daily withdrawal capacity of 1.0 bcm by 2030.

To implement our marketing strategy in Europe, we are engaged in the European gas transportation and storage sectors, particularly by contracting transportation and storage facilities to ensure reliable gas supplies to our customers as well as participating in investment projects aimed at the development of gas transportation and storage infrastructure in Europe. Our strategic goal is to increase the active capacity of our UGSFs abroad to 5% of our annual exports by 2030, with a priority to develop our own storage capacity. See "—Gas Storage—Gas storage in FSU, Europe and Other Countries."

Refining. We intend to increase our production of refined products. Our goal with respect to our refining activities and our gas and petrochemical activities is to increase the degree of extraction and effective utilization of the valuable components of hydrocarbons that we produce, including associated gas, with the purpose of further processing such gases into forms with a higher added value. At our existing processing and refining plants, we intend to increase the extraction of valuable components from our gas and increase the depth of our feedstock processing and our refining throughput by refurbishing and modernizing our existing processing capabilities and by constructing new processing capacities. See "—Refining."

In accordance with the Eastern Program, we are considering gas refining capacity construction projects to develop the resources of Eastern Siberia and the Far East, which at the first stage are expected to be based on the resources of the Chayandinskoye and Kovyktinskoye fields. In particular, we are constructing a gas processing plant in the city of Svobodniy in the Amur Region (Amurskiy GPP) with a projected annual capacity of up to 42 bcm of gas to separate ethane and other valuable components from gas produced in the Yakutskiy and Irkutskiy gas production centers. See "—Refining—Projects in refining."

Gazprom Neft prioritizes operational efficiency and modernization of its refining assets in developing our Refining segment. We anticipate that the strategy of modernization of its refining assets will allow Gazprom Neft to process an average of 40 million tons of crude oil a year (including Gazprom Neft's share in processing volumes of associates and joint ventures) and achieve a processing depth of 95% and light oil products yield of 80% in Russia in 2025.

Marketing and sales. Our strategy in the Russian domestic market is to ensure reliable gas supplies to our domestic customers at an acceptable level of profitability. The Government regulates prices for natural gas produced by us and our affiliates and we are required to sell our gas within Russia at regulated prices below those which may be economically viable. Our main objective in the development of the domestic market is to achieve a transition from the regulated wholesale gas prices to market pricing principles, along with the regulated natural monopoly tariffs for gas transportation through trunk pipelines for all gas suppliers. See "—Distribution—Russia."

As long as domestic gas prices remain regulated, we believe it is necessary to adjust regulated domestic wholesale gas prices to achieve an economically justified price level sufficient to supply gas in Russia at an acceptable profitability rate and accumulate funds to finance our investments in gas supply facilities for the benefit of Russian customers.

Government Resolution No. 323 dated April 16, 2012, as amended, adopted to promote the market pricing principles, permits the Group to sell on commodity exchanges and in trading systems up to 17.5 bcm of gas a year.

In October 2014, gas trading was launched at the Saint-Petersburg International Mercantile Exchange. We believe that launching gas trading at commodity exchanges is an important step to introducing market pricing principles in the domestic gas market that could provide necessary indication of market prices for gas. See "—Distribution—Russia" and "Risk Factors—Risks Relating to Our Business—We are required to supply natural gas to customers in Russia at prices that are regulated by the Government and are below those which may be economically viable to us."

Our key objectives in the European market are to maintain our market-leading position, provide for reliable gas supply, and increase the efficiency of our marketing activities. We plan to achieve these objectives by developing relationships with traditional customers on a long-term contractual basis and using other forms of trade based on short-term and medium-term sales, gas exchange and spot transactions as well as sales through biddings. To increase efficiency of our operations

in the European natural gas market and improve the reliability and flexibility of our gas supply, we intend to expand the use of leased gas transportation and UGSF capacity in Europe, subject to favorable market conditions. "—Distribution—Europe and Other Countries."

The key objective of our marketing strategy in the FSU countries is to ensure that Russian gas will continue to maintain its leading position in the energy sector of such countries, while adjusting the pricing and other terms with respect to sales to the FSU customers to terms that are similar to those we currently have with our European customers. See "—Distribution—The FSU."

We are also seeking to cooperate with Central Asian countries in developing gas reserves as well as upgrading and modernizing gas transportation systems. See "—Reserves and Production—Exploration, development and production regions—FSU and Europe and Other Countries", "—Transport—Existing routes of gas export and participation in foreign gas distribution networks" and "—Distribution—The FSU—Cooperation with FSU countries in gas marketing."

As part of our market diversification strategy, we consider countries in the Asia-Pacific region as key new markets. In particular, in May 2014, we signed a contract with CNPC for the supply of up to 38 bcm of pipeline gas from Russia to China annually via the Eastern route for 30 years. The supplies under the contract are expected to start in December 2019. The contract provides for a gradual increase in delivery volumes to the contracted amount of 38 bcm in the early years of supplies. In addition, in May 2015, we signed a heads of agreement with CNPC to arrange for gas supplies via the Western route through the Power of Siberia II pipeline and are currently continuing to negotiate contractual terms. In December 2017, we also signed with CNPC heads of agreement for natural gas supplies to China from Russia's Far East. See "—Distribution—Europe and Other Countries—Asia."

Gazprom Neft's primary objective with respect to its sales of refined petroleum products is to market nearly 100% of its Russian subsidiaries' refined petroleum production through its own distribution channels to capture available margins within the value chain of the oil business. In the motor fuel sales segment, Gazprom Neft seeks to increase its sales of motor fuel in Russia and the CIS up to 19.6 million tons a year by 2025. In order to achieve this strategic objective, Gazprom Neft plans to expand its gasoline station network in Russia and the CIS to 1,450 self-owned and 200 franchised stations by 2025. In the sales to industrial customers segment, Gazprom Neft is committed to expanding its product marketing segments, including marketing of jet fuel, oils, lubricants and technical liquids, bitumen, petrochemicals and bunker fuel. Gazprom Neft intends to increase its refined products sales to industrial consumers to 12.9 million tons a year (including Gazprom Neft's share in refined products of associates and joint ventures) by 2025.

Electricity. We consider electricity to be a strategically important sector for the development of our business. We believe that we can improve the stability of our business and achieve additional revenue by increasing our share of the power generation sector. Our strategic goal in the electricity sector is maintaining a sustainable growth of profits while ensuring high reliability of power supplies to our customers. In implementing our electricity strategy, we plan to focus on the optimization of our power generating assets, reliable power supply, efficiency of operations and realization of synergies between our power generation and gas businesses. See "—Electric and heat energy generation and sales—Russia."

We are considering opportunities to increase our gas supplies to electric power generating facilities outside Russia, in particular, through participation in power plant construction projects and acquisition of non-controlling interests in power assets. See "—Electric and heat energy generation and sales—FSU and Europe and Other Countries."

Diversification of products and activities. To continue our development as a global energy company, we are integrating new products and activities with our traditional pipeline gas supplies.

One of our priorities while expanding into new markets is the gradual implementation of the production, maritime transportation and marketing of LNG. Since 2005, we have operated in the LNG market and accumulated a substantial LNG trading portfolio, including LNG from Sakhalin Energy and LNG purchased from other market participants under fixed-term and spot contracts. See "—Reserves and Production—Exploration, development and production regions—Russian continental shelf—Associates and development of associated projects in the region—Sakhalin II project" and "—Distribution—Europe and Other Countries—LNG."

We intend to increase the LNG export volumes from the Russian Far East. In particular, together with the other shareholders of Sakhalin Energy, we have developed the project documentation for the construction of the third production line of the Sakhalin LNG plant. See "—Distribution—Europe and Other Countries—LNG."

We have completed the pre-investment study and, in cooperation with Royal Dutch Shell, prepared a joint feasibility study of a project to build the Baltic LNG Plant in the Leningrad Region. In addition, to ensure reliable gas supplies to the consumers in the Kaliningrad Region and further develop the local energy system, we have constructed a floating

regasification unit in the Kaliningrad Region. We are also implementing a project to construct an LNG production, storage and shipment complex near the Portovaya compressor station in the Leningrad Region. See "—Distribution—Europe and Other Countries—LNG."

We plan to further expand our LNG trading. To reach that goal, we plan to develop new LNG projects in Russia, participate in LNG projects abroad and expand our LNG operations by purchasing LNG from other producers. Our target markets for LNG sales are the countries of the Asia-Pacific and Atlantic regions.

We also plan to export liquified petroleum gases and liquid helium from the Amurskiy GPP, which is currently under construction. See "—Refining—Projects in refining."

We are considering opportunities to produce SLFs using GTL technology. The development of the SLF industry would allow us to further diversify our businesses by producing high quality motor fuels and oil refinery products for sale to export markets and use gas resources of low-pressure and low-yield fields and fields with declining production in processing and refining.

One of our strategic goals is enhanced use of natural gas as motor fuel. To enhance the efficiency of implementing our strategy in the gas engine fuel market, we established GGT which is engaged in the development of the gas engine fuel market in Russia and abroad in cooperation with relevant state authorities, financial institutions, consumers and producers of methane utilizing equipment and vehicles. See "—Distribution—Natural gas as motor fuel and small scale LNG."

Corporate Governance

We maintain transparency of our operations by making ongoing public disclosures including interim and annual financial statements in accordance with IFRS and Russian accounting standards, annual reports, reports on sustainable development, environmental reports, press releases, information required by regulators of the securities market, in particular, in connection with our capital markets financing programs, and information disclosed for the purposes of improving investor relations. Gazprom's shareholders have approved a corporate governance code designed to protect shareholders' rights; the Board of Directors has approved a corporate ethics code outlining our business values and the most important rules of business conduct based on them. We have approved documents prescribing compliance procedures that are intended to prevent illegal use of insider information and market abuse, setting out procedures governing the internal exchange of confidential information and protection of information from unauthorized access.

Gazprom has approved internal corporate documents regulating activities and delineating functions and powers of the General Meeting of Shareholders, the Board of Directors, the Management Committee and the Chairman of the Management Committee as well as documents regulating interaction with subsidiaries and representation of Gazprom's interests in their management bodies. We have also adopted documents determining procedures for calculating remuneration of members of the Board of Directors and Audit Commission. The size of such remuneration is approved by the General Meeting of Shareholders in its resolution. We have adopted internal documents setting forth the procedures regulating the participation of the executives of Gazprom and its subsidiaries in our annual bonus system and Gazprom's charter capital.

The Board of Directors has approved a dividend policy setting the maximum amount of dividend payments up to 35% of Gazprom's net profit calculated in accordance with Russian accounting standards.

The Board of Directors currently comprises 11 members, three of whom are independent directors.

The Board of Directors elects annually an audit committee (the "**Audit Committee**"). The Audit Committee monitors the efficiency and reliability of risk management, efficiency of internal controls, including those ensuring completeness, accuracy and fairness of Gazprom's financial statements, assesses nominees to become Gazprom's auditors and ensures internal and external auditors' independence and objectivity. Gazprom's department responsible for internal audit, as part of Gazprom's Management Committee Administration, administratively reports to the Chairman of the Management Committee and functionally reports to the Board of Directors through the Audit Committee. The Board of Directors approves the appointment and dismissal of the head of the department responsible for internal audit. The centralized internal audit function ensures better monitoring of financial and business operations of Gazprom's subsidiaries, greater independency of internal audit subdivisions from the executive management and enables the implementation of a single internal audit methodology within the Group. The independent directors have the majority on the Audit Committee which is also chaired by an independent director. See "Management of Gazprom—Description of Gazprom's Management."

The Board of Directors established a nomination and remuneration committee (the "**Nomination and Remuneration Committee**"). The Nomination and Remuneration Committee is responsible for internal and external assessment of

effectiveness of performance, as well as development, review and monitoring of compliance with the remuneration policy in respect of the members of the Board of Directors, committees of the Board of Directors, the Management Committee and the Chairman of the Management Committee; development of conditions for early termination of employment of the members of the Management Committee and the Chairman of the Management Committee; identification of ways to improve the composition of the Board of Directors, preparation of recommendations for the shareholders in respect of the nominees to the Board of Directors; planning top management appointments; planning of appointment of the Corporate Secretary; and development of recommendations for the Board of Directors in relation to the principles of remuneration of the Corporate Secretary. The independent directors constitute the majority of the Nomination and Remuneration Committee. See "Management of Gazprom—Description of Gazprom's Management."

The Board of Directors approved regulations distributing responsibilities of the Corporate Secretary among various divisions of the Company. The heads of such divisions are appointed and their employment may be terminated by the Chairman of the Management Committee in consultation with the Board of Directors. Such heads of divisions report to the Board of Directors in relation to the discharge of responsibilities of the Corporate Secretary. The Corporate Secretary's duties include, among other things, shareholder and investor relations; participation in activities related to shareholders' rights protection and prevention of corporate conflicts; interaction with regulatory authorities, stock exchanges, registrars and other professional securities market participants; participation in implementing policies relating to disclosure of information; participation in preparing for and holding of the General Meetings of Shareholders, performing support functions in respect of the Board of Directors and its committees; and storage of corporate documents.

Our human resources management policy outlining a system of principles and conceptual approaches designed to reconcile interests of employees, shareholders, consumers and the state is a framework document covering human resources management in the Group. A collective bargaining agreement which applies to employees of Gazprom and its wholly owned subsidiaries who are involved in the production of natural gas, transportation, processing, storage and distribution of hydrocarbons and refined products ensures a balance between interests of employers and employees in the form of social partnership and, to the extent possible, offers additional guarantees, incentives and compensations for employees, including medical care. A trade union monitors compliance with the terms of the collective bargaining agreement. We have developed and introduced a unified health and industrial safety system.

We implement the cost management concept approved by the Board of Directors. Based on the provisions of the concept we have implemented solutions improving budgeting procedures to focus current planning processes on long-term targets expressed as strategic target indicators and develop reserves rationing and use procedures and other solutions that are expected to elevate cost management to a higher level. Furthermore, work is ongoing to create single information space for the Group using modern information technologies based on the strategy approved by Gazprom's Management Committee to improve the Group's information systems.

For the purposes of improving procurement of goods, works and services and pursuant to the requirements of Federal Law "On Purchase of Goods, Works and Services by Certain Legal Entities" No. 223-FZ dated July 18, 2011 (the "**Procurement Law**"), the Board of Directors has approved the Regulation on the Procurement of Goods, Works and Services by Gazprom and the Group companies (the "**Procurement Regulation**"). The Procurement Regulation sets out the procurement process, establishes the procurement methods and sets out the Group-wide procurement principles from the planning stage to the control over performance of contracts. Gazprom has in place internal documents setting out procedures for entering into, registering, safe-keeping and administering contracts as well as documents covering the assessment of potential and actual counterparties' reliability, trustworthiness and creditworthiness.

We procure liability insurance program for members of the Board of Directors, Management Committee and heads of departments of Gazprom ("**D&O**") to indemnify them against claims made by shareholders, creditors or other persons against any harm caused by unintentional erroneous acts (omissions) of insured persons performed while discharging their managerial functions. The insurance coverage under such insurance policies is consistent with international D&O insurance standards in terms of the scope of risks and indemnity limits. The limit of indemnity under each insurance policy is U.S.$100 million.

History and Privatization

Prior to 1991, the Russian gas industry was controlled by the Ministry of the Gas Industry of the USSR. Pursuant to the Decree of the Council of Ministers of the USSR No. 619 of August 8, 1989, the state-owned gas concern Gazprom ("**State Gas Concern "Gazprom""**") was founded in 1989. This state-owned concern was transformed into a joint stock company in accordance with the Decree of the President of the Russian Federation No. 1333 of November 5, 1992 ("**Decree No. 1333**") and Order No. 138 of the Council of Ministers of the Russian Federation dated February 17, 1993 ("**Order No. 138**"). Decree No. 1333 made Gazprom responsible for ensuring efficient operation of the UGSS. Decree No. 1333 and the Decree of the President of the Russian Federation No. 2116 of December 6, 1993 made Gazprom responsible for

natural gas exports through VEP Gazexport (now renamed Gazprom Export), our wholly owned foreign trade subsidiary.

The Council of Ministers of the Russian Federation approved Gazprom's original Charter in Order No. 138, and Gazprom was registered as an open joint stock company under the laws of the Russian Federation on February 25, 1993.

Decree No. 1333 provided for the transfer to Gazprom of 100% of the share capital of federally-owned enterprises (comprising the UGSS) and of controlling equity stakes (not less than 51%) in a number of other entities that had been reorganized into joint stock companies, the interests of State Gas Concern "Gazprom" in Russian and foreign enterprises, and other assets of State Gas Concern "Gazprom," the privatization of which was not restricted. Decree No. 1333 also provided for all rights and obligations of State Gas Concern "Gazprom" to inure to Gazprom's benefit, including its rights to use underground deposits and natural resources, as well as its rights and obligations under contracts.

Decree No. 1333, along with Directive No. 58-rp of the President of the Russian Federation dated January 26, 1993, our privatization plan and certain other legislative acts issued by the President and the Government, provided for 40.0% of Gazprom's ordinary shares to be fixed in federal ownership while the remaining shares were to be sold to Russian individuals and legal entities, sold in the securities market and disposed of otherwise. However, a portion of the remaining shares continued to be held by the Russian Federation.

In December 1998, 2.5% of Gazprom's ordinary shares owned by the state were sold through a privatization auction. In 2005, we sold 10.74% of Gazprom's ordinary shares, which were held by certain of our subsidiaries, to JSC Rosneftegaz ("**Rosneftegaz**"), a wholly state-owned company. As a result of this transaction, the Russian Federation controls more than 50% of Gazprom's ordinary shares. Pursuant to the Gas Supply Law, at least 50% plus one share of Gazprom, as the UGSS owner, must be retained in federal ownership for an indefinite period of time and may only be disposed of pursuant to federal law.

On June 26, 2015, the general shareholders meeting of Gazprom approved the change of Gazprom's legal name from OAO Gazprom to PJSC Gazprom.

Corporate Structure

Gazprom is the parent company of the Group. See Note 32 to our Annual consolidated financial statements for the year ended December 31, 2017 included elsewhere in this Base Prospectus for a list of our significant subsidiaries.

We operate each of our core activities through a number of direct and indirect wholly or majority-owned subsidiaries. In addition, we hold direct and indirect equity interests in a number of other entities. Our subsidiaries include entities involved in production, transportation, storage, refining and marketing of natural gas, gas condensate, crude oil and electricity, and subsidiaries responsible for a number of other activities, including technical supervision of our pipeline systems, well drilling, research and development, telecommunications, data processing and procurement.

Our management analyzes the results of our operations, assets and liabilities within the operating segments based on internal financial reporting. The results of certain significant transactions and events, including business acquisitions as well as certain adjustments that may be required to conform the Group's internal financial reporting to the respective figures as reported in the consolidated financial statements prepared in accordance with IFRS, are analyzed by our management on a consolidated basis without separately identifying relevant operating segments. Income and financing costs are also not separated into operating segments. In accordance with IFRS 8, we separate our operations into the following principal businesses (segments):

- 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 UGSFs;
- Production of crude oil and gas condensate—exploration and production of oil and gas condensate and sales of crude oil and gas condensate;
- Refining—processing of oil, gas condensate and other hydrocarbons, and sales of refined products; and
- Electric and heat energy generation and sales.

We include other operations into the “All other segments” segment.

Our head office, located in Moscow, exercises managerial and financial control over the operations of our subsidiaries. Head office functions include strategy, planning, external financing, financial reporting, including preparation of our IFRS consolidated financial statements, allocation of financial resources and supervision of principal areas of operations, such as construction, drilling, production, transportation, some natural gas sales in Russia and the FSU and equipment procurement. The dispatch management center continuously monitors, controls and manages our natural gas transportation system throughout Russia.

The short legal name of our parent company is PJSC “Gazprom” and its registered address is 16 Nametkina Street, 117420 Moscow, Russian Federation, its telephone number is +7 495 719 3001 and its fax number is +7 495 719 8333. Gazprom is a public joint stock company organized under the laws of Russia, initially registered on February 25, 1993. Gazprom was issued certificate 1027700070518 of entry into the Unified State Register of Legal Entities on August 2, 2002 by the Ministry of Taxes and Duties of the Russian Federation.

Investment Program

The Group’s consolidated investment program for 2018 provides for investment of RR1,921 billion (excluding VAT), including RR217 billion for the Production of gas segment, RR296 billion for the Production of crude oil and gas condensate segment, RR811 billion for the Transportation segment, RR16 billion for the Gas storage segment, RR310 billion for the Refining segment, RR128 billion for the Distribution of gas segment, RR75 billion for the Electric and heat energy generation and sales segment.

The main investments in our Production of gas segment for 2018 are allocated to the implementation of certain key projects, including (1) drilling and infrastructure development at the Chayandinskoye field; (2) drilling and construction of facilities at the Bovanenkovskoye gas condensate field on the Yamal Peninsula; (3) maintaining current production and production drilling at the Urengoyskoye, Zapolyarnoye, Ety-Purovskoye, Astrakhanskoye, Kshukskoye, Nizhne-Kvakchikskoye and Orenburgskoye fields; (4) infrastructure development at the Kovyktinskoye field, and (5) infrastructure development at the Kirinskoye and Yuzhno-Kirinskoye fields.

The main investments in our Transportation segment for 2018 are allocated to the implementation of certain key projects, including (1) the construction of the Power of Siberia pipeline; (2) the implementation of the TurkStream project; (3) the implementation of the Nord Stream II project; (4) the GTS extension in the section of Gryazovets – Slavyanskaya CS; (5) the construction of the second branch of the Ukhta-Torzhok pipeline; (6) the construction of the Bovanenkovo-Ukhta pipeline system; and (7) GTS extension and reconstruction projects in the Leningrad region.

The main investments in our Production of crude oil and gas condensate segment for 2018 are allocated to the implementation of certain key projects, including (1) exploration and production maintenance and development projects at mature fields; (2) the Novoportovskoye field project; and (3) the Prirazlomnoye field project.

The main investments in our Refining segment for 2018 are allocated to the implementation of certain key projects, including (1) the construction of the Amurskiy GPP; (2) reconstruction works at the Moscow Refinery and Omsk Refinery; (3) projects for refining of liquid hydrocarbons in the Nadym-Pur-Taz region.

The main investments in our Distribution of gas segment for 2018 are allocated to implementation of certain key projects, including construction of the LNG complex near the Portovaya compressor station.

Gazprom’s investment program forms a major part of the Group’s consolidated investment program. It is approved annually by the Board of Directors and may be revised in the second half of each year depending on our financial position and strategic priorities.

In December 2018, the Board of Directors approved Gazprom’s investment program for 2019 in the amount of RR1,326 billion.

We plan to make significant investments in our Production of gas segment to implement certain key projects in 2019, including (1) drilling and infrastructure development at the Chayandinskoye field; (2) drilling and construction of facilities at the Bovanenkovskoye gas condensate field on the Yamal Peninsula; (3) infrastructure development at the Kirinskoye and Yuzhno-Kirinskoye fields; (4) maintaining current production and production drilling at the Zapolyarnoye, Urengoyskoye, Ety-Purovskoye, Astrakhanskoye, Yamburgskoye, Nizhne-Kvakchikskoye, Orenburgskoye and En-Yakhinskoye fields; (5) infrastructure development at the Kovyktinskoye field; (6) infrastructure development at the Kharasaveyskoye field.

We plan to make significant investments in our Transportation segment to implement certain key projects in 2019, including (1) the construction of the Power of Siberia pipeline; (2) the GTS extension and reconstruction in the section of Gryazovets – Slavyanskaya CS; (3) the implementation of the TurkStream project; (4) the implementation of the Nord Stream II project; (5) the construction of the Sakhalin-Khabarovsk-Vladivostok pipeline; (6) the construction of the second branch of the Ukhta-Torzhok pipeline; (7) the construction of the Bovanenkovo-Ukhta pipeline system; and (8) GTS extension projects in the southern regions of Russia.

Most of our investments in the Refining segment in 2019 will be allocated for (1) the construction of the Amurskiy GPP, and (2) projects for refining of liquid hydrocarbons in the Nadym-Pur-Taz region.

We anticipate making significant investments in the Distribution of gas segment to implement key projects in 2019, including the construction of the LNG complex near the Portovaya compressor station.

Gazprom Neft's investment program for 2019, not included in Gazprom's investment program for 2019, amounts to RR374 billion and envisages the implementation of certain key projects, including (1) exploration and production maintenance and development projects at mature fields; (2) reconstruction works at the Moscow Refinery and Omsk Refinery; (3) hydrocarbons production projects on the Yamal Peninsula in Western Siberia, including the Novoportovskoye field.

Investments of our core power generating companies in 2019, not included in Gazprom's investment program for 2019, are provisionally planned in an aggregate amount of RR72 billion.

Joint Ventures and Alliances

Our material alliances and joint ventures are described below.

Arcticgas. Gazprom Neft and Novatek each own a 50% interest in Arcticgas which is engaged in the development of certain fields in Western Siberia. See "—Reserves and Production—Exploration, development and production regions—Western Siberia (Ural Federal District)—Associates and development of associated projects in the region—Arcticgas."

BASF/Wintershall Holding. In 2004 and 2007, we signed agreements with Wintershall Holding GmbH ("**Wintershall Holding**"), a subsidiary of BASF, regarding the joint development of Block 1A of the Urengoyskoye field (Achimovsk deposits) (see "—Reserves and Production—Exploration, development and production regions—Western Siberia (Ural Federal District)—Associates and development of associated projects in the region—Achimgaz") and the Yuzhno-Russkoye field (see "—Reserves and Production—Exploration, development and production regions—Western Siberia (Ural Federal District)—Yuzhno-Russkoye field").

In addition, we hold a 49% interest in Wintershall AG, which develops two oil projects in Libya (see "—Reserves and Production—Exploration, development and production regions—FSU and Europe and Other Countries—Associates and development of associated projects in the region—Libya"), as well as a 49.98% interest in WIGA Transport Beteiligungs-GmbH & Co. KG ("**WIGA**") with the remaining interests being held by Wintershall Holding. WIGA holds interests in gas transportation companies in Germany. See "—Transport—Existing routes of gas export and participation in foreign gas distribution networks—WIGA."

Together with Wintershall Oil AG (BASF Group), Gasunie Infrastruktur AG (Gasuni Group), PEG Infrastruktur AG (E.ON Group) and ENGIE Energy Management Holding Switzerland AG (formerly known as GDF SUEZ Holding Switzerland AG, ENGIE Group) we are shareholders of Nord Stream AG (in which Wintershall Oil AG holds a 15.5% interest), which operates the Nord Stream pipeline. See "—Transport— Existing routes of gas export and participation in foreign gas distribution networks —Nord Stream."

In September 2015, we completed an asset swap transaction with Wintershall Holding. As a result, Wintershall Holding received a 25.01% interest in the project for the development of Blocks 4A and 5A of the Achimovsk deposits of the Uregoyskoye field. In exchange, we received a 50% stake in WINZ, a company implementing oil and gas exploration and production projects in the North Sea (see "—Reserves and Production—Exploration, development and production regions—FSU and Europe and Other Countries"), and a 100% interest in WIBG which increased our interest in the gas supply, trading and storage companies WINGAS GmbH and its subsidiaries ("**WINGAS**"), WIEE (subsequently merged with GAZPROM Schweiz AG ("Gazprom Schweiz")) and WIEH to 100%. See "—Reserves and Production—Exploration, development and production regions—Western Siberia (Ural Federal District)—Major fields in commercial operation—Urengoyskoye field (Achimovsk formation)" and "—Transport—Existing routes of gas export and participation in foreign gas distribution networks."

In April 2017, Nord Stream 2 AG, our subsidiary engaged in the construction of the Nord Stream II pipeline, signed with Wintershall Holding and other foreign companies agreements in relation to financing of the Nord Stream II pipeline project. See "—Transportation—International projects in gas transportation—Nord Stream II."

Borealis. In April 2016, we signed with Borealis AG, an Austrian producer of polyolefins, base chemicals and fertilizers, a memorandum of understanding which envisages exploring opportunities of developing joint gas chemical projects in Russia.

Caspian Innovation Company. In June 2017, we signed with LLC Caspian Innovation Company a memorandum for cooperation providing for a joint feasibility study of a gas chemical complex to process ethane and produce polymers in the Astrakhan region, with an annual production capacity of up to 300,000 tons of polyethylene. We expect to use ethane from the Astrakhan GPP as feedstock for the gas chemical complex after a refurbishment of the relevant equipment at the Astrakhan GPP. The parties will decide on further execution of the project based on the results of the feasibility studies on the refurbishment of the Astrakhan GPP and gas chemical complex.

Central Asia. In order to create effective industrial cooperation with countries in the region and to further strengthen our market position, we intend to make significant contributions to the recovery and development of the oil and gas industry in Central Asia. In furtherance of this goal, we signed agreements with several national oil and gas companies and the governments of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. These agreements provide for cooperation and joint participation in hydrocarbon exploration, field infrastructure development, production and/or construction, diagnostic and refurbishment of gas transportation and storage facilities as well as the establishment of joint ventures for these purposes. See "—Reserves and Production—Exploration, development and production regions—FSU and Europe and Other Countries" and "—Transport—Existing routes of gas export and participation in foreign gas distribution networks."

We have also entered into a number of cooperation agreements in respect of natural gas purchases in Central Asia and transit agreements with the transit countries in Central Asia. In addition, our subsidiary LLC Gazprom Kyrgyzstan ("**Gazprom Kyrgyzstan**") owns and operates gas infrastructure and supplies gas to customers in Kyrgyzstan. See "—Distribution—The FSU—Cooperation with FSU countries in gas marketing."

China. In November 2014, we signed, and in December 2015, supplemented, a memorandum of understanding with China National Offshore Oil Corporation, which outlines possible areas for cooperation in oil and gas business. In May 2015, we signed a strategic partnership agreement with CNPC, which determines priority areas for cooperation, including gas supplies to China via eastern and western routes as well as assessing opportunities for pipeline gas supplies from the Russian Far East to China. We have signed with CNPC a contract for gas supply to China via the eastern route, heads of agreement for gas supply to China via the western route and heads of agreement for gas supply to China from Russia's Far East. See "—Distribution—Europe and Other Countries—Asia" and "—Transport—International projects in gas transportation."

In June 2016, we signed a memorandum of understanding with CNPC in relation to underground storage of gas and gas power generation in China. In May 2017, we signed with PetroChina contracts to perform pre-investment studies for three gas storage projects in China. In May 2017, we also signed a memorandum of understanding with CNPC and China Huaneng Group to explore the opportunities for joint implementation of thermal power generation projects in China.

In November 2016, we also signed with CNPC a memorandum to explore the opportunities for cooperation in the NGV sector. In May 2017, we signed with CNPC, China Communications Construction Company Ltd. and Russian Highways State Company a memorandum providing for the parties' cooperation in developing road infrastructure of the Europe – China international transport route. In addition, in October 2017, we signed a memorandum of understanding with CNPC and JSC NC KazMunayGaz ("**KazMunayGaz**") reflecting the parties' interest in long term strategic cooperation in the NGV market. See "—Distribution—Natural gas as motor fuel and small scale LNG—Asia."

In November 2016, we signed with China Development Bank Corporation a memorandum of understanding outlining general principles of cooperation between the parties in arranging project and other types of financing, including for the construction of the Amurskiy GPP. See "—Refining—Projects in refining— Amurskiy GPP."

In September 2018, Gazprom Neft and CNPC signed an agreement for technological cooperation envisaging the development and implementation of advanced technologies for increased oil recovery. At the first stage, the companies intend to launch a feasibility study for polymer and surfactant flooding at the Sutorminskoye field in the Yamal-Nenets Autonomous Area.

Delek. In October 2017, we signed with Delek Drilling LP a memorandum of understanding documenting the parties' intent to explore opportunities for using natural gas as a fuel for road, rail and water transportation as well as agricultural

and other special uses in Israel.

Edison and DEPA. In June 2017, we signed with Edison SpA ("**Edison**") and DEPA SA ("**DEPA**") an agreement for cooperation providing for coordination of efforts aimed at establishing a south route for supplies of Russian natural gas to Europe. See "—Transport—International projects in gas transportation—TurkStream."

ENGIE. ENGIE (formerly known as GDF SUEZ) holds a 9% interest in Nord Stream AG. See "—Transport— Existing routes of gas export and participation in foreign gas distribution networks —Nord Stream."

In April 2017, we signed with ENGIE a memorandum of understanding providing for the extension of cooperation in gas and related businesses and assessing other areas for cooperation.

In April 2017, Nord Stream 2 AG signed with ENGIE and other foreign companies agreements in relation to financing of the Nord Stream II pipeline project. See "—Transportation—International projects in gas transportation—Nord Stream II."

Eni. In March 2017, we signed with Eni a memorandum of understanding to assess the prospects for cooperation in the development of the southern corridor for gas supplies from Russia to Europe, particularly to Italy.

Engineers India. In October 2016, we signed a memorandum of understanding with Engineers India Limited reflecting the interest of the parties to jointly explore the routes for pipeline gas supplies from Russia and other countries to India, as well as opportunities for cooperation in other areas.

E.ON and Uniper. Together with E.ON, BASF, Gasunie and ENGIE, we are shareholders of Nord Stream AG, which operates the Nord Stream pipeline. See "—Transport— Existing routes of gas export and participation in foreign gas distribution networks —Nord Stream."

In April 2017, Nord Stream 2 AG signed with Uniper and other foreign companies agreements in relation to financing of the Nord Stream II pipeline project. See "—Transportation—International projects in gas transportation—Nord Stream II."

Fluxys. In March 2016, we signed a framework agreement with Fluxys on cooperation in the area of small-scale LNG. The framework agreement envisages the cooperation in the small-scale LNG market in Europe, with a focus on joint projects for the construction of LNG receiving terminals, LNG filling stations and other infrastructure facilities.

GazHolodTekhnologiya. In July 2017, GGT, our 50/50 joint venture with GPB, established LLC Gazprom LNG technologies ("**Gazprom LNG technologies**"), a joint venture with LLC GazHolodTehnologiya (currently JSC GazHolodTehnologiya) ("**GazHolodTekhnologiya**"), to develop the infrastructure for small-scale LNG production. In June 2018, GGT sold its 50% interest in Gazprom LNG technologies to our subsidiary LLC Gas Oil and 1% interest to GazHolodTehnologiya. See "—Distribution— Natural gas as motor fuel and small scale LNG—Russia."

Gasunie. Together with Gasunie, E.ON, BASF and ENGIE, we are shareholders of Nord Stream AG, which operates the Nord Stream pipeline. See "—Transport— Existing routes of gas export and participation in foreign gas distribution networks —Nord Stream."

In May 2013, we signed a memorandum of understanding on strategic cooperation with Gasunie that provides for the two companies' extended collaboration in the area of gas transportation infrastructure, gas storage, scientific and technological cooperation, production and small-scale shipping of LNG, environmental protection, energy efficiency, innovative technologies, information and cultural exchange, personnel training, and other areas.

ITOCHU Corporation. In December 2018, we signed with ITOCHU Corporation a memorandum of understanding pursuant to which the parties intend to explore opportunities for cooperation in the Baltic LNG project.

KazMunayGaz. KazRosGaz LLP ("**KazRosGaz**"), our 50/50 joint venture with KazMunayGaz, purchases gas from the Karachaganak field in Kazakhstan for processing at our Orenburg GPP. See "—Refining—Projects in refining." In addition, LLC TsentrCaspNeftegaz ("**TsentrCaspNeftegaz**") (our 50/50 joint venture with Lukoil) and KazMunayGaz jointly develop the Tsentralnoye field in the Caspian Sea. See "—Reserves and Production—Exploration, development and production regions—Russian continental shelf—Associates and development of associated projects in the region—Tsentralnoye field."

In addition, in October 2017, we signed a memorandum of understanding with CNPC and KazMunayGaz reflecting the parties' interest in long term strategic cooperation in the NGV market. See "—Distribution—Natural gas as motor fuel and small scale LNG—Asia."

KOGAS, Petronas, TPAO. In January 2010, Gazprom Neft, as a member of a consortium with KOGAS, Petronas and TPAO, signed a service contract for a follow-up exploration, development and operation of the Badra field in Iraq. See "—Reserves and production—Exploration, development and production regions—FSU and Europe and Other Countries—Associates and development of associated projects in the region—Iraq."

In addition, in December 2016, we signed a cooperation agreement with KOGAS envisaging cooperation in LNG supplies from the Russian Federation to South Korea. The agreement also reflects the bilateral intention to implement joint projects in LNG production, transportation and regasification and in gas-fired power generation, as well as in research and development, energy efficiency, environmental protection, and the NGV sector.

Kuwait Petroleum Corporation. In November 2015, we signed a memorandum of understanding with Kuwait Petroleum Corporation. The memorandum outlines potential areas of cooperation including in distribution of LNG, liquefied petroleum gas and other petroleum products. The memorandum also contemplates collaboration in investing in science and technology as well as in implementing gas exploration and production projects in Russia and Kuwait.

Lukoil. Pursuant to the general strategic cooperation agreement with Lukoil for the period from 2014 through 2024, we have signed contracts for processing of associated gas from Lukoil fields. In addition, we have established TsentrCaspNeftegaz, a joint venture with Lukoil, which participates in the development of the Tsentralnoye field in the Caspian Sea. See "—Reserves and Production—Exploration, development and production regions—Russian continental shelf—Associates and development of associated projects in the region—Tsentralnoye field" and "—Refining—Projects in refining." In May 2018, we also signed with Lukoil an agreement outlining general terms and procedures for setting up a 50/50 joint venture for the development of the Vaneyvisskoye and Layavozhskoye fields in the Nenets Autonomous Area, the licenses for which are held by Gazprom.

Mitsubishi Corporation. In December 2016, we signed an agreement of strategic cooperation with Mitsubishi Corporation. According to the document, the parties intend to cooperate throughout the entire value chain, in particular, in the production and marketing of LNG and in expansion of the Sakhalin II project.

Mitsui. In December 2016, we signed an agreement for strategic cooperation with Mitsui. The document envisages collaboration in various areas, including expansion of the Sakhalin II project. In September 2017, we signed with Mitsui a framework agreement for cooperation in small- and mid-scale LNG projects and LNG bunkering. See "—Distribution—Europe and Other Countries—LNG" and "—Distribution—Natural gas as motor fuel and small scale LNG—Asia." In May 2018, Gazprom Neft signed with Mitsui a memorandum of understanding providing for a joint assessment of prospects for cooperation in the development of the Ayashskiy license area on the continental shelf of the Sea of Okhotsk.

In December 2016 and September 2017, we also signed memoranda of understanding with Japan Bank for International Cooperation. The memoranda outline the basic principles of cooperation in securing financing our projects that involve Japanese companies.

In September 2018, we signed with Mitsui a memorandum of understanding on the Baltic LNG project. See "—Distribution—Europe and Other Countries—LNG".

Mubadala Petroleum. In September 2018, Gazprom Neft completed its sale of a 49% interest in Gazpromneft-Vostok LLC ("**Gazpromneft-Vostok**"), the operator of a group of hydrocarbon fields in the Tomsk and Omsk Regions, to Mubadala Petroleum and Russian Direct Investment Fund ("**RDIF**"). Following the completion of this transaction, Gazprom Neft, Mubadala Petroleum and RDIF hold interests in Gazpromneft-Vostok equal to 51%, 44% and 5%, respectively. The partners will determine the long-term strategy of Gazpromneft-Vostok focusing on efficiency in exploration and production activities. In addition, in September 2018, Gazprom Neft, Mubadala Petroleum and RDIF signed a memorandum of understanding outlining principles for the companies' cooperation in possible acquisitions of licenses for subsoil use in the Tomsk and Omsk Regions, in proximity to Gazpromneft-Vostok's existing assets, as well as in staff training.

MVM Group. In July 2017, we signed with Hungarian Gas Trade Ltd, a subsidiary of MVM Group, a memorandum of understanding outlining the parties' intent to continue long-term cooperation with regard to supplies of Russian gas to Hungary.

In addition, in July 2017, we signed with the Ministry of Foreign Affairs and Trade of Hungary a roadmap to implement a number of measures aimed at developing Hungary's gas transmission system.

NIGC, NIOC and other Iranian entities. In December 2016, Gazprom signed with NIGC a memorandum of understanding that identifies possible areas of cooperation. Further, Gazprom signed in March 2017 and extended in October 2017 a memorandum of understanding with NIOC pursuant to which the parties intend to assess the prospects of cooperation in

exploration and production of hydrocarbons in Iran. In November 2017, Gazprom signed with the Iranian Ministry of Petroleum, NIOC and Industrial Development & Renovation Organization of Iran memoranda of understanding that provide for cooperation in, among other things, development of Iranian gas fields, gas transportation from such fields, development of the Iran – Pakistan – India gas corridor, development of joint gas liquefaction, gas processing and petrochemical projects in Iran, and designing a unified system of gas production, transmission and processing for Iran. In December 2017, Gazprom signed with NIOC a protocol on the road map for the implementation of joint projects envisaged by the memoranda of understanding previously signed with the Iranian Ministry of Petroleum and NIOC. In addition, in December 2017, Gazprom signed with Oil Industry Pension, Saving and Staff Welfare Fund a memorandum of understanding providing for a joint assessment of opportunities to cooperate in the construction of an LNG plant in Iran.

Nogaholding. In September 2016, we signed with Nogaholding (Bahrain) a memorandum of understanding with regard to cooperation in the LNG business.

OMV. In October 2018, we signed with OMV a basic agreement on asset sale, pursuant to which OMV is expected to obtain a 24.98% interest in the project for developing Blocks 4A and 5A of the Achimovsk formation of the Urengoyskoye field. See "—Reserves and Production—Exploration, development and production regions—Western Siberia (Ural Federal District)—Urengoyskoye field (Achimovsk formation)."

In April 2016, we also signed an agreement with OMV on partnership and cooperation in science and technology as well as a memorandum of understanding in the field of culture.

In April 2017, Nord Stream 2 AG signed with OMV and other foreign companies agreements in relation to financing of the Nord Stream II pipeline project. See "—Transportation—International projects in gas transportation—Nord Stream II."

In June 2017, we signed with OMV a memorandum of understanding outlining the principles of potential cooperation in coordinating efforts aimed at developing the gas transportation infrastructure required for providing natural gas supplies to Central and Southeastern Europe.

In June 2017, we also signed with OMV a framework agreement to collaborate in the small-scale LNG sector. In particular, according to the document, the parties intend to consider opportunities for cooperation in implementing a project for the construction of a small-scale LNG plant near the Black Sea coast to produce, transport and market small-scale LNG. See "Distribution—Europe and Other Countries—LNG."

In October 2018, we signed with OMV a memorandum on strategic cooperation, pursuant to which a joint coordinating committee would be formed for collaboration in natural gas upstream and downstream sectors, science and technology as well as staff training.

We developed the Yuzhno-Russkoye field with E.ON SE / Uniper SE. In March 2017, Uniper signed an agreement with OMV for the sale of its interest in the development of Yuzhno-Russkoye field, the transaction was completed in late 2017. See "—Reserves and Production—Exploration, development and production regions—Western Siberia (Ural Federal District)—Major fields in commercial operation—Yuzhno-Russkoye field."

Petrobangla. In March 2017, we signed a contract with Petrobangla for the construction of two exploration wells in Bangladesh. See "—Reserves and Production—FSU and Europe and Other Countries—Associates and development of associated projects in the region—Bangladesh."

Petróleos de Venezuela. In 2010, LLC National Oil Consortium ("**NOC**"), in which Gazprom Neft and Rosneft currently hold equity interests of 20% and 80%, respectively, and Corporacion Venezolana del Petroleo ("**CVP**"), a subsidiary of Petróleos de Venezuela, S.A. ("**PDVSA**"), established a 40/60 joint venture PetroMiranda for exploration and development of the Junin-6 oil field in Venezuela. See "—Reserves and Production—FSU and Europe and Other Countries—Associates and development of associated projects in the region—Venezuela."

Petrovietnam. We are involved in certain exploration and production joint projects with Petrovietnam on the continental shelf of Vietnam and in Russia. See "—Reserves and production—Exploration, development and production regions—FSU and Europe and Other Countries—Associates and development of associated projects in the region—Vietnam." In October 2015, we established a joint venture with Petrovietnam Gas ("**PV Gas**"), PVGAZPROM Natural Gas for Vehicles ("**PVGAZPROM**"), which is expected to engage in gas engine fuel business in Vietnam. See "—Distribution—Natural gas as motor fuel and small scale LNG—Asia."

In May 2016, we signed with Petrovietnam a memorandum of understanding regarding the development of new oil and gas projects in Vietman and other countries, a memorandum of understanding in respect of the gas power generation and

an additional agreement extending the term of an agreement on cooperation in training of personnel. In accordance with the signed documents, the parties intend, in particular, to consider further opportunities for cooperation in the exploration and development of hydrocarbon fields on license blocks of the continental shelf of Vietnam and in other countries, as well as to consider the prospects of implementing joint ventures in the gas power generation in Vietnam.

RAG, MND, VNG, TAQA, Srbijagas. We have signed a number of agreements extending our participation in gas storage in Europe. See "—Gas storage—Gas storage in FSU, Europe and Other Countries."

Repsol. In July 2017, Gazprom Neft and Repsol signed a memorandum of understanding outlining areas for the development of cooperation within their joint venture JSC Eurotek-Yugra ("**Eurotek-Yugra**"). In May 2018, Gazprom Neft and Repsol also signed an agreement on technical cooperation. See "—Reserves and Production—Exploration, development and production regions—Western Siberia (Ural Federal District)—Associates and development of associated projects in the region—Eurotek-Yugra."

Rosneft. In September 2012, we entered into an agreement to cooperate with Rosneft with respect to the joint construction and utilization of infrastructure for developing projects in the continental shelf. The agreement provides that the companies will work together to determine the most efficient methods and solutions to further explore, develop and replenish the resources of the continental shelf of the Russian Federation.

In addition, Gazprom Neft and Rosneft jointly control JSC TOMSKNEFT VNC ("**Tomskneft")**, SLAVNEFT ("**Slavneft**"), and JSC Messoyakhaneftegaz ("**Messoyakhaneftegaz**"), which engage in exploration and production activities in Western Siberia. See "—Reserves and Production—Western Siberia (Ural Federal District)—Associates and development of associated projects in the region." Gazprom Neft and Rosneft also hold equity interests of 20% and 80% in NOC, respectively, which was established to implement projects in oil production in Latin America. See "—Reserves and Production—FSU and Europe and Other Countries—Associates and development of associated projects in the region—Venezuela."

Royal Dutch Shell. In October 2013, Gazprom Neft and Royal Dutch Shell established Khanty-Mansiysk Petroleum Alliance CJSC ("**KMPA**"), a 50/50 joint venture which executes projects for exploration and development of hard-to-recover hydrocarbon reserves in the Khanty-Mansi Autonomous Area. See "—Reserves and Production—Exploration, development and production regions—Western Siberia (Ural Federal District)—KMPA."

Gazprom Neft and Royal Dutch Shell each own 50% in Salym Petroleum Development N.V. ("**SPD**") and jointly decide all issues with respect to operation of the company. SPD develops the Salym group of oil fields in Western Siberia. See "—Reserves and Production—Exploration, development and production regions—Western Siberia (Ural Federal District)—Salym Petroleum Development."

In June 2015, we signed with Royal Dutch Shell an agreement on strategic cooperation which envisages a partnership in the gas sector from upstream work, including exploration and production, to sales, including possible asset swaps.

In June 2015, we signed with Royal Dutch Shell a memorandum to expand the Sakhalin II project, which provides for the implementation of the project to construct the third production line of the Sakhalin LNG plant. The memorandum sets forth the anticipated deadlines for engineering work and implementation of the project and determines further steps towards making an investment decision. See "—Distribution—Europe and Other Countries—LNG."

In June 2016, we signed with Royal Dutch Shell a memorandum of understanding and in June 2017, we signed with Royal Dutch Shell a heads of agreement to set up a joint venture for implementation of the Baltic LNG project and a framework agreement to jointly develop preliminary project documentation. In October 2018, we signed with Royal Dutch Shell a framework agreement on the joint design concept for the project. See "—Distribution—Europe and Other Countries—LNG."

In April 2017, Nord Stream 2 AG signed with Royal Dutch Shell and other foreign companies agreements in relation to financing of the Nord Stream II pipeline project. See "—Transportation—International projects in gas transportation—Nord Stream II."

RusGazDobycha. In April 2017, we established RusGazAlyans, a 50/50 joint venture with ZAO RusGazDobycha ("**RusGazDobycha**"), to engage in the development of certain fields in the Yamal-Nenets Autonomous Area. In May 2017, we also signed with RusGazDobycha a memorandum of intent for implementation of joint projects in gas chemical production to use the resource base of the Nadym-Pur-Taz region, as well as production and processing of gas and condensate from the Tambey group of fields. See "—Reserves and Production—Exploration, development and production regions—Western Siberia (Ural Federal District)—Associates and development of associated projects in the region."

Saudi Aramco. In October 2017, we signed with Saudi Arabian Oil Company a memorandum of understanding for international cooperation in the gas industry, documenting the parties' intent to explore opportunities for cooperation in natural gas exploration, production, transportation, storage and LNG projects.

In addition, in October 2017, Gazprom Neft and Saudi Aramco signed a memorandum which provides for the parties' cooperation in oil and gas industry, including drilling and well workover technologies, improvements to pumping systems, development of large diameter non-metal pipes, research and development and experimental engineering works, as well as employee training at the companies' production facilities. Moreover, the parties intend to explore opportunities for cooperation in the manufacturing of equipment for oil and gas field development, by localising production either in Russia or Saudi Arabia.

Srbijagas. In January 2019, we signed with Srbijagas a memorandum of understanding providing for the parties' cooperation in a joint project for an extension of the active storage capacity of the Banatski Dvor UGSF. See "—Gas storage—Gas storage in FSU, Europe and Other Countries."

In addition, in June 2017, we signed a roadmap with the Ministry of Mining and Energy of the Republic of Serbia providing for a number of measures aimed at expanding the Serbian gas transmission system.

Sibur. In May 2018, we signed with PJSC SIBUR Holding ("**Sibur**") a contract to supply ethane fraction from our Amurskiy GPP, which is currently under construction, to a gas chemical complex which is intended to be built by Sibur. See "—Refining—Projects in refining."

Sonatrach. We are participating in the exploration and development project in the El-Assel area in the Berkine geological basin in Sakhara. Our interest in the project is 49%. The remaining 51% interest is held by Sonatrach, the Algerian national oil and gas company. See "—Reserves and production—Exploration, development and production regions—FSU and Europe and Other Countries—Associates and development of associated projects in the region—Algeria."

Total and YPFB. In August 2013, we and Total signed a service contract with Yacimientos Petrolíferos Fiscales Bolivianos ("**YPFB**") for the development of the Azero block in Bolivia. In June 2014, we completed the purchase of a 20% interest in the Ipati and Aquio blocks from Total. See "—Reserves and Production—FSU and Europe and Other Countries—Associates and development of associated projects in the region—Bolivia."

Volkswagen. In September 2017, we signed with Volkswagen a cooperation agreement and a road map providing for the parties' cooperation in the promotion of natural gas as motor fuel in the European market.

Western Zagros and Kurdistan Region. A subsidiary of Gazprom Neft acts as operator of the Garmian and Shakal exploration and production projects in the Southern Kurdistan Region in Iraq pursuant to production sharing agreements signed with the government of the Kurdistan Region. Gazprom Neft, the government of the Kurdistan Region and WesternZagros, a Canadian company, hold interests of 40%, 20% and 40% in the Garmian project, respectively. Gazprom Neft and the government of the Kurdistan Region hold interests of 80% and 20% in the Shakal project, respectively. See "—Reserves and production—Exploration, development and production regions—FSU and Europe and Other Countries—Associates and development of associated projects in the region—Iraq."

YPFB. In August 2013, we and Total signed a service contract with YPFB for the development of the Azero block in Bolivia. See "—Reserves and Production—FSU and Europe and Other Countries—Associates and development of associated projects in the region—Bolivia."

In February 2016, we signed a strategic partnership agreement with YPFB which provides for cooperation in exploration, production and transportation of hydrocarbons, construction and modernization of oil and gas facilities, construction of power generation facilities and the development of the gas motor fuel market in Bolivia, as well as cooperation in science and technology. In addition, the parties will consider joint participation in power generation projects in other countries.

In February 2016, we also signed a memorandum of understanding with the Ministry of hydrocarbons and energy of Bolivia regarding the use of LNG, in particular, as motor fuel for truck, passenger and river transport in Bolivia and for gas supply to customers in Bolivia that do not have access to gas distribution networks.

In addition, in July 2016, our subsidiary Gazprom EP International B.V. ("**Gazprom EP Int.**") signed with YPFB an agreement on preliminary study of the La Ceiba, Vitiaqua and Madidi blocks in Bolivia. As a result of the study, we determined that the La Ceiba and Vitiaqua blocks are feasible for further development. In June 2018, Gazprom EP Int. signed with YPFB a term sheet regarding a contract for exploration and production on the Vitiaqua oil and gas block. On the basis of the term sheet, the parties are currently negotiating a development and production service contract.

In October 2017, our subsidiaries Gazprom EP Int. and Gazprom Marketing & Trading Ltd. ("**GM&T**") signed with the Ministry of Hydrocarbons and Energy of Bolivia and YPFB a memorandum of understanding documenting the parties' intent to establish a joint venture for the marketing of natural gas in Argentina and Brazil.

In November 2017, GGT, our 50/50 joint venture with GPB, and Gazprom LNG technologies, our 50/50 joint venture with GazHolodTehnologiya, signed with YPFB a memorandum of understanding providing for the establishment of a joint venture for the development of infrastructure to use natural gas as motor fuel in Bolivia. In addition, Gazprom EP Int. and YPFB Chaco signed a memorandum of understanding providing for establishing a joint venture for rendering field development services in Bolivia and a memorandum of understanding for technical cooperation in exploration of hydrocarbons.

In June 2018, we signed with YPFB an agreement of strategic cooperation to carry out joint geological exploration, gas production and hydrocarbon transportation across Bolivia, as well as the development of the national gas and oil transportation infrastructure and NGV market, exchange of experience and personnel training, and scientific and technological collaboration.

YPF. In April 2015, we signed a memorandum on cooperation with YPF S. A. ("**YPF**") which stipulates the main areas of future bilateral cooperation, in particular, in exploration and production of hydrocarbons in Argentina and other countries. In September 2015, we signed a framework agreement with YPF providing for the cooperation in exploration and production in Argentina. The parties are currently considering projects for joint implementation. In addition, in April 2018, we signed with YPF a memorandum of cooperation setting forth the main areas for further cooperation, in particular, in exploration, production, transportation and marketing of hydrocarbons in Argentina and other countries.

Other activities. In addition, our subsidiaries and associated and jointly controlled companies supply natural gas to consumers in Austria, Bulgaria, Croatia, the Czech Republic, France, Germany, Greece, Hungary, Ireland, Italy, Macedonia, the Netherlands, Romania, Serbia, Slovakia, Turkey and the United Kingdom. We have also entered into a number of joint ventures to construct and operate gas storage facilities in Europe and Other Countries. See "—Gas storage—Gas storage in FSU, Europe and Other Countries."

Reserves and Production

This section contains information relating to our Production of gas segment and Production of crude oil and gas condensate segment as regards exploration and production. For information in relation to sales of crude oil and gas condensate, see "—Distribution—Sales of liquid hydrocarbons and refined products."

We believe that we are the world's largest producer of natural gas. Our natural gas reserves and production account for approximately 17% and 12% of global natural gas reserves and production at the end of 2017 and for year 2017, respectively. As of December 31, 2017, we control approximately 72% of natural gas reserves in Russia. Our oil and gas condensate production accounts for approximately 11% of liquid hydrocarbons production in Russia in 2017. Our major reserves and production areas are Western Siberia, Southern Russia, the South Ural region and Northern European Russia. We also conduct operations in Eastern Siberia and the Far East, the Russian continental shelf and in certain countries in the FSU and Europe and Other Countries.

We operate our production activities through our production subsidiaries, which develop and operate our hydrocarbon fields. Natural gas and gas condensate production is carried out mainly by our wholly owned subsidiaries. Our subsidiary Gazprom Neft produces the majority of our crude oil, principally through fields located in Western Siberia. Our well-drilling operations are carried out by our subsidiary, LLC Gazprom flot, the drilling departments of some of our subsidiaries and third-party contractors. In addition, we participate in a number of exploration and production projects and joint ventures with Russian and foreign partners.

Financial highlights

Our Production of gas segment operates in exploration and production of gas, and its sales mainly consist of inter-segment gas sales to our Distribution of gas segment and Refining segment.

The following table sets forth selected financial data with regard to our Production of gas segment as defined in the Group's Financial Statements:

	Production of gas				
	As of and for the nine months ended September 30,		As of and for the year ended December 31,		
	2018	2017	2017	2016	2015

Assets, million RR	2,665,236	2,597,380	2,677,231	2,636,296	2,507,319
Share of Group's total assets	14%	15%	15%	16%	16%
Sales,[1] million RR	19,557	16,983	24,122	22,803	18,024
Share of Group's total sales	0%	0%	0%	0%	0%
Capital additions, million RR	168,426	107,695	216,450	235,161	225,020
Share of Group's total capital additions	15%	12%	14%	17%	17%

Note:

(1) Excluding inter-segment and intra-segment operations.

Production of crude oil and gas condensate segment operates in exploration and production of oil and gas condensate, sales of crude oil and gas condensate and its sales mainly consist of inter-segment sales of oil and gas condensate to the Refining segment for further refining and sales to third parties.

The following table sets forth selected financial data with regard to our Production of crude oil and gas condensate segment as defined in the Group's Financial Statements:

	Production of crude oil and gas condensate				
	As of and for the nine months ended September 30,		**As of and for the year ended December 31,**		
	2018	**2017**	**2017**	**2016**	**2015**
Assets, million RR	2,830,455	2,493,582	2,516,019	2,310,960	2,095,838
Share of Group's total assets	15%	15%	14%	14%	13%
Sales,[1] million RR	550,711	387,953	539,958	411,958	260,608
Share of Group's total sales	9%	8%	8%	7%	4%
Capital additions, million RR	172,259	194,635	330,424	326,366	324,330
Share of Group's total capital additions	16%	22%	22%	24%	24%

Note:

(1) Excluding inter-segment and intra-segment operations.

Reserves categories

We estimate our hydrocarbon reserves in accordance with the Russian reserves system and under PRMS Standards. The Russian reserves system differs significantly from PRMS Standards, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. In addition, PRMS Standards differ in certain material respects from current SEC Standards. If we applied SEC Standards our estimated proved natural gas, gas condensate and crude oil reserves could potentially be lower than under PRMS Standards. For a description of the Russian reserves system, PRMS Standards, SEC Standards and the principal differences between them, see "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Classification of Reserves." Unless otherwise specified, this Base Prospectus provides information on explored reserves in accordance with the Russian reserves system or AB_1C_1 reserves.

Reserves

Most of our reserves are concentrated in unique fields, each with AB_1C_1 natural gas reserves of more than 300 bcm. Approximately 35% of our AB_1C_1 natural gas reserves are in Cenomanian deposits, which are characterized by low bedding depth, high delivery rates of wells and dry natural gas. Almost 60% of our AB_1C_1 reserves are located in Western Siberia. Most of our other reserves are located on the Barents Sea shelf, in Eastern Siberia, the Far East, the South Ural region and Southern Russia.

Our reserves and production calculation methodology is consistent with IFRS consolidation principles. Thus, our subsidiaries' reserves and production information is included in full in our total reserves and production, disregarding our effective share in such subsidiaries. Reserves and production information of our joint arrangements determined to be joint operations for accounting purposes is included in our reserves and production data pro rata to our interest in such joint operations. Consistent with IFRS consolidation principles, the information on hydrocarbon reserves and production of our associates and joint arrangements determined to be joint ventures for accounting purposes is not included in our total reserves and production figures. However, material information on the AB_1C_1 hydrocarbon reserves and production of our associates and joint ventures is presented separately.

The following table shows our total AB_1C_1 natural gas, gas condensate and crude oil reserves in accordance with the Russian reserves system, and the percentage share of our AB_1C_1 reserves evaluated by DeGolyer and MacNaughton in accordance with PRMS Standards, as well as our proved, probable and possible reserves determined as a result of this evaluation, as of the dates indicated. As part of our annual reports, we publish information in relation to our reserves in accordance with PRMS Standards. Appendix B to this Base Prospectus contains breakdown information on the proved and

probable gas, gas condensate and crude oil reserves of our subsidiaries in accordance with PRMS Standards as of December 31, 2017, as extracted from the D&M Letter. The correlation between AB_1C_1 reserves and proved, probable and possible reserves may differ in the fields that have not yet been evaluated. Moreover, the correlation may vary at different times for the same fields. The amounts in barrels do not match the amounts in the D&M Letter because in this Base Prospectus we use conversion rates set forth in the Conversion Table on page 295, while the amounts set forth in the D&M Letter are calculated based on the specific gravities of each field.

	As of December 31,			As of December 31,		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
	Gas, bcm			**Gas, mmboe**		
AB_1C_1	35,355.4			229,456.5		
		36,443.9	36,147.3		236,520.9	234,596.0
of which evaluated AB_1C_1	94%	95%	94%	94%	95%	94%
Proved	18,253.4	18,596.5	18,791.2	118,464.5	120,691.3	121,954.9
Probable	5,893.2	5,258.6	4,913.8	38,246.9	34,128.3	31,890.6
Proved + probable	24,146.6	23,855.1	23,705.0	156,711.4	154,819.6	153,845.5
Possible	6,593.2	6,146.4	5,942.3	42,789.9	39,890.1	38,565.5
	Gas condensate, million tons			**Gas condensate, mmboe**		
AB_1C_1	1,595.6	1,534.9	1,499.5	13,052.0	12,555.5	12,265.9
of which evaluated AB_1C_1	93%	94%	92%	93%	94%	92%
Proved	797.7	759.2	699.5	6,525.2	6,210.3	5,721.9
Probable	308.0	259.7	233.8	2,519.4	2,124.3	1,912.5
Proved + probable	1,105.6	1,018.9	933.3	9,044.6	8,334.6	7,634.4
Possible	765.7	637.9	705.9	6,263.4	5,218.0	5,774.3
	Crude oil, million tons			**Crude oil, mmboe**		
ABC_1	2,045.3	2,078.5	2,082.0	14,992.1	15,235.4	15,261.1
of which evaluated AB_1C_1	94%	93%	92%	94%	93%	92%
Proved	736.8	789.6	792.7	5,400.7	5,787.0	5,810.5
Probable	623.2	589.2	562.7	4,568.1	4,318.8	4,124.6
Proved + probable	1,360.0	1,378.7	1,355.4	9,968.8	10,105.9	9,935.1
Possible	646.0	672.0	808.7	4,735.2	4,925.8	5,927.8
				Gas, gas condensate, crude oil, mmboe		
AB_1C_1				257,500.6	264,311.8	262,123.0
of which evaluated AB_1C_1				94%	95%	94%
Proved				130,390.4	132,688.6	133,487.3
Probable				45,334.4	40,571.5	37,927.7
Proved + probable				175,724.8	173,260.1	171,415.0
Possible				53,788.5	50,033.9	50,267.6

The following table shows the AB_1C_1 natural gas, gas condensate and crude oil reserves of our associates and joint ventures in Russia pro rata to our effective interests therein as of the end of the respective periods:

	As of December 31,		
	2017	**2016**	**2015**
Natural gas (bcm)	1,003.8	999.1	1,035.5
(bboe)	6.5	6.5	6.7
Oil and gas condensate (million tons)	679.1	676.0	679.0
(bbls)	5.1	5.0	5.1
Total (bboe)	**11.6**	**11.5**	**11.8**

Our hydrocarbon reserves abroad as of December 31, 2017, 2016 and 2015 were considered insignificant, constituting less than 1% of our AB_1C_1 reserves in Russia as of each of the above dates.

In 2017, our proved and probable hydrocarbon reserves increased by 2.5 bboe. The increase in proved and probable reserves resulted from the addition to the audit of the Yuzhno-Lunskoye, Zemlyanskoye, Novosamarskoye, Severo-Samburgskoye, and Kamennomysskoye (onshore) fields, as well as a revaluation of reserves at the Malyginskoye field, Achimovsk deposits of the Urengoyskoye field, and Cenomanian deposits of the Yamburgskoye field.

In 2017, our AB_1C_1 natural gas reserves were to a considerable extent affected by the adoption of the Classification. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Classification of Reserves". In accordance with the Classification, we are replacing the reporting of geological gas reserves with that of extractable gas reserves. This transition involves estimating the RER for each subsoil deposit. As at early 2018, we determined the RER for 19% of our AB_1C_1 natural gas reserves which averaged 0.89. In 2017, the application of the RER and the corresponding reserves revaluation, regardless of other factors, resulted in a decrease of our reported AB_1C_1 reserves by 1,281.6 bcm. As at the end of 2018, the RER had changed immaterially and didn't significantly affect our AB_1C_1 reserves estimates compared to 2017, since we had completed the assessment of a relatively small portion of our reserves in 2018. Over time, most of our AB_1C_1 natural gas reserves will be presented using the RER metric. See "Risk

Factors— Risks Relating to Our Business—There are numerous uncertainties inherent in estimating our reserves of natural gas, gas condensate and crude oil."

Licensing activities

Most of our hydrocarbon licenses were granted between 1993 and 1996. The licenses impose certain obligations on us to perform exploration works and ensure certain production volumes, prepare project documentation, meet certain environmental and rational subsoil use requirements, and pay charges for subsoil use. Licenses may be suspended or revoked if we fail to comply with their terms. Among our key licenses only the license for the Astrakhanskoye field expires in 2019. Currently, our application for the extension of this license is pending approval by Rosnedra. The other licenses for our major fields have much longer expiration periods ranging from 6 to almost 140 years. A subsoil user has the right to request an extension of the term of the license in order to complete the exploration, assessment and development of the natural resources until the end of a field's exploitation period if such user complies with the terms and conditions of the license. Except for the notice of violation of license terms in relation to the Zapadno-Kamchatskiy licensed area, as discussed below, we believe that we are in material compliance with our license agreements, and that we will be entitled to extend them to the full economic lives of the associated fields upon the expiration of their primary terms. Currently, there have been no suspensions of production as a result of decisions by the relevant federal and regional authorities. See "Risk Factors—Risks Relating to Our Business—Our licenses may be suspended, amended or terminated prior to the end of their terms, and we may not be able to obtain or maintain various permits and authorizations" and "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Subsoil licensing."

Subsoil users in Russia, including our subsidiaries, are subject to regular inspections conducted by Rosprirodnadzor which occasionally prescribes to remedy violations of the license terms. If we are unsuccessful in complying with the prescribed requirements, the respective license could be suspended, amended or terminated or fines could be imposed on us. See "Risk Factors—Risks Relating to Our Business—Our licenses may be suspended, amended, or terminated prior to the end of their terms, and we may not be able to obtain or maintain various permits and authorizations." Currently, a notice of violation of license terms remains outstanding in relation to the timeline of exploration works at the Zapadno-Kamchatskiy licensed area. We are taking action to retain the license. The supervising authority is expected to consider this matter in the first quarter of 2019.

Exploration activities

We are continually engaged in the exploration of new and existing deposits of natural gas and crude oil. These activities include prospecting and exploration drilling and geophysical activities in our existing production license areas and fields, and new areas for which we hold licenses. We perform our exploration activities in Russia in accordance with the Program for Mineral Resource Base Development until 2040 (the "**MRBD Program**"). The MRBD Program provides for an increase in our reserves through geological exploration by 15 billion tce in Russia between 2017 and 2040. We perform exploration works in Western and Eastern Siberia, the Far East, South Ural and in other regions in Russia, including the continental shelf. In addition, our subsidiaries and associates are involved in exploration projects abroad, including in Algeria, Bolivia, Bosnia and Herzegovina, Denmark, Hungary, Iraq, the Netherlands, Romania, Serbia, the United Kingdom, Venezuela and Vietnam. See "—Exploration, development and production regions—FSU and Europe and Other Countries."

In 2017, as a result of our geological exploration activities in Russia, we increased our AB_1C_1 reserves by 852.9 bcm of natural gas reserves, 95.6 million tons of gas condensate and 3.3 million tons of oil. The exploration discoveries of natural gas were mainly attributable to the Tambeyskoye (395.5 bcm) and Malyginskoye (201.l bcm) fields in the Yamal Peninsula and the Achimovsk deposits of the Urengoyskoye field (194.9 bcm) in the Yamal-Nenets Autonomous Area. In 2017, we completed estimates of the reserves of the Yuzhno-Lunskoye field (48.9 bcm) in the Kirinsky prospective block on the continental shelf of the Sea of Okhotsk.

In addition, in October 2017, Gazprom Neft completed drilling of the first explotation well at the Ayashskiy area on the continental shelf of the Sea of Okhotsk. As a result, a new large oil field, the Neptune field, was discovered with extractable reserves estimated at 70.1 million tons of crude oil.

In 2018, we achieved a significant increase in our AB_1C_1 reserves as a result of exploration activities at the Leningradskoye field (667.4 bcm of natural gas and 1.2 million tons of gas condensate) and Yuzhno-Kirinskoye field (100.9 bcm of natural gas and 17.7 million tons of liquid hydrocarbons).

Our discoveries in our exploration license areas or beyond license areas are to be transferred to the Undistributed Subsoil Fund of Russia and are subject to application to state authorities for licenses. We have a pre-emptive right to receive

licenses for the fields we have explored.

Reserve replacement ratio

In July 2006, the Board of Directors approved the adoption of key strategic indicators for a period of ten years, including that the reserve replacement ratio with respect to natural gas was to be maintained at or above 100%. Our aggregate AB_1C_1 natural gas, gas condensate and crude oil reserve replacement ratio attributable to exploration activities was 181% and 108% in 2017 and 2016, respectively. Our AB_1C_1 natural gas reserves replacement ratio attributable to exploration activities was 182% and 110% in 2017 and 2016, respectively. According to our preliminary data, our AB_1C_1 natural gas reserves replacement ratio attributable to exploration activities was approximately 160% in 2018. We do not include reserve life among our key strategic indicators. However, if our proved and probable natural gas, gas condensate and crude oil reserves are divided by our aggregate natural gas, gas condensate and crude oil production figures (both numerator and denominator expressed in boe), the resulting reserve life ratio would be equal to approximately 49 years as of December 31, 2017.

Production costs

Our hydrocarbon production costs are substantially affected by the geographic location of our fields, the geological composition of the hydrocarbon deposits under production, the cost of operating the infrastructure that is necessary to sustain our production levels as well as Government policy with respect to MET. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Recent Changes in Russian Tax Regulation—MET Changes."

Production costs at our mature fields in the Nadym-Pur-Taz region will likely increase because we expect to be required to use more expensive extraction techniques and extract natural gas from deeper, more geologically complex deposits. At the first stage of development, production costs at our fields in the Yamal Peninsula are also expected to be high because of challenging climate conditions in the area, geographic remoteness and special environmental requirements. We expect the production costs at these fields to decrease when the fields reach their projected capacity. We also seek to substantially mitigate challenging local production conditions by using our own unique technology while developing the Yamal Peninsula fields.

Production

The following table sets forth our summary production data in Russia for the periods indicated:

	As of and for the nine months ended September 30,		For the year ended December 31,		
	2018	**2017**	**2017**	**2016**	**2015**
Natural gas (bcm)	365.1	340.6	472.1	420.1	419.5
(mmboe)	2,369.7	2,210.7	3,063.6	2,726.6	2,722.7
Gas condensate (million tons)	11.5	11.6	15.9	15.9	15.3
(mmbls)	94.4	95.1	130.4	129.6	125.5
Crude oil (million tons)	36.2	36.7	48.6	47.2	44.0
(mmbls)	265.7	269.1	356.5	345.6	322.8
Total (mmboe)	**2,729.8**	**2,574.9**	**3,550.5**	**3,201.9**	**3,171.0**

Our gas production increased in the nine months ended September 30, 2018 as compared to the corresponding period of 2017 and in 2017 as compared to 2016 primarily due to the growing demand for gas in Russia and our export markets. The Bovanenkovskoye field contributed significantly to our natural gas production growth in 2017.

The following table sets forth summary production data of our associates and joint ventures in Russia attributable to the Group for the periods indicated:

	For the nine months ended September 30,		For the year ended December 31,		
	2018	**2017**	**2017**	**2016**	**2015**
Natural gas (bcm)	20.0	20.0	27.0	27.2	25.5
(mmboe)	129.7	129.9	175.2	176.5	165.5
Gas condensate (million tons)	3.6	3.7	5.0	5.2	4.7
(mmbls)	29.7	30.2	40.9	42.5	38.4
Crude oil (million tons)	8.3	8.2	10.9	9.9	9.6
(mmbls)	60.7	60.0	79.9	72.6	70.4
Total (mmboe)	**220.2**	**220.0**	**296.0**	**291.6**	**274.3**

The growth of crude oil production by our associates and joint ventures in 2017 as compared to 2016 was attributable

primarily to the start of production at the Vostochno-Messoyakhskoye field in September 2016 by Messoyakhaneftegaz, a joint venture of Gazprom Neft and Rosneft.

We also operate and participate in certain projects abroad which have commenced hydrocarbons production. See "—Exploration, development and production regions—FSU and Europe and Other Countries."

Exploration, development and production regions

We perform exploration and production in Western and Eastern Siberia, the Far East, South Ural, and in other regions in Russia, including the continental shelf. In addition, we are participating in exploration and/or production projects in the FSU and Europe and Other Countries (in Algeria, Angola, Bolivia, Bosnia and Herzegovina, Denmark, Hungary, Iraq, Libya, the Netherlands, Romania, Serbia, United Kingdom, Uzbekistan, Venezuela and Vietnam).

The terms and timeline of any of the projects described below in this section may be revised due to changes in demand for our products or other changes of external business conditions, including sanctions programs. See "Risk Factors—Risks Relating to Our Business—The sanctions imposed by the U.S. and EU, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition.

Western Siberia (Ural Federal District)

We have historically focused our exploration and development activities in gas and oil fields in Western Siberia. This is our main region for the production of natural gas, gas condensate and crude oil. It is characterized by severe weather conditions. Almost 60% of our AB_1C_1 hydrocarbon reserves and over 90% of our hydrocarbon production are concentrated in this region.

Our largest fields in terms of natural gas reserves in Western Siberia are the Urengoyskoye, Bovanenkovskoye, Yamburgskoye, Zapolyarnoye, Tambeyskoye, Kharasaveyskoye and Kruzenshternskoye fields. Our major gas production fields in Western Siberia are the Zapolyarnoye, Urengoyskoye, Bovanenkovskoye, Yamburgskoye and Yuzhno-Russkoye fields. Gazprom Neft's largest fields in terms of crude oil reserves in Western Siberia are the Priobskoye, Novoportovskoye, Vyngapurovskoye, Sutorminskoye, Muravlenkovskoye and Vyngayakhinskoye fields. Gazprom Neft's major crude oil production fields in Western Siberia are Priobskoye and Novoportovskoye fields, as well as the Vyngapurovskoye, Sutorminskoye, Kraynee and Vyngayakhinskoye fields.

Gazprom Neft and Rosneft each own equal interests of 50% in Tomskneft and jointly decide all issues with respect to the operation of the company. Tomskneft holds licenses for the development of fields in the Tomsk Region and Khanty-Mansi Autonomous Area. Tomskneft is accounted for as joint operations in the Group's Financial Statements, therefore its reserves and production information is included in our reserves and production data pro rata to our interest. See "Presentation of Certain Information."

Major fields in commercial operation

Zapolyarnoye field with the total annual gas production capacity of 130 bcm is located in the Nadym-Pur-Taz region. The field produced 86.4 bcm and 76.3 bcm of gas in 2017 and 2016, respectively.

Urengoyskoye field with the current annual gas production capacity of 69 bcm (including the Achimovsk formation) is located in the Nadym-Pur-Taz region. The field produced 66.5 bcm and 59.3 bcm of gas in 2017 and 2016, respectively.

Urengoyskoye field (Achimovsk formation). We produce approximately 9.0 mmcm of gas daily from Block 2A of the Achimovsk formation of the Urengoyskoye field during the periods of peak gas production and expect it to achieve its projected production capacity of 8.7 bcm of gas and 2.8 million tons of unstable gas condensate per annum between 2023 and 2025.

We expect Blocks 4A and 5A of the Achimovsk formation of the Urengoyskoye field to come on stream in 2020 and reach an aggregate production capacity of approximately 15.5 bcm of gas in the period 2025-2027.

In September 2015, we completed an asset swap transaction with Wintershall Holding, pursuant to which Wintershall Holding received a 25.01% interest in the project for the development of Blocks 4A and 5A of the Achimovsk deposits of the Uregoyskoye field. In exchange, we received a 50% stake in WINZ and a 100% interest in WIBG, which brought our ownership interests in the gas supply, trading and storage companies WINGAS, WIEE (subsequently merged with Gazprom Schweiz) and WIEH to 100%.

In October 2018, we signed with OMV a basic agreement on asset sale, pursuant to which OMV is expected to obtain a 24.98% interest in the project for developing Blocks 4A and 5A of the Achimovsk formation of the Urengoyskoye field. The deal is pending the finalization of the transaction documents and obtaining regulatory and corporate approvals.

In addition, JSC Achimgaz ("**Achimgaz**"), our joint venture with Wintershall Holding, is developing Block 1A of the Achimovsk formation at the Urengoyskoye field. See "—Associates and development of associated projects in the region—Achimgaz."

Yamburgskoye field with the current annual gas production capacity of 70 bcm is located in the Nadym-Pur-Taz region. The field produced 62.8 bcm and 57.0 bcm of gas in 2017 and 2016, respectively.

Bovanenkovskoye field is located in the Yamal Peninsula. The field produced 82.8 bcm and 67.4 bcm of gas in 2017 and 2016, respectively. In late 2018, we put on stream additional field facilities increasing its maximum annual production capacity from the Cenomanian-Aptian layers to the projected production capacity of 115 bcm per annum; we expect to achieve this production level at the field between 2021 and 2022. Between 2027 and 2028, we expect to put into operation the Neocomian-Jurassic gas condensate layers of the field with an annual production capacity of 25 bcm of natural gas.

Yuzhno-Russkoye field having a projected annual capacity of 25.0 bcm of gas is located in the Nadym-Pur-Taz region. The field produced 25.0 bcm and 25.1 bcm of gas in 2017 and 2016, respectively. In 2010, we started pilot production of gas from the Turonian deposits in the Yuzhno-Russkoye field and expect to start commercial production with a projected capacity of 9 bcm per annum in 2023 or earlier.

Our subsidiary, Severneftegazprom, holds the license for the development of the Yuzhno-Russkoye field. BASF Group holds two class A and one class C preference shares and a 25% interest minus three ordinary shares in Severneftegazprom, which represents a 35% economic interest in Severneftegazprom. OMV holds three class B preference shares and a 25% interest minus three ordinary shares in Severneftegazprom, which represents a 25% economic interest in Severneftegazprom. Our interest in Severneftegazprom amounts to 50% plus six ordinary shares, which represents an economic interest of over 40% in the company.

Priobskoye field. The largest field operated by Gazprom Neft is located in the southern area of the Priobskoye field in the Khanty-Mansi Autonomous Area. The field produced 11.7 million tons and 11.6 million tons of crude oil in 2017 and 2016, respectively.

Novoportovskoye field is the largest field in the Yamal Peninsula in terms of oil and gas condensate reserves. A subsidiary of Gazprom Neft holds the license for the development of the field. In 2016, we started all-season production at the field and expect to reach its projected production capacity of 8.5 million tons of oil in 2020. The field produced 6.0 million tons and 2.9 million tons of oil in 2017 and 2016, respectively.

Prospective fields in the long term

Yamal Peninsula. The Yamal Peninsula is located to the north of the Nadym-Pur-Taz region and is characterized by harsher climate conditions. According to our estimates, the total explored category AB_1C_1 reserves of the Yamal Peninsula and the adjacent shelf amount to over 12 tcm of natural gas and 500 million tons of crude oil and gas condensate. More than half of these reserves are located in the Bovanenkovskoye, Kharasaveyskoye and Kruzenshternskoye gas condensate fields and the Novoportovskoye oil and gas condensate field for which we hold production licenses. We plan to develop the on-shore fields of the Yamal Peninsula in the Bovanenkovo, Tambey and Southern production zones.

Bovanenkovo group of fields. The Bovanenkovskoye, Kharasaveyskoye and Kruzenshternskoye fields are the most significant fields of the Bovanenkovo production zone. In 2012, we put on stream the Cenomanian-Aptian layers of the Bovanenkovskoye field. We intend to put on stream the Cenomanian-Aptian layers of the Kharasaveyskoye field between 2023 and 2024 and the Kruzenshternskoye field after 2024. We estimate the annual projected natural gas production from the Cenomanian-Aptian layers of the Kharasaveyskoye field and the Kruzenshternskoye field to be 32 bcm and 33 bcm, respectively.

Tambey group of fields. In accordance with the draft General scheme for the development of the gas industry through 2035, developed by the Ministry of Energy of the Russian Federation, three areas of the Tambeyskoye field, including the Severo-Tambeyskoye, Tasyiskoye and Zapadno-Tambeyskoye areas, are planned to be put on stream after 2025. We estimate the annual projected capacity of the Severo-Tambeyskoye, Tasyiskoye and Zapadno-Tambeyskoye areas to be 33.0 bcm, 16.6 bcm and 5.7 bcm, respectively.

Southern group of fields. The Southern group of fields is planned to be put on stream after 2030 to maintain stable

production and effectively utilize gas and liquid hydrocarbons transportation capacities in the region when the Bovanenkovo and the Tambey group of fields enter the stage of declining production. The annual projected capacity of the Southern group of fields is estimated at 30 bcm. The Southern group of fields includes nine fields, of which we currently hold the licenses for the Novoportovskoye oil and gas condensate field and the Kamennomysskiy (land) area.

Production from unconventional sources

Kuznetsky Coal Basin. Our wholly owned subsidiary LLC Gazprom dobycha Kuznetsk is engaged in an innovative project in the Kemerovo Region to produce coal gas. We have completed exploration, calculation of reserves and development of the technological scheme for pilot production at the Naryksko-Ostashkinskaya area. Currently, we are working to move from the experimental production to the pilot production stage at the Taldynsky coal gas field. After achieving its projected capacity, we expect this project to cover the demand for gas in the region.

Development of the Bazhenov formation. Gazprom Neft continues to develop the shale oil reserves at the Bazhenov formation in Western Siberia. Currently, Gazprom Neft continues to carry on works at the pilot sites, including development drilling and field research program. The project, being currently implemented at pilot sites, primarily seeks to develop and implement the Group's own technology for exploration of the prospective Bazhenov deposits as well as related geological modelling and construction of horizontal wells with multi-stage fracking (MSF). Gazprom Neft has been testing the new technology at the Palyanovskiy area of the Krasnoleninskoye field in Western Siberia. In particular, Gazprom Neft has drilled several high-tech horizontal wells with multi-stage fracking (MSF) with the results confirming the feasibility of the MSF technology at the Bazhenov formation and its potential productivity.

According to our estimates, the industrial development of the Bazhenov formation of Gazprom Neft's fields will ensure at least 2.5 million tons of additional oil production per year from unconventional reserves after 2025.

Development of the Achimovsk formation. Gazprom Neft acts as operator for the development of the Achimovsk oil deposits at the Yamburgskoye field, with geological reserves of over 1.3 billion tons of oil. Currently, Gazprom Neft is engaged in exploration and expects to start commercial production in 2023, subject to completion of the design and construction of field infrastructure and verification of existing geological assumptions. In addition, Gazprom Neft holds the licenses for and is currently revising the estimates for potential production outputs of the Severo-Samburgskoye field and the Tazovskiy license area.

Salym Petroleum Development. Our subsidiary, Gazprom Neft, and Royal Dutch Shell each own 50% in SPD and jointly operate the company. SPD is accounted for as joint operations in the Group's Financial Statements, therefore its reserves and production information is included in our reserves and production data pro rata to our interest. See "Presentation of Certain Information."

Gazprom Neft and Royal Dutch Shell execute joint projects through SPD. In particular, the joint venture was engaged in developing a project to produce shale oil from the Verkhne-Salymskoye field in the Khanty-Mansi Autonomous Area. Currently, this project has been suspended in connection with economic sanctions imposed by the U.S. and European Union. In addition, SPD is implementing a separate project in the Zapadno-Salymskoye field in the Khanty-Mansi Autonomous Area to use a new technology of chemical flooding with ASP targeted at the recovery of residual oil that remains undeveloped after a conventional waterflood. If the project is successfully executed, Gazprom Neft's share in the additional production from the Zapadno-Salymskoye field could reach 19 million tons of crude oil throughout the development period.

In June 2017, Gazprom Neft signed with Royal Dutch Shell a memorandum of understanding documenting the parties' intent to conduct a geological study of certain areas in the Khanty-Mansi Autonomous Area by SPD, adjacent to the existing licensed areas of SPD. The parties are currently conducting the geological study.

KMPA. In October 2013, Gazprom Neft and Royal Dutch Shell established a 50/50 joint venture KMPA.

In June 2017, Gazprom Neft signed with Royal Dutch Shell a memorandum of understanding documenting the parties' intent to continue negotiations based on the results of a detailed assessment by KMPA of certain nonshale oil fields in Western Siberia, including the Achimovsk deposits in the Yamal-Nenets Autonomous Area. KMPA has completed the assessment and Gazprom Neft is currently considering the prospects, and negotiating with Royal Dutch Shell the terms, of a joint development of the fields.

Associates and development of associated projects in the region

Our material associates in the region are described below.

Achimgaz. The Achimovsk formation of the Urengoyskoye field is divided into several blocks, each of which is gradually being developed. Achimgaz, our joint venture with Wintershall Holding in which the parties have equal interests, commenced commercial production at Block 1A in 2012. Achimgaz produced 6.6 bcm and 6.4 bcm of natural gas and 2.9 million tons and 2.9 million tons of gas condensate in 2017 and in 2016, respectively. We expect to achieve the projected production level of 9.6 bcm of gas and 2.9 million tons of unstable gas condensate annually in the period from 2020 to 2021.

Arcticgas. Gazprom Neft and Novatek each owns a 50% interest in Arcticgas which is involved in the development of certain fields in Western Siberia, in particular, the Samburgskoye, Urengoyskoye and Yaro-Yakhinskoye fields in the Yamal-Nenets Autonomous Area. Investments in Arcticgas are accounted for as investments in associates and joint ventures in the Group's Financial Statements. As of December 31, 2017, Gazprom Neft held a share in the proved and probable reserves of Arcticgas of 513 bcm of natural gas and 106 million tons of liquid hydrocarbons under PRMS standards. Gazprom Neft's share of Arcticgas's production was 12.3 bcm and 12.1 bcm of gas and 3.7 million tons and 3.8 million tons of oil and gas condensate in 2017 and 2016, respectively. In 2018, Arcticgas put on stream the oil rims of the Valanginian layers at the Yaro-Yakhinskoye oil and condensate field with an annual projected production capacity of 1.2 million tons of oil.

Eurotek-Yugra. In 2017, Gazprom Neft acquired a 26.36% equity interest in Eurotek-Yugra, a subsidiary of Repsol, with an option to increase its shareholding to 50%. The Group and Repsol have equal corporate governance rights in relation to Eurotek-Yugra. Eurotek-Yugra holds licenses for geological study, exploration and production at certain areas in the Khanty-Mansi Autonomous Area, including the Ouryinskoye oil field. In July 2017, Gazprom Neft and Repsol signed a memorandum of understanding confirming the parties' intention to further develop the joint venture, in particular, through exploration and development of existing areas and acquisition of new licensed areas in the Khanty-Mansi Autonomous Area, close to Eurotek-Yugra's existing assets. In addition, in May 2018, Gazprom Neft and Repsol signed an agreement on technical cooperation envisaging the companies' cooperation in the development of new exploration and production technologies which can be potentially applied to the development of the Karabashskaya area operated by Eurotek-Yugra in the Khanty-Mansi Autonomous Area.

Messoyakhaneftegaz. The East Messoyakhskoye and West Messoyakhskoye fields are located in the northern part of the West Siberian gas bearing province in the south-west of the Gydan Peninsula and are among the largest fields in terms of explored reserves. Messoyakhaneftegaz, our joint venture with Rosneft, holds the licenses to develop these fields. While Gazprom Neft and Rosneft each control equal interests of 50% in Messoyakhaneftegaz, Gazprom Neft was chosen to be the operator of the project. Investments in Messoyakhaneftegaz are accounted for as investments in associates and joint ventures in our financial statements. As of December 31, 2017, Gazprom Neft held a share in the proved and probable reserves of Messoyakhaneftegaz of 74 million tons of liquid hydrocarbons under PRMS standards. In September 2016, we started production at the eastern part of the field, the Vostochno-Messoyakhskoye field. In 2021, we plan to reach the maximum annual production level of 5.9 million tons of crude oil at the Vostochno-Messoyakhskoye field. Gazprom Neft's share of Messoyakhaneftegaz's production was 1.6 million tons and 0.4 million tons in 2017 and 2016, respectively. In 2018, a new oil deposit with geological reserves of 85 million tons was discovered as a result of exploration at the western part of the field, the Zapadno-Messoyakhskoye field; we plan to continue exploration drilling at the field to prove its resource potential.

Northgas. We and Novatek each control a 50% interest in CJSC Northgas ("**Northgas**"). Investments in Northgas are accounted for as investments in associates and joint ventures in our financial statements. Northgas holds a license for the development of the Neocomian layers of the Severo-Urengoyskoye field. As of December 31, 2017, Gazprom Neft held a share in the proved and probable reserves of Northgas of 103 bcm of natural gas and 14 million tons of liquid hydrocarbons under PRMS standards. Gazprom Neft's share of Northgas's production was 4.3 bcm and 5.1 bcm of natural gas and 0.4 million tons and 0.5 million tons of liquid hydrocarbons in 2017 and 2016, respectively.

RusGazDobycha. In September 2016, we signed with RusGazDobycha a master agreement and, in April 2017, established RusGazAlyans, a 50/50 joint venture for the development of the Parusovoye, Severo-Parusovoye and Semakovskoye fields in the Yamal-Nenets Autonomous Area. We have transferred to RusGazAlyans the licenses for these fields. In addition, in May 2017, we signed with RusGazDobycha a memorandum of intent for implementation of projects in gas chemical production on the basis of the Achimovsk and Valanginian deposits of the Nadym-Pur-Taz region, as well as production and processing of gas and condensate from the Tambey group of fields. In particular, the memorandum of intent provides for a feasibility study of a project for construction of gas processing facilities in the proximity of Ust-Luga in the Leningrad Region, with a projected throughput capacity of up to 45 bcm of gas per year with high ethane content. Consistent with the memorandum, the parties are engaged in a pre-investment study and assessment of the economic feasibility of establishing a joint venture for implementing those projects.

Slavneft. Gazprom Neft and Rosneft control equal interests of 49.9% in Slavneft and jointly decide all issues with respect

to the operation of the company. Investments in Slavneft are accounted for as investments in associates and joint ventures in our financial statements. As of December 31, 2017, Gazprom Neft held a share in the proved and probable reserves of Slavneft of 21 bcm of natural gas and 347 million tons of liquid hydrocarbons under PRMS standards. Gazprom Neft's share of Slavneft's production was 7.2 million tons and 7.5 million tons of oil and 0.5 bcm and 0.5 bcm of associated gas in 2017 and 2016, respectively

Northern European Russia (Northwestern Federal District)

This region is characterized by severe weather conditions. We operate four active gas condensate fields in the Komi Republic.

In addition, in August 2016, we obtained an exploration and production license for an area of federal importance in the Nenets Autonomous Area which includes the Vaneyvisskoye and Layavozhskoye fields.

Southern Russia (Southern Federal District, North Caucasian Federal District)

Our upstream activity in southern Russia is concentrated in two regions, the Astrakhan Region and the Northern Caucasus. The Astrakhan Region contains one active gas condensate field, Astrakhanskoye. In addition, we operate approximately 50 active fields in the Northern Caucasus region.

Astrakhanskoye field. According to our estimates, the Astrakhanskoye field in Southern Russia in the Volga river estuary is one of our largest fields in terms of reserves and can support production of separator gas of 45-50 bcm annually (or 25-30 bcm of sales gas). The Astrakhanskoye field produced approximately 10.8 bcm and 10.4 bcm of gas in 2017 and 2016, respectively. The production capacity of the field is restrained at current level due to environmental restrictions and the need to use expensive technologies, which is mainly caused by high sulfur content in the reserves of the field. In order to increase production, we are considering developing the Astrakhanskoye field using a process of acid gas flooding which enables us to effectively decrease pollutant emissions and eliminate the storage and processing of illiquid related sulfur.

South Urals region (Privolzhski Federal District)

Orenburgskoye field. The main active field in the South Urals region, the Orenburgskoye field is a rare field in terms of the size of its reserves and the qualities of its natural gas which apart from its hydrocarbon component, contains hydrogen sulphide, sour mercaptan, sulfur and helium. The field produced approximately 12.4 bcm and 13.3 bcm of natural gas in 2017 and 2016, respectively.

Eastern area of the Orenburgskoye field is located southwest of Orenburg at the Orenburgskoye field. A subsidiary of Gazprom Neft holds the license for the field. The field is one of Gazprom Neft's largest fields in terms of reserves and is currently at the stage of industrial production. We expect the field to achieve its projected capacity of 2.6 million tons of crude oil and 5.4 bcm of gas in 2021. The field produced approximately 1.4 million tons and 1.5 million tons of crude oil in 2017 and 2016, respectively.

Gazprom Neft intends to increase its annual production in the region to 9 mtoe by 2021. In particular, Gazprom Neft holds exploration and production licenses for the Tsarichanskoye, Kapitonovskoye and Baleykinskoye fields and an exploration license for the Uranskiy area in the Orenburg Region. The Tsarichanskoye and Kapitonovskoye fields are at the industrial production stage. Gazprom Neft has discovered two fields and continues exploration at the Uranskiy area. In addition, Gazprom Neft is engaged in exploration drilling at the Yagodniy license area.

Production from unconventional sources

Development of the Domanic formation. As a result of the auctions held in 2018, Gazprom Neft obtained licenses for geological study, explotation and production of hydrocarbons at the Savitskiy and Pokhvistnevskiy areas in the Orenburg Region. We believe that the development of the Domanic formation is promising due to its resource potential and are planning to undertake a pilot project to test applicable technologies on the Domanic formation of the Savitskiy area.

Eastern Siberia and the Far East (Siberian and Far East Federal Districts)

Eastern Siberia and the Far East (including the continental shelf of Sakhalin) contain significant natural gas reserves, which are estimated at approximately 6.8 tcm of category AB_1C_1 and 5.1 tcm of category B_2C_2 as of December 31, 2016. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Classification of reserves." We are the coordinator of the Eastern Program approved by the Ministry of Energy of the Russian Federation to create a unified gas production, transportation and supply system in the region with the potential to

export gas to China and other Asia-Pacific countries. We own exploration and development licenses and conduct exploration work in the Krasnoyarsk Territory, the Irkutsk Region, the Sakhalin Region (the continental shelf of Sakhalin), the Republic of Sakha (Yakutia) and the Kamchatka Territory that have been identified in the Eastern Program as new gas production centers. Our natural gas reserves in these license areas (including the continental shelf of Sakhalin) amounted to approximately 4.2 tcm of category B_1C_1 and 1.6 tcm of category B_2C_2 reserves as of December 31, 2017. The Kovyktinskoye and Chayandinskoye fields are our largest fields in terms of reserves in Easten Siberia.

On January 1, 2015, amendments to the Russian Tax Code became effective. These amendments provide for a tax relief with respect to gas and helium production, transportation and storage projects implemented in various regions in Eastern Siberia and the Far East. In particular, the amendments established a zero MET rate for gas production in the Republic of Sakha (Yakutia) and/or the Irkutsk Region for 15 years following the start of commercial production, with a subsequent gradual increase in the MET rate from 10% to 100% of the standard MET rate over the following 10 years. The tax relief also includes a zero corporate property tax rate applicable from January 1, 2015 through January 1, 2035 in respect of the trunk pipelines and other facilities forming their integral technological part, gas production sites, helium production and storage facilities located in the Republic of Sakha (Yakutia), the Irkutsk Region or the Amur Region, subject to certain conditions.

Republic of Sakha (Yakutia)

Chayandinskoye field. The Chayandinskoye field is the core of the Yakutskiy gas production center in Eastern Siberia. We started pilot commercial development of the oil rim in 2015 and completed exploration works at the field in 2016. We plan to commence gas production at the Chayandinskoye field in accordance with the timeframe stipulated by our contract to supply Russian pipeline gas to China via the Eastern route. See "—Distribution—Europe and Other Countries—Asia." The projected annual gas production capacity of the field of 25.0 bcm is expected to be achieved in the fourth year of commercial development. The projected annual production of oil is expected at 3 million tons. We are currently constructing gas production wells at the field.

We are constructing the Power of Siberia pipeline to transport gas from the Yakutskiy and Irkutskiy gas production centers, including from the Chayandinskoye and Kovyktinskoye fields, to the Russian Far East and China (see "—Transport—Gas transportation projects in Russia—Power of Siberia pipeline"). We also intend to construct the gas processing and helium production facilities in the Amur Region for processing of gas from these fields. See "—Refining—Projects in refining—Amurskiy GPP."

In addition, we hold licenses for the Sobolokh-Nedzhinskoye, Verkhnevilyuchanskoye, Tas-Yuryakhskoye and Srednetyungskoye fields in Yakutia. We have completed 3D seismics and are engaged in constructing exploration wells at the fields.

Irkutsk Region

Kovyktinskoye gas condensate field. We hold licenses for the development of the Kovyktinskoye gas condensate field. The estimated C_1+C_2 hydrocarbon reserves of our licensed areas (Kovyktinskiy, Khandinskiy, Chikanskiy) of the field amount to over 2.7 tcm of natural gas and 90 million tons of gas condensate as of December 31, 2017.

We are continuing our exploration of the field. Projected annual production of the field is estimated at 25 bcm of natural gas and 1.3 million tons of gas condensate. The Kovyktinskoye field is currently in the pilot commercial development stage. We expect to put the field on stream after the Chayandinskoye field achieves its projected production capacity. Along with the Chayandinskoye field, we plan to transport natural gas from the Kovyktinskoye field to Russian customers and China through the Power of Siberia pipeline, which is now under construction. See "—Transport—Gas transportation projects in Russia—Power of Siberia pipeline."

Chonskiy project. The project relates to the development of the Tympuchikanskoye, Ignyalinskoye, Vakunayskoye, Severo-Vakunayskoye fields and a part of Verkhnechonskoye field located in the Republic of Sakha (Yakutia) and the Irkutsk Region. The strategic purpose of the project implemented by Gazprom Neft is to develop the resource base and establish a new oil production center in close proximity to the Eastern Siberia-Pacific Ocean oil pipeline, as well as to increase crude oil production. We continue exploration of the fields. The Tympuchikanskoye and Ignyalinskoye fields are in the pilot production stage. We expect to put on stream the Chonskiy group of fields in 2024 and achieve the maximum production level of 5.5 million tons of oil by 2031.

Krasnoyarsk Territory

We continue exploration of certain licensed areas in the Krasnoyarsk Region including further exploration of the

Omorinskiy license area, the Imbinskoye gas field, the Ilbokichskoye gas condensate field and the Abakanskoye gas field. We also consider Baytiyskaya, Katangskaya and Prisayano-Eniseyskaya oil and gas provinces as prospective areas for potential exploration drilling.

The Kamchatka Territory

We hold licenses for the Severo-Kolpakovskoye, Kshukskoye, Sredne-Kunzhikskoye and Nizhne-Kvakchikskoye gas condensate fields in the Kamchatka Territory. The Kshukskoye and Nizhne-Kvakchikskoye fields are in commercial development and we continue exploration of the Severo-Kolpakovskoye field.

Associates and development of associated projects in the region

Kuyumbinskiy project. Gazprom Neft is implementing the Kuyumbinskiy exploration project at the Kuyumbinskiy, Tersko-Kamovskiy, Kordinskiy, Abrakupchinskiy and Podporozhniy sites in the Krasnoyarsk Territory. LLC Slavneft – Krasnoyarskneftegas, a subsidiary of Slavneft (in which Gazprom Neft holds a 49.9% interest), is the licenseholder for these blocks. The project is currently at a pilot production stage and we are shipping oil to the Kuyumba-Tayshet pipeline.

Russian continental shelf

We consider Russia's continental shelf, primarily the continental shelf of the Okhotsk, Kara and Barents Seas, to be a promising area for discovery and further development of new hydrocarbon deposits.

Our largest fields in terms of natural gas reserves on the Russian continental shelf are the Shtokmanovskoye field in the Barents Sea, the Yuzhno-Kirinskoye field in the Sea of Okhotsk, the Severo-Kamennomysskoye and Kamennomysskoye-more fields in the Kara Sea. Currently, we produce hydrocarbons at the Kirinskoye field in the Sea of Okhotsk. The Prirazlomnoye field in the Pechora Sea is Gazprom Neft's largest field in terms of crude oil reserves on the Russian continental shelf and one of its major fields in terms of oil production volumes.

In January 2016, amendments to the Russian Tax Code became effective, which, among other things, for the purposes of corporate profit taxation, permit the application of a 1.5 multiple to exploration and appraisal expenses incurred at new offshore fields.

The Sea of Okhotsk shelf

Kirinskoye field. The Kirinskoye field is located on the continental shelf near Sakhalin and is part of the Sakhalin III project. We expect to achieve the annual projected production capacity of the field of 5.5 bcm of natural gas in 2021-2023. We produced 0.6 bcm and 0.7 bcm of natural gas and 0.1 million tons and 0.1 million tons of unstable gas condensate at the field in 2017 and 2016, respectively.

Yuzhno-Kirinskoye field. In 2010, we discovered the Yuzhno-Kirinskoye field in the Kirinsky prospective block that falls within the category of "unique" fields under the Classification. We expect to put the field on stream in 2023 and achieve its annual projected capacity of 21 bcm of gas during the eleventh year of commercial development.

Putting the Yuzhno-Kirinskoye field into operation will be a further step to the creation of the Sakhalinskiy gas production center as required by the Eastern Program to satisfy the demand for gas of Russian customers and to supply gas for export.

In August 2015, the BIS added the Yuzhno-Kirinskoye field to its Entity List. This means that any person without a BIS license is prohibited from exporting, reexporting and transferring (in-country) all items subject to the U.S. Export Administration Regulations that can be used directly or indirectly in exploration or production from a deepwater (greater than 500 feet or approximately 152 meters) project in Russia that has the potential to produce oil. We believe that the impact of this designation on the prospects of development of the Yuzhno-Kirinskoye field is insignificant. See "Risk Factors—Risks Relating to Our Business—The sanctions imposed by the U.S. and EU, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition."

We also hold licenses for the Vostochno-Odoptinsky and Ayashskiy areas of the Sakhalin III project and the Zapadno-Kamchatskiy area on the continental shelf of the Okhotsk Sea. We have conducted 3D seismic exploration at the Vostochno-Odoptinsky and Zapadno-Kamchatskiy areas and are in the process of updating geological models of those areas, continue environmental monitoring and design works for the construction of exploration wells. In October 2017, Gazprom Neft completed the construction of the first exploration well at the Ayashskiy area. As a result, a new large oil field, the Neptune field, was discovered. See "—Reserves—Exploration activities."

The Barents Sea shelf

Shtokmanovskoye field. Gazprom holds the license for the development of the Shtokmanovskoye gas condensate field located in the center of the Barents Sea northwest of the Yamal Peninsula and 650 km northeast of Murmansk. The Shtokmanovskoye field's projected production capacity is approximately 71 bcm per year, which can potentially be increased to up to 95 bcm per year. Currently, we are revising the feasibility study with respect to the comprehensive development of the Shtokmanovskoye field.

The Pechora Sea shelf

Prirazlomnoye oil field. A subsidiary of Gazprom Neft holds the license for the development of this field located on the Pechora Sea shelf. The projected maximum annual oil production volume for this field is 4.9 million tons by 2023. The field produced 2.6 million tons and 2.2 million tons of oil in 2017 and 2016, respectively.

Dolginskoye oil field. A subsidiary of Gazprom Neft holds a license for exploration and production at the Dolginskoye oil field at the Pechora Sea. We have conducted substantial exploration activities at the field which revealed a commercial oil content. We expect to begin commercial production in 2031.

In addition, Gazprom Neft is engaged in seismic exploration at the Severo-Zapadniy license area on the Pechora Sea shelf.

The Kara Sea shelf including Obskaya and Tazovskaya Bays

The total $AB_1C_1+B_2C_2$ categories of reserves of the continental shelf of the Kara Sea, including the Obskaya and Tazovskaya Bays, are estimated to amount to approximately 5.6 tcm of natural gas and approximately 190 million tons of liquid hydrocarbons. We hold exploration and production licenses for a number of fields in the Kara Sea and the adjacent onshore deposits with total C_1+C_2 categories of reserves amounting to approximately 5.4 tcm of gas and 35.0 million tons of gas condensate. We expect to begin hydrocarbon production in the region in 2025-2026, bringing on stream the Kamennomysskoe-more field with a projected production capacity of 15.1 bcm of natural gas per annum. We expect to start production at the Severo-Kamennomysskoe field with a projected production capacity of 14.5 bcm of natural gas per annum in 2027-2029.

Associates and development of associated projects in the region

Sakhalin II project. We own a 50% plus one share interest in Sakhalin Energy, the operator of the Sakhalin II project. According to the terms of the shareholders agreement, we currently do not control Sakhalin Energy, which is included as an associate in our financial statements. The Sakhalin II project is implemented pursuant to a production sharing agreement.

The Sakhalin II project is one of the largest integrated oil and gas shelf projects in the world. The project includes the Piltun-Astokhskoye and Lunskoye fields, 300 km of offshore pipelines, a joint onshore production facility, a trans-Sakhalin pipeline system with a length of approximately 1,600 km, the first Russian LNG production plant with an annual production capacity of 9.6 million tons of LNG and an oil and LNG export terminal. As of December 31, 2017, the proved and probable reserves of the Sakhalin II project under PRMS Standards amounted to 34.9 million tons of crude oil and gas condensate and 202.2 bcm of natural gas. The LNG plant produced approximately 8.4 million tons and 8.4 million tons of LNG in the nine months ended September 30, 2018 and 2017, respectively. The LNG plant produced approximately 11.5 million tons and 10.9 million tons of LNG in 2017 and 2016, respectively.

Tsentralnoye field is located within the Russian sector of the Caspian Sea, 150 km to the east of Makhachkala. In January 2013, TsentrCaspNeftegaz (our 50/50 joint venture with Lukoil) and KazMunayGaz established a joint venture, LLC Neftegazovaya Kompaniya Tsentralnaya ("**NKT**"), to jointly implement the exploration and production projects in the central part of the Caspian Sea including the Tsentralnoye field. In September 2016, NKT obtained a license for exploration and production at the Tsentralnoye field for 27 years. The C_1 and C_2 categories of reserves of Tsentralnoye field are estimated at 41 bcm of natural gas and 90 million tonnes of oil. Currently, the project participants are engaged in exploration works at the field.

FSU and Europe and Other Countries

We participate in hydrocarbon exploration and development abroad. Our subsidiaries, Gazprom EP Int. and Gazprom Neft, generally operate our projects in the FSU and Europe and Other Countries.

Naftna Industrija Srbije. Our Serbian subsidiary NIS, in which Gazprom Neft holds a 56.15% interest, has been engaged in exploration and/or production projects in Serbia, Bosnia and Herzegovina, Hungary, Romania and Angola. NIS produced

1.0 million tons and 1.0 million tons of crude oil and 0.5 bcm and 0.6 bcm of natural and associated gas in 2017 and 2016, respectively.

NIS also owns oil refineries in the cities of Panchevo and Novi Sad and sells its refined products in certain countries of Central and Eastern Europe. See "—Refining."

Associates and development of associated projects in the region

Algeria. Our subsidiary Gazprom EP Int. holds a 49% interest in the project for exploration and development of hydrocarbon reserves of the El-Assel area in the Berkine geological basin in Sakhara. The remaining 51% interest is held by Sonatrach, the Algerian national oil and gas company. Gazprom EP Int. was the project operator at the stage of exploration works. As a result of geological exploration we discovered two gas condensate and one oil fields in the Berkine geological basin. We have fulfilled our exploration commitment and the project participants are currently considering starting the production stage.

Bangladesh. We completed the construction of 17 exploration and production wells in Bangladesh from 2013 through 2018 pursuant to our contracts with Petrobangla. We are currently negotiating with Petrobangla to begin construction of additional wells.

Bolivia. In August 2013, we and Total signed a 40-year service contract with YPFB for the development of the Azero block. The contract became effective in 2014. Pursuant to the contract, we and Total are expected to engage in exploration drilling within eight years. If commercial hydrocarbon deposits are discovered, the parties intend to form a joint venture for the development of the field in which YPFB, the Group and Total are expected to hold 55%, 22.5% and 22.5%, respectively. Total acts as the project operator. Currently, the project participants are preparing for the construction of wells in the Azero block.

In June 2014, we completed the purchase of a 20% interest in the Ipati and Aquio blocks, in which our partners Total, TecPetrol and YPFB hold 50%, 20% and 10%, respectively. Total acts as the project operator. In August 2016, the project participants commenced commercial production of gas and gas condensate at the Incahuasi gas field located in the Aquio block and achieved the projected daily production of 6.5 mmcm of natural gas at the end of 2016. The field produced 2.5 bcm and 0.7 bcm of natural gas in 2017 and 2016, respectively. The project participants are engaged in extending the project production capacity.

Iran.

In December 2016, Gazprom signed with NIGC a memorandum of understanding outlining possible areas of cooperation. Further, Gazprom signed in March 2017 and extended in October 2017 a memorandum of understanding with NIOC pursuant to which the parties intend to assess the prospects of cooperation in exploration and production of hydrocarbons in Iran. In November 2017, Gazprom signed with the Iranian Ministry of Petroleum, NIOC and Industrial Development & Renovation Organization of Iran memoranda of understanding that provide for cooperation in, among other things, development of Iranian gas fields, gas transportation from such fields, development of the Iran – Pakistan – India gas corridor, development of joint gas liquefaction, gas processing and petrochemical projects in Iran, and designing a unified system of gas production, transmission and processing for Iran. In December 2017, Gazprom signed with NIOC a protocol on the road map for the implementation of joint projects envisaged by the memoranda of understanding previously signed with the Iranian Ministry of Petroleum and NIOC. In addition, in December 2017, Gazprom signed with Oil Industry Pension, Saving and Staff Welfare Fund a memorandum of understanding providing for a joint assessment of opportunities to cooperate in the construction of an LNG plant in Iran.

U.S. sanctions were imposed on companies engaging in certain types of transactions with specified countries, including Iran, or companies in those countries. In January 2016, certain U.S. and EU sanctions related to Iran were lifted or suspended. However, in May 2018, the U.S. President announced a reinstatement of U.S. sanctions against Iran. See "Risk Factors—Risks Relating to Our Business—Violations of existing international or U.S. sanctions related to Iran and North Korea could subject us to penalties or prevent certain of our transactions that could have an adverse effect on us."

Iraq. In January 2010, Gazprom Neft, as a member of a consortium with KOGAS (South Korea), Petronas (Malaysia) and TPAO (Turkey), signed a Development and Production Service Contract for the Badra field (the "**Service Contract**") with the North Oil Company of the Iraq Ministry of Oil and Oil Exploration Company ("**OEC**"), representing the government of Iraq. North Oil Company subsequently assigned its rights under the contract to another state-owned company, Midland Oil Company. Gazprom Neft is the operator of the Badra project. Its share in the profit distribution amounts to 30%, whereas the shares of KOGAS, Petronas, TPAO and OEC are 22.5%, 15%, 7.5% and 25%, respectively. Gazprom Neft's portion of the total capital expenditure for the project is estimated to be approximately U.S.$3 billion.

Pursuant to the Service Contract, the consortium finances 100% of the investments in the project. Since 2014, the project has entered the commercial production stage and the investors have been recovering their investments. In compensation for their investments, crude oil from the Badra field is quarterly delivered to the investors, each of which independently engages in marketing of such feedstock. After full repayment of their investments, the investors shall be entitled to a fee of U.S.$5.5 per boe for the hydrocarbons produced at the project. The Service Contract is valid for 20 years and may be extended for another 5 years.

In August 2015, the Iraqi party approved the preliminary development plan for the field with a projected maximum production level of 5.7 million tons of oil per annum. In late 2017, we prepared a final field development plan, based on the results of production drilling and exploitation of wells, which is currently under consideration by the Iraqi party. The field produced 3.8 million tons and 2.6 million tons of crude oil in 2017 and 2016, respectively.

In addition, Gazprom Neft Middle East B.V., a subsidiary of Gazprom Neft, is engaged in hydrocarbon exploration and production projects at the Garmian and Shakal blocks located in the Southern Kurdistan Region in Iraq pursuant to the production sharing agreements signed with the government of the Kurdistan Region. The production sharing agreements permit engaging in exploration and production for 20 years (with an option to extend), provided that the commercial discovery of oil is announced, as well as provide for compensation of investor's past costs after the start of production. Gazprom Neft obtained a 40% share and the government of the Kurdistan Region received a 20% share in the Garmian block. WesternZagros, a Canadian company, holds the remaining 40% share of production under the production sharing agreement. Since March 2016, Gazprom Neft has been operator of the project. Gazprom Neft obtained an 80% share and the government of the Kurdistan Region received a 20% share in the Shakal block. Gazprom Neft is the operator of the project.

Commercial production commenced in the Garmian block in February 2015 and we expect to reach its maximum annual production capacity of 1.0 million tons in 2019. The field produced 0.4 million tons and 0.2 million tons of crude oil in 2017 and 2016, respectively. In the Shakal block, we have completed exploration at the well site of Shakal-1 and are currently evaluating geological data.

Libya. Our involvement in the development of Libyan oil blocks 19 and 64 is governed by the terms of two production sharing agreements on geological exploration, development and production sharing with Libya's National Oil Corporation.

We have completed seismic assessments at each of blocks 19 and 64 and started exploration drilling on block 64. Since February 2011, further work on the projects has been suspended due to the unrest in the country.

We hold a 49% interest in Wintershall AG which is the developer of two Libyan oil blocks, C96 and C97, for the period through 2026. Currently, the concessions are in the process of being replaced by production sharing agreeements. According to a temporary agreement between Wintershall AG and National Oil Corporation, the project currently produces up to 8,000 tons of crude oil daily.

Tajikistan. The exploration works we performed at the Sarikamysh and Zapadniy Shokhambary areas in Tajikistan proved that their development was not commercially viable. We are currently in the process of surrendering the licenses for the blocks. We are also considering other prospective projects in Tajikistan.

Venezuela. Gazprom Neft and Rosneft own 20% and 80% interests in NOC, respectively, a company established to implement oil production projects in Latin America. In April 2010, NOC and CVP, a subsidiary of PdVSA, established a joint venture PetroMiranda for exploration and development of Junin-6, an oil field located in the basin of the Orinoko River in Venezuela. NOC and CVP hold 40% and 60% interests in PetroMiranda, respectively. Currently, Junin-6 is in a follow-up exploration stage. The field produced 0.8 million tons and 0.8 million tons of oil in 2017 and 2016, respectively.

Vietnam. Under a framework on cooperation with Petrovietnam, a Vietnamese oil and gas company, we are engaged in exploration of blocks 111/04, 112 and 113 on the continental shelf in the Gulf of Bak Bo in Vietnam on a production sharing basis. The operator of the project is Vietgazprom, a joint venture in which we and Petrovietnam have equal interests. As a result of exploration works, two new fields were discovered in block 112, Bao Wang in 2007 and Bao Den in 2009. We have fulfilled our minimum obligation with respect to exploration works for the three phases. In 2016, we completed electrical exploration works and are currently estimating viability of further exploration. The exploration phase of the block has been extended through 2019.

In October 2008, we signed an oil and gas exploration and production agreement for 30 years, with a possibility of extension for five years, to develop four blocks (No. 129, 130, 131, 132) in the South China Sea, on the continental shelf of Vietnam. Pursuant to the oil and gas exploration and production agreement, we plan to explore, produce and sell hydrocarbons from these blocks on the basis of a production sharing agreement. Vietgazprom acts as the operator for the development of these

blocks. We have completed a complex interpretation of the geologic and geophysics data. In 2016, we completed drilling two exploration wells in blocks 130 and 131. Currently, we are engaged in the assessment of oil and gas production potential of blocks 129-132 based on the results of exploratory drilling.

In December 2009, we signed an agreement for strategic partnership with Petrovietnam which provides for further joint work on the continental shelf of Vietnam, in Russia and in other countries. We have established a joint venture, Gazpromviet, to comply with the undertakings pursuant to the partnership agreement. Currently, we hold approximately a 72% interest, and Petrovietnam owns the remaining 28% interest in Gazpromviet. We have transferred license for the development of the Nagumanovskoye oil and gas condensate field in the Orenburg Region to Gazpromviet. Also Gazpromviet received license for the Severo-Purovskoye field in the Yamal-Nenets Autonomous Area. In June 2015, we signed an agreement with Petrovietnam regarding the principal terms of development of the Nagumanovskoye and Severo-Purovskoye fields. We have completed a seismic study at the Severo-Purovskoye field and are currently analyzing the results.

In April 2012, we entered into an agreement with Petrovietnam that provides for Gazprom to jointly develop license blocks 05.2 and 05.3 on the continental shelf of Vietnam, with aggregate proved and probable reserves estimated at approximately 56 bcm of natural gas and 20 million tons of gas condensate. Pursuant to the agreement, we acquired a 49% interest in the product sharing agreements that form the legal framework of the project. The operator of the project is Bien Dong POC, a subsidiary of Petrovietnam. Production of gas and gas condensate commenced in the Moc Tinh field (block 05.3) and the Hai Thach field (blocks 05.3 and 05.2) in 2013 and the projected aggregate production of both blocks of 2.0 bcm of gas and 560 thousand tons per year of condensate was achieved in 2016. The project produced 2.1 bcm and 2.1 bcm of natural gas and 470 thousand tons and 573 thousand tons of gas condensate in 2017 and 2016, respectively.

United Kingdom, the Netherlands and Denmark. We are involved in certain exploration and production projects in the North Sea.

In September 2015, we completed an asset swap transaction with Wintershall Holding and, among other things, obtained a 50% interest in WINZ. See "—Western Siberia (Ural Federal District)—Major fields in commercial operation—Urengoyskoye field (Achimovsk formation)." WINZ is the operator of certain offshore exploration and production projects in the United Kingdom, the Netherlands and Denmark. In particular, WINZ operates the gas producing field Wingate in the North Sea and holds a 49.5% interest in the project, while our subsidiary Gazprom UK Resources holds an interest of 20%. WINZ produced approximately 0.8 bcm and 1.0 bcm of natural gas in 2017 and 2016, respectively.

Uzbekistan. Pursuant to a production sharing agreement that is effective through 2024, we are the operator of Shakhpakhty field in Uzbekistan, with a 5% equity interest in the project. Production at the field amounted to approximately 0.3 bcm and 0.4 bcm of gas in 2017 and 2016, respectively. In addition, in October 2018, our subsidiary Gazprom EP Int. signed a production sharing agreement with Uzbekistan in relation to the development of the Dzhel field for a period of 25 years.

In June 2017, we signed with JSC Uzbekneftegaz an agreement for strategic cooperation. The document provides for joint execution of new projects in Uzbekistan in refurbishment, construction and operation of gas infrastructure, hydrocarbon exploration, production, processing and storage, use of compressed and liquefied natural gas for autonomous gasification, and a development of the general gasification scheme for Uzbekistan.

Transport

Financial highlights

Our Transportation segment generally renders gas transportation services to our Distribution of gas segment.

The following table sets forth selected financial data with regard to our Transportation segment as defined in the Group's Financial Statements:

	Transportation				
	As of and for the nine months ended September 30,		As of and for the the years ended December 31,		
	2018	2017	2017	2016	2015
Assets, million RR	6,840,375	6,562,606	6,721,549	6,596,937	6,119,073
Share of Group's total assets	37%	39%	38%	39%	39%
Sales,[1] million RR	168,292	174,528	235,061	198,971	193,965

Share of Group's total sales	3%	4%,	4%	3%	3%
Capital additions, million RR	405,293	305,012	498,550	406,828	420,874
Share of Group's total capital additions	37%	35%	33%	30%	31%

Note:

(1) Excluding inter-segment and intra-segment operations.

GTS

We own and operate the GTS, the world's largest high-pressure trunk pipeline gas transportation system. We estimate that as of December 31, 2017, the total length of the GTS in Russia was approximately 172,050 km (not including distribution pipelines, pipelines transmitting gas condensate and WFLH) and included 254 compressor stations on the pipelines, with an aggregate capacity of 46,700 MW.

Our wholly owned regional subsidiaries engage in gas transportation and storage in Russia. We also own interests in gas distribution companies, which own and operate distribution networks that transport gas to end consumers. In addition, our wholly owned subsidiary Gazprom transgaz Belarus operates the gas transportation system of Belarus and owns most of its facilities. Our subsidiaries Gazprom Armenia and Gazprom Kyrgyzstan own and operate gas transportation and distribution assets in Armenia and Kyrgyzstan, respectively (see "—Existing routes of gas export and participation in foreign gas distribution networks"). We also participate in natural gas transportation activities through a number of joint ventures with foreign partners. See "—International projects in gas transportation" and "—Gas storage."

Our high-pressure trunk pipeline system transports natural gas principally from large western Siberian fields westward toward the more heavily populated regions of Russia, the FSU countries and Europe and to refineries. The trunk pipeline system is highly integrated to ensure reliable natural gas deliveries to distributors, export customers and consumers. The high level of integration of our pipeline network is achieved through the use of multiple and parallel pipelines of large diameters (defined as pipes with diameters of 1,420 mm, 1,220 mm and 1,020 mm), inter-connectors and UGSFs. In most cases, the extensive branching structure of the GTS, together with the availability of spare pipeline throughput capacity, enables us to re-route or to increase natural gas flow in case of an emergency.

The age of our pipeline system in Russia as of December 31, 2017 is shown in the table below:

Since construction	**Length**	**% of total**
	(thousand km)	
Up to 10 years	17.3	10
11-20 years	16.2	9
21-30 years	40.9	24
31-40 years	55.2	32
41-50 years	24.8	14
Over 50 years	17.7	10
Total	**172.1**	**100**

We are continually working to improve the reliability and efficiency of the GTS. In February 2018, based on the latest diagnostic data, we revised our comprehensive program for capital repair of trunk pipelines for 2016-2021. We carry out annual capital repairs and preventive maintenance to improve the reliability of gas supply, technological and environmental safety and the efficiency of gas distribution. We recently increased the efficiency of our capital repairs as a result of the adoption of a risk based model for determining the priority of capital repairs. In particular, we have implemented a system for management of technical condition and integrity of operation of the GTS. Annually, we make capital repairs to approximately 800 km of trunk pipelines and approximately 500 to 550 gas pumping units.

We annually perform intratubal diagnostics on over 20,000 km and conduct electrometric inspections on over 17,000 km of pipelines. We are considering the possibility of increasing the volume of our intratubal diagnostic activities in order to timely detect critical defects while decreasing the frequency of inspections.

There have been no major interruptions of gas supplies caused by any failure or fault of the GTS over the last 10 years. As a result of our regular pipeline inspections, repairs and improvement in our pipeline technology, the incidence of technical faults that involve interruptions or restrictions of gas supply dropped from 59 in 2006 to 10 in 2017.

Gas transportation balance

Natural gas flows into our trunk pipelines from our own production, from the production of independent and Central Asian producers, and from withdrawals from underground storage. Natural gas flows from our trunk pipelines to customers in Russia, Europe and the FSU as well as to our UGSFs. After accounting for operational requirements of the pipeline system and other technical factors, total inflows are equal to total outflows in a particular period.

The following table sets out data on the natural gas balance of the GTS in Russia for the periods indicated (including natural gas in transit from Central Asia and Azerbaijan):

	For the nine months ended September 30,		For the year ended December 31,		
	2018	**2017**	**2017**	**2016**	**2015**
			(bcm)		
Total GTS inflow[1]	**506.1**	**486.0**	**672.1**	**622.6**	**602.6**
System inflow	472.6	454.9	623.1	573.8	574.2
(including Central Asian gas)	14.6	15.8	20.8	18.0	20.0
Withdrawals from Russian UGSFs	31.6	28.4	45.7	44.9	24.3
Decrease in GTS reserves[2]	1.9	2.7	3.3	3.9	4.1
Total distribution from GTS[1]	**506.1**	**486.0**	**672.1**	**622.6**	**602.6**
Deliveries to customers in Russia	252.8	245.9	354.0	351.7	342.3
(including Central Asian gas)	0.0	0.0	0.1	0.0	0.0
Deliveries outside Russia	174.5	168.7	232.4	209.4	196.8
(including transit of Central Asian gas)	14.6	15.8	20.7	18.0	20.0
Addition to Russian UGSFs	47.1	41.9	44.2	24.7	27.1
Technological needs of GTS and UGSFs	29.8	26.7	37.8	32.3	32.2
Increase in GTS reserves[2]	1.9	2.8	3.7	4.5	4.1

Notes:

(1) These numbers do not include gas volumes withdrawn from foreign UGSFs and delivered outside Russia.

(2) A significant extension of the GTS involves maintaining a large volume of gas in the pipeline. This allows the system operators, increasing or decreasing the pressure at its different divisions, to accumulate excess gas in the pipeline for a certain period of time or to use it for extra supply. Thus, within a certain period, the shipment chain may transfer a lesser or larger volume of gas from one operator to another. The line shows the result of such operations as a total amount accumulated for a reporting period.

Our GTS natural gas throughput increased in the nine months ended September 30, 2018 as compared to the corresponding period of 2017 and in 2017 compared to 2016 primarily due to the growth of deliveries to European and Russian customers.

Most of the natural gas consumed by the pipeline system is used to power the GTS. The remainder is accounted for by technological losses, including gas lost during maintenance of the pipelines. We believe that our current volume of gas losses is low, and that our levels of consumption of gas as fuel are satisfactory.

Third-party access to the GTS

Pursuant to Government Resolution No. 858 dated July 14, 1997, we grant to independent suppliers access to the GTS subject to the following requirements:

- availability of spare transport capacity for the time period proposed by the independent supplier;
- quality and technical parameters of the natural gas supplies; and
- availability of input connections from suppliers and output connections to consumers and natural gas recovery and quality control stations.

Independent gas suppliers transported approximately 137.9 bcm and 129.0 bcm, or approximately 21% and 21% of the natural gas supplied through the GTS for the years ended December 31, 2017 and 2016, respectively. For the nine months ended September 30, 2018 and 2017, independent gas suppliers transported approximately 100.1 bcm and 100.6 bcm, or approximately 20% and 21% of the natural gas supplied through the GTS. These volumes included gas in transit from central Asia. The major third-party users of the GTS were Novatek (approximately 46% of supplies by independent suppliers in the nine months ended September 30, 2018) and Rosneft (approximately 28% of supplies by independent suppliers in the nine months ended September 30, 2018).

Tariffs charged to unaffiliated third parties for the transportation of natural gas through our trunk pipelines are set by the FAS. See "—Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Prices and tariffs."

The following table sets forth the average tariff levels charged to unaffiliated third parties for the transportation of natural gas through our trunk pipelines for the periods indicated. The transportation tariff is currently below the economically justified level and is subject to annual increase.

	2019[2]	2018	2017	2016
Average tariff, RR for mcm per 100 km[1]	65.65	65.20	65.20	65.20

Notes:

(1) Weighted by annual volume of services rendered to independent suppliers to transport gas to consumers located within and outside the members of the Customs Union.

(2) Anticipated in accordance with the Forecast.

Gas distribution networks

Gas distribution networks are designed to deliver gas from gas distribution stations to end-users. We are the leading gas distribution group in Russia. Our gas distribution assets are consolidated primarily in our subsidiary JSC Gazprom gazoraspredelenie ("**Gazprom gazoraspredelenie**"). As of December 31, 2017, our subsidiaries and associated gas distribution companies operated approximately 773.4 thousand kilometers of gas distribution pipelines (which accounted for a major part of the total gas distribution pipelines in Russia) and facilitated supply of approximately 239.0 bcm of gas in transit and gas supplies to end-users in 2017.

Since 2005, we have been implementing a gasification program for Russian regions, which provides for the extension of our distribution pipeline network in Russia. We allocated RR29.4 billion and RR25.0 billion toward the implementation of this program in 2017 and 2016, respectively. The gasification program provides for an investment of RR36.7 billion and RR34.3 billion in 2018 and 2019, respectively. In 2017, we constructed 121 gasification facilities with a total length of approximately 1,848 km in order to ensure gas supplies to 207 settlements in Russia.

Existing routes of gas export and participation in foreign gas distribution networks

Our existing gas transportation routes to Europe include the Yamal-Europe pipeline, the Blue Stream project, the Nord Stream pipeline and the gas transportation system of our subsidiary Gazprom transgaz Belarus. These projects diversify our gas transportation routes to European customers. In addition, our subsidiaries Gazprom Armenia and Gazprom Kyrgyzstan own and operate gas transportation and distribution assets in Armenia and Kyrgyzstan, respectively. We also hold a 49.98% interest in WIGA, which owns certain gas transportation assets in Germany. See "Risk Factors—We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas."

Nord Stream. The Nord Stream pipeline is one of the main export routes for transporting Russian gas to Europe. The Nord Stream pipeline is designed to ensure diversification of our export routes and increase the reliability of our natural gas supplies from Russia to Western European markets by avoiding the political and economic risks associated with deliveries through transit countries.

The European Union included the Nord Stream project in the list of the priority corridors of Trans-European Energy Networks (TEN-E). The pipeline extends under the Baltic Sea for 1,224 km from Vyborg, Russia to Greifswald, Germany, and consists of two pipeline branches. The projected annual capacity of the two branches of the Nord Stream pipeline is up to 55 bcm of natural gas. The pipeline primarily targeting the markets of Northwest and Central Europe has been in operation since 2011.

Nord Stream AG, our Switzerland-based joint venture with Wintershall Oil AG (BASF Group), PEG Infrastruktur AG (E.ON Group), Gasunie Infrastruktur AG (Gasunie Group) and ENGIE Energy Management Holding Switzerland AG (formerly known as GDF SUEZ Holding Switzerland AG, ENGIE Group), is engaged in all stages of implementation of the Nord Stream pipeline project, including the design, construction, ownership and operation of the pipeline. We hold a 51% interest in Nord Stream AG. Wintershall Oil AG (BASF Group) and PEG Infrastruktur AG (E.ON Group) each own 15.5% of the joint venture and Gasunie Infrastruktur AG (Gasunie Group) and ENGIE Energy Management Holding Switzerland AG (ENGIE Group) each own 9%.

In 2015, we established Nord Stream 2 AG for the implementation of the Nord Stream II project. See "—International projects in gas transportation – Nord Stream II."

Yamal-Europe. The Yamal-Europe export pipeline has an annual projected capacity of approximately 33 bcm of gas. The

Yamal-Europe pipeline passes through Belarus and Poland and connects the GTS in Russia with the JAGAL pipeline in Germany owned by a subsidiary of WIGA, our joint venture with Wintershall Holding. We own the Belorussian section of the Yamal-Europe pipeline. The Polish section is owned by our associate, SGT EuRoPol GAZ S.A. ("**EuRoPol GAZ**"), in which we own a 48% interest and PGNiG group of companies controls an interest of 52%. However, pursuant to the corporate documents of SGT EuRoPol GAZ S.A., we and PGNiG have equal corporate governance rights in relation to the company.

Blue Stream. Blue Stream Pipeline Company B.V., in which we and Eni each hold a 50% interest, owns and operates the offshore section of the Blue Stream pipeline, which runs under the Black Sea, has an annual projected capacity of approximately 16 bcm and supplies gas to Turkey bypassing transit countries.

Natural gas transit through Ukraine and Belarus. A significant portion of the natural gas we export to Europe (except to certain European countries through the Nord Stream pipeline, Finland and in part to Turkey) is transported outside Russia through pipelines passing through the territory of Ukraine and Belarus, on which we are dependent for natural gas transit to Europe. We pay transit fees for the use of the pipelines through Ukraine and Belarus. Negotiating such fees and ensuring access to these pipelines are important elements of our export business. Our subsidiary, Gazprom transgaz Belarus, which we have controlled since December 2011, transports natural gas through Belarus. The Ukrainian gas transportation network is controlled by Naftogaz and we transport our natural gas through Ukraine pursuant to a transit contract with Naftogaz which expires in 2019. See "Risk Factors—Risks Relating to Our Business—We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas", "—Distribution—The FSU" and "—Litigation and Investigations."

Gazprom transgaz Belarus. We own a 100% interest in Gazprom transgaz Belarus. Currently we are implementing a series of measures in production, marketing and financing of Gazprom transgaz Belarus to enhance its efficiency. The total length of the pipelines operated by Gazprom transgaz Belarus is approximately 7,900 km, approximately 40% of which is less than 20 years old. Gazprom transgaz Belarus transports natural gas to consumers of Belarus, Europe and the Kaliningrad Region of Russia.

WIGA. Wintershall Holding and our subsidiary Gazprom Germania hold 50.02% and 49.98% interests in WIGA, respectively. See "—Reserves and Production—Exploration, development and production regions—Western Siberia (Ural Federal District)—Major fields in commercial operation—Urengoyskoye field (Achimovsk formation)." W&G Transport Holding GmbH, a subsidiary of WIGA, owns a 100% interest in a gas transportation company OPAL Gastransport GmbH & Co. KG, which operates the OPAL pipeline on lease from W&G Transport Holding GmbH. In addition, W&G Transport Holding GmbH owns a 100% interest in W&G Infrastruktur Finanzierungs GmbH which, in turn, owns 100% interests in GASCADE Gastransport GmbH and NEL Gastransport GmbH, which owns a part of the NEL pipeline. The OPAL and NEL pipelines are on-shore extensions of the Nord Stream pipeline in Germany. The GASCADE gas transportation pipeline network, which is over 2,400 km long, connects our major export gas flows going through Belarus and Poland (the Yamal-Europe pipeline) as well as through the Nord Stream pipeline to Western Europe, in particular, to the Netherlands and Belgium, as well as extends to the territory of Germany.

United Kingdom Interconnector pipeline. In December 2015, we completed the sale to Fluxys of our 10% interest in Interconnector (UK) Limited, the owner and operator of an offshore gas pipeline connecting Belgium and the United Kingdom. Our subsidiary GM&T currently rents and operates the capacity in the Interconnector pipeline in the annual amount of 3.8 bcm of natural gas from Belgium to the United Kingdom. See "—Distribution—Europe and Other Countries."

Gazprom Kyrgyzstan. Our 100% subsidiary Gazprom Kyrgyzstan owns and operates approximately 800 km of gas trunk pipelines. Gas infrastructure in Kyrgyzstan is currently in poor condition. We have developed and commenced implementation of a General program for gas supplies and gasification of Kyrgyzstan through 2030, which provides for certain measures to reconstruct, upgrade, refurbish and expand the gas transportation system of Kyrgyzstan.

Gazprom Armenia. Our 100% subsidiary, Gazprom Armenia, owns approximately 1,700 km pipelines in Armenia. Most of the Armenian gas transportation system is in poor condition. We have completed the development of a General program for gas supplies and gasification of Armenia which would provide for the reconstruction, upgrade, refurbishment and expansion of the gas transportation system and UGSFs in Armenia and submitted the document for approval to the Ministry of Energy of Armenia.

Iran-Armenia pipeline. In March 2006, we entered into a 25-year agreement with the Armenian government. In 2009, pursuant to the agreement, Gazprom Armenia, our wholly-owned subsidiary, completed the construction and refurbishment of the approximately 188 km long second section of the Iran-Armenia pipeline. Gazprom Armenia owns this section of the pipeline. In 2009, the Armenian government, the owner of the approximately 40 km long first section of the pipeline, leased

the first section of the pipeline to Gazprom Armenia. Currently, Gazprom Armenia transports gas through the pipeline that the Armenian state-owned company obtains from Iran in exchange for electricity supplies. In addition, Gazprom Armenia uses a portion of this gas at its power generation facilities (Razdan-5) to produce electricity, which is subsequently supplied to the Armenian state-owned company.

Gas transportation projects in Russia

The terms and timeline of one or more of the projects described in this section may be revised due to changes in demand for our products or other changes of external business conditions, including sanctions programs. See "Risk Factors—Risks Relating to Our Business—The sanctions imposed by the U.S. and EU, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition."

Bovanenkovo-Ukhta. The system for gas transportation from the Yamal Peninsula fields, including the Bovanenkovskoye field, consists of large diameter pipes (1,420 mm) and is designed for operation at a pressure of 11.8 MPa which is higher than that of the other parts of our system. The first branch of the pipeline became operational in 2012 and we completed its construction in 2014. Since 2016, we have been gradually commissioning, and are currently finalizing the construction of, the second branch of the pipeline system. Further development of the project includes putting into operation three additional compressor stations with an aggregate capacity of 267 MW from 2019 to 2022, which will bring the pipeline system to its projected annual capacity of 115 bcm of natural gas.

Ukhta-Torzhok. Along with the Bovanenkovo-Ukhta pipeline system, we are constructing the Ukhta-Torzhok pipeline system to facilitate gas transportation from the Yamal Peninsula. The first branch of the pipeline system was put on stream in 2012. In order to allow for additional gas supplies to consumers in Northwestern Russia and deliver gas to the Nord Stream II pipeline, we had constructed the second branch of the Ukhta-Torzhok pipeline (the Ukhta-Gryazovets section) and put it into service in 2018. We expect to put on stream two compressor stations with an aggregate capacity of 200MW in 2019 and five compressor stations with an aggregate capacity of 425MW in 2020, which will bring the pipeline system to its projected annual capacity of 90 bcm of natural gas.

In 2018, we began design and engineering works for the construction of third branches of the Bovanenkovo-Ukhta and Ukhta-Torzhok gas transportation systems in order to accommodate an expected increase in our gas production on the Yamal Peninsula. We expect to put the third branches into service gradually, starting from 2023, and to increase the annual throughput capacity of the Bovanenkovo-Ukhta pipeline system and the Ukhta-Gryazovets section of the Ukhta-Torzhok pipeline system to approximately 190 bcm and 140 bcm, respectively, once the construction of the third branches is fully complete.

Gryazovets-Slavyanskaya CS. In order to deliver additional gas to consumers in northwestern Russia and supply gas to the Nord Stream II pipeline, the project envisages an increase in the throughput capacity of the Gryazovets-Volkhov pipeline and the extension of the pipeline to the Slavyanskaya compressor station, which is expected to be the starting point of the Nord Stream II pipeline. At the first stage of the project, the pipeline is expected to be approximately 870 km long and to facilitate transportation of 55 bcm of natural gas per annum to Nord Stream II and 3.4 bcm of natural gas per annum to customers in the Leningrad Region. We plan to commission the project facilities starting in 2019 and further expand the capacity of the pipeline at later stages depending on demand for gas in Europe and Russia. We have started the construction of the pipeline.

Power of Siberia pipeline. The Power of Siberia pipeline is expected to deliver gas from the Yakutskiy and Irkutskiy gas production centers, including the Chayandinskoye and Kovyktinskoye fields, to gas consumers in the Russian Far East and China. A section of the pipeline from the Chayandinskoye field to Blagoveschensk with a total length of approximately 2,200 km and a 128 MW compressor station is planned to be brought on stream in accordance with the timeframe stipulated by our contract to supply Russian pipeline gas to China via the eastern route. See "—Distribution—Europe and Other Countries—Asia." At later stages we expect to commission eight other compressor stations with an aggregate capacity of 1,106 MW and a section of pipeline with a length of approximately 800 km from the Kovyktinskoye field to the Chayandinskoye field. We intend to gradually increase the Power of Siberia pipeline's annual capacity to 48 bcm, including 38 bcm for export to China. As of mid-January 2019, we had laid down approximately 2,140 km of the pipeline. In 2019, we plan to complete the pipelay, together with testing and preparation works, install power supply, communication and telemechanics facilities, as well as finalize construction of one compressor station and commence construction of one additional compressor station. See "—Distribution—Europe and Other Countries—Asia."

In December 2015, we signed an agreement with CNPC to design and construct the cross-border section of the Power of Siberia pipeline, including the submerged crossing under the Amur River. In September 2016, we signed an engineering, procurement and construction contract with CNPC for the construction of the submerged crossing under the Amur River, the construction is in progress.

Power of Siberia II pipeline. We are considering constructing an approximately 2,600 km long pipeline extending from our fields in Western Siberia to the western part of the Russian-Chinese border. The pipeline is expected to be put on stream within five years after the execution of a gas supply contract with CNPC with the gradual increase in annual throughput to the projected throughput of 30 bcm of gas.

Extension of the Sakhalin-Khabarovsk-Vladivostok pipeline system. In order to increase the design capacity of the Sakhalin-Khabarovsk-Vladivostok pipeline system to supply gas to potential customers in the Russian Far East and China, we are currently preparing for the construction of an approximately 353 km long section from Komsomolsk-on-Amur to Khabarovsk. We provisionally plan to put it into operation in 2020, thus increasing the throughput capacity of the Sakhalin-Khabarovsk-Vladivostok pipeline system to 7 bcm of natural gas per year.

International projects in gas transportation

The terms and timeline of one or more of the projects described in this section may be revised due to changes in demand for our products or sanctions programs. See "Risk Factors—Risks Relating to Our Business—The sanctions imposed by the U.S. and EU, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition" and "Risk Factors—Risks Relating to Our Business—Implementation of major international energy projects is associated with political and regulatory risks. If it becomes impossible or impractical to continue to implement such projects, they may be suspended or discontinued. As a result, our contractors may bring claims against us to recover damages and we may be required to record significant impairment provisions attributable to such projects in our financial statements."

TurkStream. In December 2014, we signed a memorandum of understanding with BOTAŞ Petroleum Pipeline Corporation ("**BOTAS**") regarding the construction of the TurkStream pipeline. The project was introduced as an alternative to the South Stream pipeline project, which was discontinued in December 2014.

In December 2014, we acquired all shares of SST, the project company engaged in construction of the offshore section of the South Stream pipeline. We intended to use the pipes acquired for the South Stream pipeline for construction of the TurkStream pipeline.

In July 2015, SST gave notice of termination to Saipem in relation to a 2014 contract for construction of the first offshore branch of the South Stream pipeline. This termination occurred because the parties failed to reconcile technical and commercial issues related to the new TurkStream pipeline with their obligations with respect to the South Stream pipeline. See "—Litigation and Investigations—International Arbitration Disputes."

In November 2015, the project was suspended as a result of the Russian Federation and the Republic of Turkey failing to enter into an inter-governmental agreement in relation to the project and in light of the deterioration of relations between the countries. The TurkStream project was resumed in August 2016. See "Risk Factors—Implementation of major international energy project is associated with political and regulatory risks. If it becomes impossible or impractical to continue to implement such projects, they may be suspended or discontinued. As a result, our contractors may bring claims against us to recover damages and we may be required to record significant impairment provisions attributable to such projects in our financial statements."

In October 2016, Russia and Turkey signed an intergovernmental agreement for the construction of the TurkStream pipeline, including a two branch offshore pipeline from Russia to Turkey and two onshore branches in Turkey. The pipeline is expected to have an annual throughput capacity of 31.5 bcm of natural gas. It is planned that one branch of the pipeline will further extend into the territory of Turkey to deliver gas to Turkish customers and the other branch will deliver gas via Turkey to neighboring countries.

Currently, the construction is in progress. As of mid-January 2019, we had completed the deepwater pipelaying of both branches of the offshore section of the pipeline which runs under the Black Sea for more than 930 km. We had also completed the construction of, and are currently carrying out start-up and adjustment works at, landfall facilities in Russia. The construction of landfall facilities in Turkey had been completed and the onshore receiving terminal is currently under construction. We expect to commission the pipeline in 2019.

In May 2018, we signed a protocol with the Turkish government on the onshore section of the TurkStream pipeline and an agreement with BOTAS detailing the terms and conditions of the construction works. In November 2018, Gazprom Export and BOTAS formed TürkAkim Gaz Taşima A.Ş., a 50/50 joint project company for the construction of the onshore transit pipeline running through the territory of Turkey to neighboring countries.

In June 2017, we signed with Edison and DEPA an agreement for cooperation providing for coordination of efforts aimed

at establishing a south route for supplies of Russian gas to Europe, which is expected to run across Turkey to Greece and further to Italy. The parties will coordinate the implementation of the TurkStream project and the Poseidon project in the area from the Turkish-Greek border to Italy. The Poseidon project, implemented by Edison and DEPA, envisages the construction of an offshore pipeline to connect the Greek and Italian gas systems.

Nord Stream II. The project envisages the construction of a two-branch offshore gas pipeline extending under the Baltic Sea from Russian to the German coast. The projected annual capacity of the pipeline is expected at 55 bcm of gas.

The project also contemplates the construction of onshore gas transportation facilities connected to the Nord Stream II pipeline in the EU by a consortium of European gas transportation operators in accordance with the EU and national legislation of the respective countries. Such construction works are proceeding on schedule.

We currently own a 100% stake in Nord Stream 2 AG, a project company implementing the Nord Stream II pipeline project. In 2017, Nord Stream 2 AG signed with ENGIE, OMV, Royal Dutch Shell, Wintershall Holding and Uniper agreements in relation to financing of the Nord Stream II pipeline project. In accordance with the agreements, the foreign companies undertook to provide debt financing in equal portions to cover up to 50% of the costs of the project. According to the financing agreements, we have pledged our 100% shareholding in Nord Stream 2 AG until full discharge of the secured obligations.

We have obtained all necessary construction permits from Germany, Sweden, Finland and Russia, the construction permits from Denmark are pending. From September 2018, we have been engaged in the deepwater pipelaying. As of mid-December 2018, we had laid approximately 340 km of the pipeline. We expect to complete the construction works and put the pipeline into operation in 2019.

Gas storage

Financial highlights

Our Gas storage segment generally renders gas storage services to our Distribution of gas segment.

The following table sets forth selected financial data with regard to our Gas storage segment as defined in the Group's Financial Statements:

	Gas storage				
	As of and for the nine months ended September 30,		As of and for the year ended December 31,		
	2018	2017	2017	2016	2015
Assets, million RR	335,953	374,101	347,929	393,482	348,857
Share of Group's total assets	2%	2%	2%	2%	2%
Sales,[1] million RR	3,283	2,797	4,253	5,568	2,657
Share of Group's total sales	0%	0%	0%	0%	0%
Capital additions, million RR	6,396	12,335	37,694	35,542	48,486
Share of Group's total capital additions	1%	1%	3%	3%	4%

Note:

(1) Excluding inter-segment and intra-segment operations.

Gas storage in Russia

As of December 31, 2017, we operated a network of 26 UGSFs in Russia having total active capacity of 74.9 bcm, which is instrumental in smoothing seasonal fluctuations in demand for gas. All of our UGSFs are located either in close proximity to our major consumers or at the main hubs of our transportation system, which provides flexibility in redirecting gas flows if required. During peak heating periods, supplies from our gas storage network account for approximately 20%, and in the periods of extreme cold up to 40%, of gas deliveries to Russian consumers. Our subsidiary LLC Gazprom PKhG operates our UGSFs in Russia.

In 2017 and 2016, we injected into Russian UGSFs 44.2 bcm and 24.7 bcm of natural gas and withdrew 45.7 bcm and 44.9 bcm of natural gas, respectively. In the nine months ended September 30, 2018 and 2017, we injected into Russian UGSFs 47.1 bcm and 41.9 bcm of natural gas and withdrew 31.6 bcm and 28.4 bcm of natural gas, respectively.

Gas storage in FSU, Europe and Other Countries

In order to ensure reliable natural gas supplies and fulfill its contractual obligations, Gazprom uses UGSFs located in European countries: Austria (Haidach UGSF), the Czech Republic (Damborice UGSF), Germany (Rehden, Katharina UGSF, Etzel and Jemgum UGSFs), the Netherlands (Bergermeer UGSF), Latvia (Incukalns UGSF), Serbia (Banatski Dvor UGSF), Armenia (Abovyanskoye UGSF) and UGSFs in Belarus. We also participate in the construction of new UGSFs in Europe.

As of December 31, 2018, our gas storage and daily withdrawal capacities in Europe amounted to 5.0 bcm and 83.3 mmcm, respectively. As of December 31, 2017, our gas storage and daily withdrawal capacities in the FSU countries amounted to 3.0 bcm and 55.6 mmcm, respectively.

In 2017, we injected 8.6 bcm and 1.3 bcm of natural gas into UGSFs located in Europe and FSU countries, respectively. In the 2017-2018 winter period, we withdrew 8.4 bcm and 1.1 bcm of natural gas from UGSFs located in Europe and the FSU countries, respectively. In 2018, we injected 6.4 bcm of natural gas into UGSFs located in Europe.

Bergermeer. Pursuant to an agreement with TAQA Onshore B.V. and EBN Capital B.V. effective until 2047, we lease gas storage capacity of 1.8 bcm and a daily withdrawal capacity of 26.4 mmcm in the Bergermeer UGSF in the Netherlands. The UGSF is located in close proximity to the major European trading floors, TTF and the Zeebrugge Hub, and ensures the stable operation of the Nord Stream pipeline.

Given the high lease payments and the lack of available storage capacity in the existing UGSFs, we have invested in the construction of storage capacities in Western European UGSFs acting as a co-investor and acquired our own gas storage capacities. All storage facilities constructed with the Group's involvement fit into the European framework of energy laws requiring a separation of network and storage operators and indiscriminate access of all market participants to storage capacities. Our subsidiary astora GmbH & Co. KG markets gas storage capacities in the Rehden, Jemgum and Haidach UGSFs and is a major storage capacity seller in Europe, with a market share of approximately 25% in gas storage in Germany.

Rehden. Our wholly owned subsidiary, WINGAS, owns and operates Rehden, the largest UGSF in Western Europe, with a storage capacity of 4.8 bcm, of which we use 0.5 bcm of active storage capacity and 10 mmcm of daily withdrawal capacity. We have access to 1.0 bcm of active storage capacity and 20 mmcm daily withdrawal capacity of the UGSF in the autumn and winter period of 2017-2018.

Etzel. We were engaged in the construction of the Etzel UGSF in Germany with the projected capacity of 1.1 bcm. The UGSF was brought on stream in 2013 and reached the designed capacity in 2018. The interest we hold in the project is 33.3%.

Katharina. Erdgasspeicher Peissen GmbH, our joint venture on a parity basis with Verbundnetz Gas AG, is engaged in the construction and operation of the Katharina UGSF in Germany. The projected active storage capacity is approximately 0.6 bcm and daily withdrawal capacity is approximately 26 mmcm. The project is expected to reach the designed capacity in 2025. Currently, the active storage capacity of the UGSF in operation is approximately 0.3 bcm. We have a 50% participation interest in the project pursuant to the agreement and German authorities have affirmed our right to use at least 50% of the Katharina UGSF storage capacity on a long-term basis. As a result of the auctions held, we currently have access to 100% of the capacity of the UGSF.

Jemgum. Our wholly owned subsidiary, WINGAS, has been engaged in the construction and operation of the Jemgum UGSF in Germany with the projected active storage capacity at the first stage of approximately 0.9 bcm which is expected to be fully commissioned in 2020. WINGAS holds an 83.3% interest in the project. Currently, its active storage capacity in operation is approximately 0.5 bcm.

Haidach. The Haidach UGSF is located in northwest Austria. Its active storage capacity is 2.8 bcm and daily withdrawal capacity is 28 mmcm. Our subsidiaries WINGAS and Gazprom Germania, as co-investors, hold a 33.3% and 22.2% interests in Haidach, respectively. The remaining interests are owned by RAG Austria AG and Centrex Europe Energy & Gas AG. As a result of completion of the assets swap transaction with Wintershall Holding in September 2015, we have access to 100% of active capacity of the Haidach UGSF which is partially leased out to third parties by our subsidiaries. See "—Reserves and Production—Exploration, development and production regions—Western Siberia (Ural Federal District)—Major fields in commercial operation—Urengoyskoye field (Achimovsk formation)."

Banatski Dvor. We and Srbijagas hold a 51% and 49% participation interests in the project, respectively. The active storage capacity of the facility amounts to 450 mmcm and the daily withdrawal capacity is 5 mmcm. We have access to

active storage capacity in the amount of approximately 230 mmcm. The UGSF improves the reliability of our gas supply to Hungary, Serbia, Bosnia and Herzegovina. In January 2019, we signed with Srbijagas a memorandum of understanding providing for the parties' cooperation in a joint project for an extension of the active storage capacity of the Banatski Dvor UGSF to 750 mmcm.

Damborice. In cooperation with MND, the largest oil and gas producer in the Czech Republic, we have been engaged in the construction and operation of the Damborice UGSF in the Czech Republic on the basis of a depleted field. Our interest in the project is 50%. The projected active storage capacity is expected to amount to approximately 456 mmcm with a daily withdrawal capacity estimated at 7.6 mmcm. In June 2016, the UGSF was brought on stream and is expected to reach its design capacity in 2021. Currently, the active storage capacity of the UGSF amounts to 258 mmcm.

Incukalns UGSF. We hold a 34% interest in JSC Latvijas Gaze ("**Latvijas Gaze**") which operates the 2.3 bcm active storage capacity of the Incukalns UGSF, of which we have access to active storage capacity of 1.6 bcm. The Incukalns UGSF is capable of regulating gas supplies to Latvia, Estonia, Lithuania and northwestern Russia.

UGSFs in Belarus. Our subsidiary, Gazprom transgaz Belarus, operates the Osipovichskoye, Pribugskoye and Mozyrskoye UGSFs in Belarus, with an aggregate active storage capacity of 1.1 bcm. In order to help smooth seasonal fluctuations in demand for gas and avoid shortfalls in deliveries during peak heating periods, we plan to expand the UGSF system in Belarus to increase aggregate storage capacity to 1.6 bcm by 2020 and 2.6-3.0 bcm by 2030, and to increase aggregate peak daily withdrawal capacity to 43 mmcm by 2020 and 60 mmcm by 2030.

Abovyanskoye UGSF. Our wholly owned subsidiary, Gazprom Armenia, operates the 160 mmcm active storage capacity Abovyanskoye UGSF. We are working to increase the storage capacity of the Abovyanskoye UGSF to 220 mmcm by 2020.

Other projects. We are also considering participating in joint UGSF related projects in Germany, Hungary, Turkey, China and other countries.

In order to ensure reliable gas supplies to European customers during winter, we have additionally entered into short-term agreements to gain access to extra underground gas storage capacities in Hungary, Austria and Germany.

Refining

This section sets forth information with regard to our Refining segment as regards the processing of oil, gas condensate and other hydrocarbons and sales of refined products. For additional information relating to sales of refined products, gas condensate and other hydrocarbons, see "—Distribution—Sales of liquid hydrocarbons and refined products."

Financial highlights

Our Refining segment operates in processing of oil, gas condensate and other hydrocarbons, and sells refined products to other segments and third parties.

The following table sets forth selected financial data with regard to our Refining segment as defined in the Group's Financial Statements:

	Refining				
	As of and for the nine months ended September 30,		As of and for the year ended December 31,		
	2018	2017	2017	2016	2015
Assets, million RR	1,960,685	1,530,740	1,715,485	1,361,161	1,260,557
Share of Group's total assets	11%	9%	10%	8%	8%
Sales,[1] million RR	1,586,225	1,226,810	1,687,090	1,497,562	1,555,591
Share of Group's total sales	26%	26%	25%	24%	25%
Capital additions, million RR	208,141	135,645	225,240	193,243	136,299
Share of Group's total capital additions	19%	16%	15%	14%	10%

Note:

(1) Excluding inter-segment and intra-segment operations.

Our natural gas and gas condensate refining operations consist of the operations of our principal refining facilities owned by our wholly owned subsidiaries, primarily LLC Gazprom pererabotka, LLC Gazprom dobycha Astrakhan, LLC Gazprom dobycha Orenburg and Vostokgazprom and its subsidiaries. Gazprom Neft processes most of our crude oil at the Omsk Refinery and the Moscow Refinery, refining facilities of Slavneft and refineries of NIS. Our subsidiary, LLC Sibmetahim, coordinates our methanol production. Our subsidiary Gazprom neftekhim Salavat owns our main petrochemical assets.

Processing of oil, natural gas and gas condensate

The following table sets out total hydrocarbon feedstock input we used at refining facilities for the periods indicated:

	For the nine months ended September 30,		For the year ended December 31,		
	2018	**2017**	**2017[1]**	**2016[1]**	**2015[1]**
Natural and associated gas, bcm	**21.6**	**21.5**	**30.8**	**31.0**	**31.2**
including gas processing subsidiaries	20.6	20.6	29.9	30.1	30.6
including Gazprom neftekhim Salavat	0.7	0.6	0.4	0.5	0.4
including Gazprom Neft (associated oil gas)	0.3	0.3	0.5	0.4	0.1
Unstable gas condensate and crude oil, million tons	**48.7**	**47.1**	**64.1**	**65.9**	**66.8**
including gas processing subsidiaries	12.2	12.6	17.5	17.5	17.3
including Gazprom neftekhim Salavat	4.7	4.7	6.5	6.5	6.4
including Gazprom Neft in Russia	29.2	27.4	36.7	38.7	39.5
including Gazprom Neft abroad	2.6	2.4	3.4	3.2	3.5

Note:

(1) The data does not include raw materials supplied by customers.

Our unstable gas condensate and crude oil refining volumes increased in the nine months ended September 30, 2018 compared to the respective period of 2017 primarily due to the completion of scheduled reconstruction and capital repairs which were in progress at certain refining plants of Gazprom Neft in 2017.

Our unstable gas condensate and crude oil refining volumes decreased in 2017 as compared to 2016 primarily due to scheduled capital repairs at certain refining plants of Gazprom Neft.

Our gas refining facilities process natural gas for pipeline transportation and stabilize and refine gas condensate. As part of the refining process, these refining facilities engage in the removal of hazardous and corrosive substances from natural gas. They also produce a broad range of refined products based on extracted hydrocarbons.

The following table sets out information on our principal natural gas and gas condensate refineries, oil processing and petrochemical plants as of September 30, 2018:

Name	Company	Location	Year of establishment	Annual installed capacity of processing/ Product range production
Astrakhan GPP	LLC Gazprom dobycha Astrakhan	Astrakhan	1986	• 12.0 bcm of gas • 7.3 million tons of unstable gas condensate (stabilization)
Orenburg GPP	LLC Gazprom dobycha Orenburg	Orenburg	1974	• 37.5 bcm of gas • 6.3 million tons of gas condensate and crude oil (stabilization)
Orenburg helium plant	LLC Gazprom dobycha Orenburg	Orenburg	1978	• 15.0 bcm of gas
Sosnogorsk GPP	LLC Gazprom pererabotka	Sosnogorsk, Komi republic	1946	• 3.0 bcm of gas, • 2.5 million tons of unstable condensate (stabilization)
Urengoy condensate preparation plant	LLC Gazprom pererabotka	Novy Urengoy	1985	• 12.2 million tons of unstable condensate (de-ethanization and stabilization)
Surgut condensate stabilization plant	LLC Gazprom pererabotka	Surgut	1985	• 12.05 million tons of oil-gas condensate mixture (stabilization)
Salavat Refinery	Gazprom neftekhim Salavat	Salavat	1955	• 10.0 million tons of oil and unstable gas condensate

Monomer processing plant	Gazprom neftekhim Salavat	Salavat	1991	• 160.8 thousand tons of polyethylene • 30.0 thousand tons of polystyrene • 200.0 thousand tons of styrene • 230.0 thousand tons of ethylbenzene • 340.0 thousand tons of ethylene • 144.0 thousand tons of propylene • 144.0 thousand tons of carbon oil • 170.0 thousand tons of alcohols • 18.5 thousand tons of hydrogen • 33.0 thousand tons of DOP plasticizer • 13.0 thousand tons of phthalic anhydride
Gas chemical mineral fertilisers plant	Gazprom neftekhim Salavat	Salavat	1961	• 450.0 thousand tons of ammonia • 630.0 thousand tons of carbamide
Methanol production plant	LLC Sibmetahim	Tomsk	1983	• 750 thousand tons of methanol
Acryl acid and butyl acrylate production plant	LLC Acryl Salavat	Salavat	2016	• 80 thousand tons of butyl acrylate • 35 thousand tons of glacial acrylic acid
Omsk Refinery	JSC Gapromneft-Omsk Refinery	Omsk	1955	• 22.2 million tons of oil and condensate
Moscow Refinery	JSC Gazpromneft-Moscow Refinery	Moscow	1938	• 12.8 million tons of oil
Oils and lubricants producing plant in Bari	Gazpromneft Lubricants Italia S.p.A.	Bari (Italy)	1976	• 30 thousand tons of oils and 6 thousand tons of lubricants
Oil refinery in Panchevo[(1)]	NIS	Panchevo (Serbia)	1968	• 4.6 million tons of oil
Moscow Lubricants Plant	LLC Gazprom Neft—Lubricants	Fryazino	2007	• 62 thousand tons of oils and technical fluids
Omsk Lubricants Plant	LLC Gazprom Neft—Lubricants	Omsk	2009	• 270 thousand tons of base oils
Rospolychem Group	Sovkhimtekh LLC, Polyefir LLC, BSV-KHIM LLC	Nizhny Novgorod	2005	• 1.5 thousand tons of esters and 30 thousand tons of lubricants
Bitumen Plant (Kazakhstan)	LLC Gazprom Neft-Bitumen Kazakhstan	Shymkent (Kazakhstan)	2011	• 280 thousand tons of bitumen
Ryazan Bitumen Binders Plant	CJSC Gazpromneft — Ryazan Bitumen Binders Plant	Ryazan	2011	• 100 thousand tons of polymer-bitumen binders
Vyazma Bitumen Materials Plant	NOVA-BRIT LLC	Vyazma	2016 (year of acquisition)	• 80 thousand tons of bitumen
Salsk Bitumen Terminal	LLC Trans-Real LLC Bitumen Terminals	Salsk	2018 (year of acquisition)	• 140 thousand tons of bitumen materials (in respect of transshipment capacity)
Moscow Polypropylene Plant	LLC NPP Neftekhimia	Moscow	1995 (polypropylene complex launch date)	• 120 thousand tons of polypropylene
Omsk Polypropylene Plant	Poliom LLC	Omsk	2013 (strat of production)	• 210 thousand tons of polypropylene

Note:

(1) The oil refinery in Novy Sad is currently in a nonoperational status.

In addition, the Group, as a joint venture partner with Rosneft, has access to capacities of JSC Slavneft-YANOS and JSC Mozyr Oil Refinery and, as a joint venture partner with Sibur, has access to capacity of LLC Yuzhno-Priobsky GPP:

Name	Company	Location	Year of establishment	Annual capacity of processing/ Product range production
Yaroslavnefteorgsintez	JSC Slavneft-YANOS (Gazprom Neft has access to 50% of its total capacity)	Yaroslavl	1961	15.0 million tons of oil
Mozyr Oil Refinery	JSC Mozyr Oil Refinery (Slavneft holds a 42.58% interest, and Gazprom Neft has access to the refining capacity of the plant corresponding to 50% of Gazprom Neft's supplies)	Mozyr (Belarus)	1975	14.0 million tons of oil

Yuzhno-Priobskiy GPP	LLC Yuzhno- Priobsky GPP (Gazprom Neft has access to 50% of its total capacity)	Khanty-Mansiysk	2015	0.9 mmcm of associated gas

The following table sets out the total production of our refining facilities for the periods indicated:

	For the nine months ended September 30,		For the year ended December 31,		
	2018	**2017**	**2017**	**2016**	**2015**
Stable condensate and oil, thousand tons	5,834	6,126	8,688	8,216	7,448
Stripped dry gas, bcm	17	17	24	24	24
Liquefied hydrocarbon gases, thousand tons	2,656	2,570	3,522	3,525	3,463
Motor gasoline, thousand tons	8,915	8,689	11,676	12,270	12,395
Straight-run gasoline, thousand tons	3,178	3,091	3,998	4,351	3,940
Diesel fuel, thousand tons	11,503	10,663	14,322	14,971	14,837
Jet fuel, thousand tons	2,696	2,396	3,149	3,213	3,171
Furnace fuel oil, thousand tons	4,706	4,474	6,586	7,787	8,371
Bunker fuel, thousand tons	1,961	2,018	3,367	3,177	4,172
Bitumen, thousand tons	2,496	2,134	2,446	2,112	1, 884
Lubricants, thousand tons	358	352	480	421	404
Sulfur, thousand tons	3,739	3,600	5,014	4,906	4,794
Helium, thousand cubic meters	3,865	3,839	5,102	5,054	4,970
WFLH, thousand tons	1,041	966	1,295	1,807	1,729
Ethane fraction, thousand tons	263	272	363	378	377
Monomers, liquid and monomer-containing hydrocarbon fractions, (excluding sales ethylene), thousand tons	279	194	265	294	243
Polymers and products, thousand tons	138	107	154	179	158
Products of organic synthesis (butyl, plasticizer DOP), thousand tons	50	31	45	90	90
Mineral fertilizers (urea, ammonia, liquid technical), thousand tons	613	640	985	953	776

Our production of jet fuel increased in the nine months ended September 30, 2018 as compared to the respective period of 2017 primarily due to increased crude oil throughput and higher output of oil refined products at Yaroslavnefteorgsintez as a result of an optimization of technical processes.

Our production of bitumen increased in the nine months ended September 30, 2018 as compared to the respective period of 2017 primarily due to higher demand on domestic market and geographic expansion of export sales.

Projects in refining

We prioritize our investments in oil refining in accordance with modernization, facility upgrades and construction programs aimed at enhancing the environmental grade of our fuels, processing depth, production of light products, volume and variety of products. The modernization enabled us to comply with the requirements of technical regulations and allowed the transition to Euro 5 fuel production at all Gazprom Neft's refineries in Russia. Gazprom Neft anticipates that the modernization will allow it to increase depth of refining to 95% and yield of light fractions up to 80% by 2025. As of September 30, 2018, Gazprom Neft's depth of refining and yield of light fractions in Russia were approximately 85% and 66%, respectively.

In June 2016, Gazprom's Management Committee approved a comprehensive program of reconstruction and re-equipping of gas and liquid hydrocarbons processing assets for 2016-2020. In particular, the program focuses on ensuring processing of planned volumes of gas and liquid hydrocarbons, increasing the depth of refining and the rate of extraction of valuable components, expansion of the product line, improvement of quality and energy and technological efficiency of production. The program envisages further reconstruction and refurbishment of our production facilities, in particular, at the Surgut condensate processing plant, Urengoy condensate preparation plant, Sosnogorsk GPP, Astrakhan GPP, Orenburg GPP and Orenburg helium plant.

Urengoy condensate preparation plant. To process the projected volumes of liquid hydrocarbons to be extracted during natural gas production at gas/condensate fields in Western Siberia, we are implementing a capacity expansion and upgrade

project at the Urengoy condensate preparation plant. The current capacity of the plant is 12.2 million tons of unstable gas condensate, including 4.8 million tons of relatively heavier gas condensate from the Achimovsk deposits. Currently, we are engaged in the construction of a gas condensate stabilization unit with an annual capacity of 4 million tons in the proximity of the Urengoy condensate preparation plant. We expect to commission the gas condensate stabilization unit in 2019 bringing our annual capacity to process the Achimovsk deposit condensate in the Nadym-Pur-Taz region to 8.8 million tons. As a result, our total annual condensate processing capacity in the Nadym-Pur-Taz region, including the Urengoy condensate preparation plant, is expected to reach 16.2 million tons per annum.

Novy Urengoy Chemical Complex. The Novy Urengoy Chemical Complex is expected to produce up to 400,000 tons per year of low density polyethylene from de-ethanized gas from the Urengoy Condensate Preparation Plant. Depending on the quality of raw materials, we also plan to produce 100 to 200 thousand tons of natural gas liquids per year and 500 to 800 mmcm of methane per year at the complex.

Amurskiy GPP. In accordance with the Eastern Program we are seeking to create new processing facilities to develop natural resources of Eastern Siberia and the Far East. Natural gas from key fields of Eastern Siberia is characterized by high content of ethane, propane, methane and helium. Therefore, their development requires simultaneously establishing gas processing and gas chemical centers. In 2015, we commenced the construction of the Amurskiy GPP, located in the proximity of Svobodniy in the Amur Region, for processing of gas produced in the Yakutskiy and Irkutskiy gas production centers. The Amurskiy GPP is projected to have an annual throughput capacity of 42 bcm, and is designed to process gas consistent with export standards, extract marketable helium and liquefied hydrocarbon gases, as well as ethane which is expected to be supplied to the Amurskiy gas chemical complex. We plan to commission the first line of the plant in 2021.

In May 2018, we signed with Sibur a 20-year contract to supply approximately 2 million tons of ethane fraction per year from the Amurskiy GPP to a gas chemical complex which construction is planned by Sibur.

In addition, amendments to the Russian Tax Code provide a tax break in respect of corporate property tax that applies to helium production and storage facilities located in the Republic of Sakha (Yakutia), the Irkutsk Region and the Amur Region. See "—Reserves and Production—Exploration, development and production regions—Eastern Siberia and the Far East (Siberian and Far East Federal Districts)."

Associated gas refining. The increased usage of associated gas is consistent with the Government's policy to mitigate the impact of associated gas flaring on the environment. Currently, Gazprom Neft focuses on managing associated gas utilization rates at new production assets, primarily on those with higher gas content. In particular, Gazprom Neft has started preoperational testing of a gas treatment unit for gas re-injection at the Novoportovskoye field. Gazprom Neft expects to increase its utilization rate of associated gas up to 95% by 2020.

In February 2015, our subsidiary, LLC Gazprom pererabotka, and our 50/50 joint venture with Lukoil, LLC Gas-Oil trading ("**Gas-Oil trading**"), entered into a processing agreement that provides for the processing of associated oil gas from the northern group of fields developed by Lukoil at the Sosnogorsk GPP. We commenced the processing operations in October 2015. The agreement provides for an aggregate processing volume of 3.9 bcm of associated gas in the period from 2015 through 2021. Starting from 2018, our subsidiary LLC Gazprom mezhregiongaz has replaced Gas-Oil trading as the purchaser of associated gas and its supplier for processing at the Sosnogorsk GPP.

Karachaganak gas processing. In June 2007, KazRosGaz, our 50/50 joint venture with KazMunayGaz, entered into a 15-year sale and purchase agreement with Karachaganak Petroleum Operating B.V. ("**KPO**") to annually purchase up to 16 bcm of gas from the Karachaganak field in Kazakhstan. Pursuant to the agreement, KazRosGaz annually purchases up to 9 bcm of gas from KPO for processing at our Orenburg GPP. In June 2015, the sale and purchase agreement between KazRosGaz and KPO was extended until 2038 with an annual supply volume of 9 bcm of gas. Gas deliveries from the Karachaganak field enable us to utilize the capacity of the Orenburg GPP and allow us to modernize the facility.

In addition, in accordance with a memorandum of intent signed with RusGazDobycha in May 2017, we are assessing the feasibility of a project for the construction of gas processing facilities in the proximity of Ust-Luga in the Leningrad Region, with a projected throughput capacity of up to 45 bcm of gas with high ethane content per annum. See "—Reserves and Production—Exploration, development and production regions— Western Siberia (Ural Federal District)—Associates and development of associated projects in the region."

Distribution

This section sets forth information relating to our Distribution of gas segment which sells gas mostly to third parties in Russia and abroad, to our Transportation segment for own needs and to our Electric and heat energy generation and sales segment as well.

Financial Highlights

The following table sets forth selected financial data with regard to our Distribution of gas segment as defined in the Group's Financial Statements:

	Distribution of gas				
	As of and for the nine months ended September 30,		As of and for the year ended December 31,		
	2018	2017	2017	2016	2015
Assets, million RR	1,844,097	1,576,511	1,669,202	1,557,089	1,677,460
Share of Group's total assets	10%	9%	9%	9%	11%
Sales,[1] million RR	3,031,135	2,315,248	3,316,465	3,279,967	3,409,233
Share of Group's total sales	51%	49%	50%	53%	55%
Capital additions, million RR	27,582	19,094	51,675	41,785	25,962
Share of Group's total capital additions	2%	2%	3%	3%	2%

Note:

(1) Excluding inter-segment and intra-segment operations.

We believe that we are the world's largest exporter of natural gas. We export natural gas (as well as gas condensate, crude oil, oil products, liquefied associated gas and other refined products) mainly through our wholly owned subsidiary, Gazprom Export. Our subsidiary Gazprom Neft exports crude oil and refined products. We also sell these products domestically to end consumers, including sales of natural gas through Gazprom mezhregiongaz and its regional gas sales companies and sales of crude oil and oil refined products by Gazprom Neft.

The following table sets out our natural gas sales volumes by geographical market for the periods indicated:

	For the nine months ended September 30,		For the year ended December 31,		
	2018[1]	2017[1]	2017[1]	2016[1]	2015[1]
Natural gas sales			(bcm)		
Russian Federation	163.0	157.0	229.9	214.9	221.2
FSU[2]	27.1	24.1	35.0	33.2	40.3
Europe and Other Countries[2]	185.4	173.8	242.0	228.3	184.4
Total	**375.5**	**354.9**	**506.9**	**476.4**	**445.9**

Notes:

(1) Net of trading activity without supplies of natural gas.

(2) Our sales to the FSU countries and to Europe and Other Countries include both export from Russia, and sales of gas purchased outside Russia.

The increase in our gas sales volumes in Russia in the nine months ended September 30, 2018 compared to the respective period of 2017 was primarily due to colder weather conditions and higher consumption of gas by utilities and households in the first quarter of 2018.

The increase in our gas sales volumes in Russia in 2017 as compared to 2016 was primarily due to colder weather conditions in the first half of 2017.

Our natural gas sales volumes in the FSU increased in the nine months ended September 30, 2018 as compared to the respective period of 2017, primarily as a result of an increase in our gas supplies to Kazakhstan and Belarus as well as a resumption of gas shipments to Azerbaijan.

Our natural gas sales volumes in the FSU increased in 2017 compared to 2016, primarily as a result of an increase in gas consumption in Belarus and the Baltic states, as well as a resumption of gas shipments to Azerbaijan.

Our natural gas sales volumes to Europe and Other Countries increased in the nine months ended September 30, 2018 compared to the respective period of 2017 primarily due to favorable weather conditions in the first quarter of 2018 and the injection of gas to European UGSFs in view of a lower flexibility of other suppliers.

The volumes of gas we supplied to Europe and Other Countries in 2017 increased as compared to 2016 largely due to an increase in natural gas consumption along with a moderate increase in domestic gas production in Europe and attractive pricing under our long-term contracts linked to prices for oil refined products.

The natural gas market

According to the BP Statistical Review of World Energy (June 2018) (the "**BP Review**"), global natural gas consumption increased by approximately 24% from 2007 through 2017.

According to the BP Review, the world primary energy consumption (including oil, natural gas, coal, nuclear, hydropower and renewable resources) increased by 1.9% in 2017 compared to 2016. Globally, natural gas accounted for approximately 23% of primary energy consumption. World natural gas consumption grew by 2.7% and 2.9% in 2017 and 2016, respectively, compared to the 10-year average of 2.2%. In 2017, Africa and the Asia Pacific region showed the fastest regional growth rates of gas consumption of 6.5% and 5.9%, respectively. The Middle East and Europe (comprising here Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Macedonia, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey and the United Kingdom) also recorded strong growth rates of 5.4% and 5.2%. By contrast, gas consumption in the FSU (comprising here Azerbaijan, Belarus, Estonia, Kazakhstan, Latvia, Lithuania, Turkmenistan, Ukraine, Uzbekistan and other CIS) showed a 1.8% decline and Russia showed only a moderate growth of 1.1%. Among large emerging economies, Turkey and China recorded highest rates of gas consumption growth of 16.3% and 14.8%, respectively, with China beating its ten-year average of 13.0%. Among largest gas consuming OECD countries, Turkey, Germany and Canada showed the highest growth rates of natural gas consumption of 16.3%, 6.2% and 5.7%, respectively, while Mexico, the UK and the US experienced the most remarkable natural gas consumption declines of 4.6%, 2.7% and 1.4% respectively.

In 2017, global natural gas production grew by 3.7%, more rapidly than consumption and above its 10-year average of 2.3%. As in the case of gas consumption, Africa was the leader in terms of regional gas production growth, building up 8.7% and followed by Russia with a 7.9% growth rate in 2017. The Asia Pacific region and the Middle East recorded the third and fourth fastest gas production growth rates of 4.7% and 4.6%, respectively. Natural gas production in Europe increased by 1.4%, driven mostly by Norway with a growth rate of 6.4%. The Netherlands and Germany recorded the Europe's largest declines in gas production of 12.8% and 7.9%, respectively. North America demonstrated a modest growth of 0.7%.

Global natural gas trade continued its growth in 2017, rising by 5.9%. Pipeline shipments increased by 3.7%, mostly driven by the growth in pipeline exports from Russia by 7.7%. Global LNG trade increased by 10.3%. The US were the most rapidly growing LNG exporter, with their LNG exports increasing to 13.1 bcm or more than threefold in 2017. Australia showed a comparable LNG exports growth in volume terms, 16.7 bcm, which corresponded to a 28.2% growth year on year. African countries were the third largest contributor to the growth of the global LNG trade, adding a total of 9.8 bcm or 21.4% to their LNG exports in 2017. China was by far the most rapidly growing LNG importer in 2017, both in terms of absolute and relative growth amounting to 16.7 bcm and 46.6%, respectively. International natural gas trade accounted for approximately 31% of global gas consumption; the portion of global pipeline gas trade remained at approximately 65% in 2017.

In 2017, natural gas consumption accounted for approximately 23% of primary energy consumption in Europe and approximately 45% in the FSU.

The following table sets out primary energy and natural gas consumption in our principal markets for the periods indicated as well as the percentage of natural gas consumed as a proportion of primary energy consumption in such markets for such years:

	2017	2012	2007
	(mtoe, except percentages)		
Europe[1]			
Primary energy consumption[2]	1,909	1,889	1,985
Gas consumption	465	433	449
Gas consumption as a percentage of primary energy consumption	23%	23%	24%
FSU (except Russia)[3]			
Primary energy consumption[2]	296	335	335
Gas consumption	132	151	160
Gas consumption as a percentage of primary energy consumption	45%	45%	48%
Russia			
Primary energy consumption[2]	698	695	673
Gas consumption	365	369	369
Gas consumption as a percentage of primary energy consumption	52%	53%	55%

Source: BP Statistical Review of World Energy (June 2018).

Notes:

(1) Defined for the purposes of this table to consist of Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Macedonia, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey and the United Kingdom.

(2) Primary energy consumption comprises commercially traded fuels only, including renewables required for electricity production.

(3) Defined for the purposes of this table to consist of Azerbaijan, Belarus, Estonia, Kazakhstan, Latvia, Lithuania, Turkmenistan, Ukraine, Uzbekistan and other CIS.

Europe and Other Countries

For the nine months ended September 30, 2018 and 2017, our gas sales to Europe and Other Countries accounted for approximately 43% and 44% of volumes of natural gas sold and 71% and 66% of our net revenue from gas sales, adjusted for retroactive gas price revisions, for the periods indicated, respectively.

In 2017 and 2016, our gas sales volumes to Europe and Other Countries (exclusive of the effect of gas prices adjustment) were approximately 48% and 48% of volumes of natural gas sold and 66% and 65% of our net revenue from gas sales for the periods indicated, respectively.

The following table sets out information about our gas sales to Europe and Other Countries for the periods indicated:

	For the nine months ended September 30,		For the year ended December 31,		
	2018[(1)(2)]	**2017[(1)(2)]**	**2017[(1)(2)]**	**2016[(1)(2)]**	**2015[(1)(2)]**
			(bcm)		
Austria	7.0	6.7	9.8	7.5	5.0
Belgium	1.9	2.2	2.7	2.5	1.5
Bosnia and Herzegovina	0.2	0.2	0.2	0.2	0.2
Bulgaria	2.3	2.5	3.3	3.2	3.1
Croatia	2.5	2.1	2.8	0.8	0.6
Czech Republic	2.1	2.7	3.8	3.1	0.9
Denmark	1.4	1.3	1.8	1.7	0.7
Finland	1.9	1.8	2.4	2.5	2.8
France	10.5	9.6	13.3	12.5	10.5
Germany	51.0	47.6	67.1	57.9	47.4
Greece	2.4	2.1	2.9	2.7	2.0
Hungary	5.6	5.6	7.0	5.7	6.0
Italy	18.2	18.1	23.7	24.7	24.4
Ireland	0.2	0.1	0.1	0.1	0.2
Macedonia	0.2	0.2	0.3	0.2	0.1
The Netherlands	15.7	10.8	17.4	27.5	8.4
Poland	8.6	7.7	10.5	11.1	8.9
Romania	1.0	0.8	1.4	1.7	0.3
Serbia	1.6	1.6	2.2	1.9	1.9
Slovakia	3.4	3.4	4.5	3.7	3.8
Slovenia	0.4	0.4	0.6	0.5	0.5
Switzerland	0.4	0.2	0.4	0.3	0.3
Turkey	17.9	21.2	29.0	24.8	27.0
United Kingdom	24.3	21.1	29.1	25.7	22.5
Total sales in Europe[(3)]	**180.7**	**170.0**	**236.3**	**222.5**	**179.0**
Other countries[(4)]	4.7	3.8	5.7	5.8	5.4
Total sales in Europe and other countries[(5)]	**185.4**	**173.8**	**242.0**	**228.3**	**184.4**

Notes:

[(1)] Management estimates.

[(2)] Net of trading activity without supplies of natural gas.

[(3)] Except for the FSU countries.

[(4)] Includes LNG sales of Gazprom Germania group of companies, and gas sales in Vietnam and Bolivia.

[(5)] Totals may not sum due to rounding.

Our largest markets in Europe and Other Countries in terms of gas sales volumes in the nine months ended September 30, 2018 were Germany, the Netherlands, the UK, Turkey, Italy, France and Poland.

We are paid for the natural gas we sell to Europe and Other Countries primarily in euros (approximately 55% of our gross sales), U.S. dollars (approximately 31% of our gross sales) as well as in pounds sterling and other currencies.

The major part of gas volumes we sell to Europe and Other Countries is exported from Russia by Gazprom Export. Our

subsidiary, Gazprom Schweiz, exports gas from Central Asia to Europe.

The following table sets out information about our natural gas export volumes to Europe and Other Countries for the periods indicated.

	For the nine months ended September 30,		For the year ended December 31,		
	2018	**2017**	**2017**	**2016**	**2015**
			(bcm)		
Gazprom Export[1]	148.3	139.4	192.2	178.3	158.6
Gazprom Schweiz	1.1	1.8	2.1	1.0	0.8
Total gas exports to Europe and Other Coutries[1]	**149.4**	**141.2**	**194.4**	**179.3**	**159.4**

Notes:

[1] Including gas sales through the bidding process and excluding LNG.

Our gas export volumes increased in the nine months ended September 30, 2018 compared to the respective period of 2017 mainly due to favorable weather conditions in the first quarter of 2018 and the injection of gas to European UGSFs in view of a lower flexibility of other suppliers.

Our gas export volumes increased in 2017 compared to 2016 mainly due to an increase in natural gas consumption along with a moderate increase of domestic gas production in Europe and attractive pricing under our long-term contracts linked to prices for oil refined products.

We are currently the only supplier of Russian pipeline gas to Europe. Our gas exports accounted for approximately 39% of natural gas consumption in Europe in the nine months ended September 30, 2018, as compared to 34% in 2017 and 33% in 2016.

In addition to supplies by Gazprom Export and Gazprom Schweiz, significant volumes of natural gas are sold in Europe and Other Countries by our subsidiaries WINGAS and Gazprom Marketing & Trading and its subsidiaries ("**GM&T**"). GM&T and WINGAS sales volumes include gas purchased from other suppliers.

WINGAS and WIEH. In September 2015, we completed an asset swap transaction with Wintershall Holding and, among other things, obtained a 100% interest in WIBG, which brought our ownership interests in the gas trading and storage companies WINGAS, WIEE, subsequently merged with Gazprom Schweiz, and WIEH to 100%. See "—Reserves and Production—Exploration, development and production regions—Western Siberia (Ural Federal District)—Major fields in commercial operation—Urengoyskoye field (Achimovsk formation)." WINGAS is a European energy provider and a major gas supplier in Germany, the Netherlands, Belgium, Austria, the Czech Republic, supplying gas to utilities, industrial and power companies. WINGAS owns Rehden (Germany), the largest UGSF in Western Europe. WINGAS has access to a portion of active capacity in the Haidach UGSF (Austria) and it has been engaged in the construction of the Jemgum UGSF (Germany). See "—Gas storage—Gas storage in FSU, Europe and Other Countries." WIEH is engaged in gas supplies in Germany.

GM&T. Our subsidiary GM&T conducts operations, primarily trading, in the deregulated natural gas markets. GM&T is engaged in spot and short-term trade of natural gas, retail operations, operations in power, crude oil and oil product markets as well as LNG trading operations worldwide. Currently, GM&T operates through its subsidiaries in the United Kingdom, Belgium, France, Germany, the Netherlands, Ireland and other countries. In particular, in the UK, where GM&T supplies the bulk of its gas volumes sold in the European market, GM&T is the second largest gas supplier in the segment of small and medium-size industrial and commercial consumers. GM&T's subsidiaries, Gazprom Marketing & Trading USA Inc. and Gazprom Marketing & Trading Singapore PTE Ltd. ("**GM&T Singapore**"), are engaged in trading operations in North America and Asia, respectively.

In the course of the optimization of our foreign assets portfolio, in January 2016, we sold our 25% interest in Gasum to the Finnish state-owned company Gasonia for €251.3 million. We intend to continue working with Gasum under our long-term gas supply contract.

In addition, in September 2018, we completed the sale of our 71% interest in Bosphorus Gaz Corporation A.S. (Turkey). Currently, we are considering the possibility of selling our interest in Overgaz Inc. AD (Bulgaria).

Europe

We export natural gas to Europe mostly pursuant to long-term contracts, which generally include the following terms:

- price-setting clauses based on prices for oil products or alternative pricing mechanisms, including gas trading floor quotations;

- price adjustment clauses pursuant to which the formulas for determining the price of natural gas under the contracts is generally reviewed once every two-three years if market conditions have changed significantly;

- "take-or-pay" provisions that provide that: (i) off-takers who have purchased less than the minimum contracted-for annual volume of natural gas at year's end are required to pay for some portion (but generally not all) of the shortfall; and (ii) such payment is credited to the off-taker if, in a subsequent year, the off-taker purchases more than the minimum contracted-for volume of natural gas.

Most of our long-term export contracts extend for 10 years and beyond. Some of our long-term export contracts are set to expire in 2042. Long-term supply contracts have historically been the basis for stability in the European natural gas market. The proportion of short term and spot contracts for natural gas supply has risen in the recent years and may continue to increase in response to changes in regulatory and market conditions. We have amended our export contracts with European customers in order to improve the competitive position of our natural gas in our customers' markets and to preserve, to the extent possible, the pricing principles and the structure of our long-term contracts. The amendments included, among other things, linking the prices for some volumes supplied under our long-term contracts to gas trading floor quotations. We have revised our long-term contract pricing with most of our European customers and revised the "take-or-pay" provisions in contracts with certain of our customers.

The effects of retroactive gas price adjustments are recorded in our accounting when they become probable and a reliable estimate of the amounts can be made. As of September 30, 2018, the amount of our provisions accrued for such liabilities was RR32 billion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Year ended December 31, 2017 versus Year ended December 31, 2016—Sales" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Year ended December 31, 2016 versus Year ended December 31, 2015—Sales," "Results of Operations—Nine-month period ended September 30, 2018 versus nine-month period ended September 30, 2017" and "Risk Factors—A significant difference between prices under our long-term contracts and natural gas market spot prices have affected, and in future periods could adversely affect, the amount of revenue generated by our natural gas sales in Europe, the FSU and other markets where we sell under such terms."

Currently, a significant portion of our gas sales volumes in Europe and Other Countries is priced with reference to various price indices quoted on the European liquid trading floors. However, we believe that long term arrangements for gas supply to Europe are likely to be of a continuing importance. By providing long-term guarantees for natural gas supply and off-take and predictability of prices, long-term contracts meet both suppliers' and consumers' strategic interests.

In response to the changes in the European market, we have been increasingly involved in short-term gas transactions, including those on trading boards. In addition, in 2015 and 2016, we arranged gas sale auctions to test such new marketing tool for European customers and sold an aggregate amount of 3.6 bcm of gas to our existing and new customers. Based on the results of such gas sale auctions, in August 2018, Gazprom Export launched an electronic trading board in order to flexibly respond to changing market conditions and sell additional gas volumes, complementing our gas sales under long-term contracts.

We also supply gas to end consumers in Europe mainly through our subsidiaries, WINGAS and GM&T. The total volume of our gas sales to end consumers through these companies amounted to 26.2 bcm and 24.2 bcm in the nine months ended September 30, 2018 and 2017, and 29.9 bcm and 24.7 bcm in 2017 and 2016, respectively. In 2018, our subsidiaries supplied gas to end consumers in Austria, Belgium, the Czech Republic, France, Germany, Ireland, the Netherlands and the United Kingdom.

In recent years, European gas markets have experienced significant restructuring. In particular, a deregulation and liberalization of the EU gas market has taken place resulting in greater competition in the market and reduced gas prices for end-users. See "—Competition—Europe."

We also sell gas as motor fuel through the network of NGV-refueling stations and cryo gas filling stations and plan to enter the LNG bunker fuel market in Europe. See "—Distribution— Natural gas as motor fuel and small scale LNG—Europe."

Asia

China. In May 2014, we signed a contract with CNPC for the supply of up to 38 bcm of pipeline gas from Russia to China annually via the Eastern route for 30 years. The contract became effective in 2015. The contract pricing terms are linked

to oil product prices. In July 2017, we signed a supplement agreement to the contract providing for the start of gas supplies in December 2019. The contract provides for a gradual increase of delivery volumes to the contracted amount of 38 bcm in the early years of supplies. In December 2017, we completed negotiations of the special technical terms and conditions for gas supplies through the Eastern route. In particular, CNPC and we signed a coordination agreement by way of a supplement to the supply contract setting out the process of operational interaction of the parties.

The Eastern route envisages the delivery of gas via the Power of Siberia pipeline. We are currently implementing projects to create gas production, transmission and processing capacities to supply gas to China, including the development of the Chayandinskoye and Kovyktinskoye fields and the construction of each of the Power of Siberia pipeline and gas processing plant in the Amur Region. See "—Reserves and Production—Exploration, development and production regions—Eastern Siberia and the Far East (Siberian and Far East Federal Districts)," "—Transport—Gas Transportation projects in Russia" and "—Refining—Projects in Refining—Amurskiy GPP."

We are also negotiating with CNPC possible gas supplies via a western route that is projected to go through the western section of the border between Russia and China. See "—Transport—Gas transportation projects in Russia—Power of Siberia II pipeline." In May 2015, we signed a heads of agreement with CNPC for gas supply to China via the western route, which provides, among other things, for the volume of supplies, term of contract (up to 30 bcm annually over 30 years), delivery point and other key terms of the future gas supply agreement. We continue to negotiate other contractual terms.

In May 2015, we signed a strategic partnership agreement with CNPC, which determines priority areas for cooperation, including gas supplies to China via eastern and western routes as well as assessing opportunities for pipeline gas supplies from the Russian Far East to China.

In December 2017, we signed with CNPC heads of agreement for natural gas supplies to China from Russia's Far East which sets out the basic terms of future supplies including volumes, the term of the contract, starting date of supplies, surge period, and the border crossing point. The parties continue to prepare for signing of the contract.

We are also planning to enter the LNG bunkering market in Asia. See "—Natural gas as motor fuel and small scale LNG—Asia."

LNG

One of our gas business priorities has been the implementation of our strategic plan for the production, maritime transportation and marketing of LNG. Currently, we supply LNG to countries in Asia, Middle East and South America.

Our associate, Sakhalin Energy, in which we hold a 50% plus one share interest, operates the Sakhalin II project, produces and sells LNG from Sakhalin to the consumers of the Asia-Pacific region. Pursuant to a sale and purchase contract with Sakhalin Energy extending through 2028, we purchase approximately 1 million tons of LNG from Sakhalin Energy annually. This contract accounts for the major portion of our current LNG trading portfolio which also includes purchases of LNG from third parties to raise our LNG trading volumes in the short and medium term.

The table below sets forth the volumes of our LNG sales for the periods indicated:

	For the nine months ended September 30,		For the year ended December 31,		
	2018	2017	2017	2016	2015
	(million tons)				
LNG Sales	2.7	2.1	3.3	3.7	3.6

To expand our LNG portfolio, our subsidiary, GM&T, signed memoranda of understanding with four Indian companies for the annual supply of up to 10 million tons of LNG to India for 25 years. In October 2012, pursuant to one of these documents our subsidiary GM&T Singapore and GAIL, the leading gas transportation and distribution company in India, signed a sale and purchase contract providing for annual supplies of up to 2.9 million tons of LNG for 20 years from reaching the plateau level of supplies. The contract came into force in 2014 and gas supplies commenced in June 2018.

In January 2015, our subsidiary, GM&T Singapore, entered into a sale and purchase agreement with Yamal Trade, a subsidiary of JSC Yamal LNG, to purchase LNG from the Yamal LNG project. The agreement provides that we annually purchase 2.9 million tons of LNG from the project at a delivery point in Europe over 20 years from reaching the plateau level of supplies. Supplies under the contract commenced in May 2018. We expect to sell these LNG volumes primarily in India.

In November 2015, GM&T Singapore entered into an LNG sale and purchase agreement with Perenco Cameroon and La Société Nationale des Hydrocarbures du Cameroun to exclusively offtake approximately 1.2 million tons of LNG a year over 8 years from the new Cameroun FLNG project. Supplies under the sale and purchase agreement commenced in May 2018.

Further development of our LNG business envisages a considerable increase of our LNG trading portfolio primarily through implementation of our own gas liquefaction projects.

Third LNG production line at the Sakhalin LNG plant. Together with other shareholders of Sakhalin Energy, we have developed project documentation for the construction of a third LNG production line at the Sakhalin LNG plant with an annual projected capacity of up to 5.4 million tons. The project also envisages construction of additional LNG storage and shipping facilities and increase of transportation capacities from the onshore gas processing complex in the northern part of the island to the Sakhalin LNG plant. Currently, Sakhalin Energy is making arrangements for holding tenders to appoint subcontractors and expects to commission the third production line in the period from 2023 to 2024.

In June 2015, we signed a memorandum with Royal Dutch Shell that provides for the implementation of the project to construct the third production line of the Sakhalin LNG plant. The memorandum sets forth the anticipated deadlines for engineering work and implementation of the project and determines further steps towards making the investment decision. In order to fully utilize its projected capacity, the third production line of the Sakhalin LNG plant is expected to use gas from the Sakhalin III project.

Baltic LNG Plant. We have completed the pre-investment study of the project to construct the Baltic LNG Plant in the proximity of the Ust-Luga sea port in the Leningrad Region, with a projected annual capacity of over 10 million tons of LNG with a potential for expansion. The Baltic LNG Plant is expected to receive gas from the UGSS. Target markets include countries in the Atlantic region and small-scale LNG market in the regions of the Baltic and the North Seas, as well as the Middle East and South Asia. We expect to use project finance to finance the development of the project. We expect to determine the commissioning date after the project documentation is complete.

In June 2016, we signed with Royal Dutch Shell a memorandum of understanding on the Baltic LNG project. Pursuant to the document, the parties are exploring the prospects for implementation of the project. In June 2017, we signed with Royal Dutch Shell heads of agreement to set up a joint venture for the purpose of securing financing for and carrying out the design, construction and operation of the Baltic LNG plant. In June 2017, we also signed with Royal Dutch Shell a framework agreement for a joint feasibility study of the project, which was completed in August 2018. In October 2018, we signed with Royal Dutch Shell a framework agreement on the joint design concept for the project.

In September and December 2018, we also signed with Mitsui and ITOCHU Corporation memoranda of understanding outlining the parties' intent to consider opportunities for cooperation on the Baltic LNG project.

Regasification terminal in the Kaliningrad Region. In 2018 we completed the construction of an LNG regasification terminal, including a floating regasification unit, on the coast of the Baltic Sea in the Kaliningrad Region, with a projected capacity of 3.7 bcm per annum, in order to diversify our transportation routes and ensure reliable gas supplies to the region.

LNG complex near the Portovaya CS. We are constructing an LNG production, storage and shipment complex with an annual capacity of 1.5 million tons near the Portovaya compressor station in the Leningrad Region. The complex includes a maritime terminal to allow for shipment to LNG tankers with a varying carrying capacity, including small-scale LNG shipments. We expect to deliver LNG from the complex primarily to commercial consumers of gas, including for maritime bunkering, as well as to the regasification terminal in the Kaliningrad Region, if needed, to ensure gas supplies to the region. We expect to put it on stream in 2019.

LNG plant in the proximity of the coast of the Black Sea. In June 2017, we signed with OMV a framework agreement to collaborate in the small-scale LNG sector. In particular, according to the document, the parties intend to consider opportunities for cooperation in implementing a project for the construction of a small-scale LNG plant in the Krasnodar Region, near the Black Sea coast, to produce, transport and market small-scale LNG. The projected annual capacity of the LNG terminal is 0.5 million tons, with a potential of expansion up to 1.0 million tons of LNG. We consider the countries of the Black Sea, Danube River Basin and Mediterranean as potential target markets for LNG deliveries from the plant, to fuel land, marine, river transport and for autonomous gasification. We are currently engaged in pre-investment study and assessing feasibility of the project.

We are also carrying out a feasibility study of the project for the construction of an LNG plant with an annual capacity of up to 1.5 million tons of LNG near Vladivostok in order to deliver LNG to China, Japan and other countries of the Asia-Pacific region as well as for LNG bunkering, in particular, in the Russian Far East.

Russia

For the nine months ended September 30, 2018 and 2017 our natural gas sales to Russia accounted for approximately 49% and 49% of the volume of natural gas we sold and for 21% and 25% of our natural gas net sales for the periods indicated. In 2017 and 2016 our natural gas sales to Russia accounted for approximately 45% and 45% of the volume of natural gas we sold and for 26% and 25% of our natural gas net sales, adjusted for retroactive gas price revisions, for the periods indicated, respectively.

Domestic market conditions

In accordance with the current legislation in Russia, natural gas is sold to customers at regulated and non-regulated prices. We are the dominant supplier of gas at regulated prices. There are also other regional gas companies operating in the regulated segment outside the UGSS. The regulated wholesale prices for gas that are currently in effect are set below those which are economically viable.

The electricity sector is the main consumer of natural gas in Russia. In addition, natural gas is also widely used in the metallurgical, agro-chemical, construction and other sectors, as well as in households (housing and utility services). Regulated prices are differentiated by consumer groups (household and industrial consumers), as well as by 60 price bands based on the relative distance from the gas production region to the consumer. The regulated wholesale prices for industrial consumers are 19% higher than those for households.

The following table presents the actual growth rates of weighted average wholesale regulated natural gas prices for industrial and household consumers:

	2018[2]	2017	2016
Average price increase for households (average for the year, as compared with the previous year)	3.6%	2.6%	5.2%
Average price increase for industrial consumers [1] (average for the year, as compared with the previous year)	2.8%	1.1%	5.1%

Note:

(1) Exclusive of new and additional gas volumes supplied pursuant to Resolution No. 333 (as defined below).

(2) Anticipated based on actual sales volumes for the nine months ended September 30, 2018.

The following table presents the weighted average wholesale regulated natural gas price for industrial and household consumers for the periods indicated:

	2018[3]	2017	2016
Weighted annual average for industrial consumers and households (RR per mcm)[1]	4,122.7	3,988.5	3,938.2
Weighted annual average for industrial consumers (RR per mcm)[2]	4,319.6	4,202.3	4,158.1
Weighted annual average for households (RR per mcm)[2]	3.637.6	3,512.9	3,422.8

Notes:

(1) Calculated as the combined weighted average prices to industrial and household consumers for the year indicated. Weighting is based on actual volumes delivered to each price band for household and industrial consumers, respectively (exclusive of gas volumes supplied pursuant to Resolution No. 333).

(2) Weighting is based on actual volumes delivered to each price band for each group of consumers, industrial consumers and households, separately (exclusive of gas volumes supplied pursuant to Resolution No. 333).

(3) Anticipated based on actual sales volumes for the nine months ended September 30, 2018.

In order to promote market principles in the domestic gas market, the Government issued Resolution No. 333 dated May 28, 2007 "On improvement of gas prices regulation" ("**Resolution No. 333**"). Pursuant to Resolution No. 333, for the period from July 1, 2007 through January 1, 2011, we were allowed to sell natural gas to specific categories of customers at prices negotiated with our counterparties from a defined price range. Since January 1, 2011, the price range has been determined pursuant to Resolution No. 1205 "On Improving State Regulation of Gas Prices" dated December 31, 2010. These principles also applied to the new end use gas consumers and consumers purchasing natural gas volumes in excess of those stipulated in gas supply contracts for 2007. In 2017 and 2016, gas sales to these categories of customers amounted to 29.8 bcm and 25.9 bcm, with an average negotiated price which was 3% and 4% higher than the respective wholesale regulated price, respectively.

Since July 2015, the FAS has been responsible for setting wholesale gas prices in Russia. The Forecast sets forth the

anticipated rates of increase of regulated wholesale gas prices. According to the Forecast, regulated wholesale gas prices are anticipated to rise for all categories of Russian consumers by 1.4% from July 1, 2019 and up to 3.0% from July 1 of each year from 2020 through 2024. See "Risk Factors—Risks Relating to Our Business—We are required to supply natural gas to customers in Russia at prices that are regulated by the Government and are below those which may be economically viable to us."

In order to mitigate the risks associated with the regulated pricing for gas, we continue to engage with Russian federal state authorities to enhance the price setting mechanisms, including by way of adopting justified pricing principles that would ensure sustainable terms of domestic gas supplies.

Government Resolution No. 323 dated April 16, 2012, as amended, which was issued for the purpose of development of the market pricing principles, permitted us and our affiliates to sell on commodity exchanges and in trading systems up to 17.5 bcm of gas starting from 2013. The regulated wholesale prices do not apply to the volumes sold in accordance with this Resolution, but the volumes of gas we are permitted to sell in accordance with this Resolution cannot exceed the volumes of gas sold by independent producers in trading systems.

Gas trading was launched at the Saint-Petersburg International Mercantile Exchange in October 2014. In 2017 and 2016, 20 bcm and 16.7 bcm of gas were sold on the exchange, respectively, of which our sales volumes amounted to 17.5 bcm and 10.7 bcm of gas, respectively. In the nine months ended September 30, 2018 and 2017, 13.0 bcm and 15.5 bcm of gas were sold on the exchange, respectively, of which our sales volumes amounted to 11.0 bcm and 13.3 bcm of gas, respectively.

In addition, we and our affiliates are permitted to sell natural gas at unregulated prices to industrial customers in Russia, (i) which is intended for subsequent liquefaction and export sales (according to Government Resolution No. 1663 dated December 27, 2017); (ii) which is supplied using a liquefaction or regasification technology (according to Government Resolution No. 1442 dated November 30, 2018); (iii) which is intended for production, and subsequent export, of methanol from natural gas in gaseous state and supplied under contracts signed after November 1, 2018 for gas supplies to take place after January 1, 2020 (according to Government Resolution No. 1282 dated October 29, 2018).

Domestic sales

We sign both one year and long-term gas supply contracts with our Russian customers. We sell gas domestically mainly through our wholly owned subsidiary Gazprom mezhregiongaz, which sells gas to regional gas sales companies in Russia. Regional gas sales companies contract directly with and collect payments from the end customers, including households.

Our acquisitions of controlling interests in various gas distribution companies have enabled us to capture the transportation tariffs that are payable to them in respect of the transportation services they provide. The gas distribution companies own and operate low- and medium-pressure pipelines that transport gas to end consumers. Regional gas distribution companies charge a fixed price for supply and distribution services. Our gas distribution assets are consolidated primarily in our subsidiary Gazprom gazoraspredelenie. As of December 31, 2017, our subsidiaries and associated gas distribution companies operated approximately 773.4 thousand kilometers of gas distribution pipelines (which accounted for a major part of the total gas distribution pipelines in Russia) and facilitated supply of approximately 239 bcm of gas in transit and gas supplies to end-users in 2017.

We also sell gas as motor fuel through our network of NGV-refueling stations in Russia. See "—Natural gas as motor fuel and small scale LNG—Russia."

Payments for gas deliveries in Russia

Gross accounts receivable for natural gas supplied to Russian customers (before deduction of allowance for expected credit losses) amounted to RR373,716 million, RR403,820 million and RR369,383million as of September 30, 2018 and December 31, 2017 and 2016, respectively (including Russian VAT). As of September 30, 2018, approximately 82% of our aggregate accounts receivable for natural gas from Russian customers were overdue. As of September 30, 2018, we made provisions of RR279 billion for expected credit losses on our accounts receivable due from customers for gas sales in Russia. See "Risk Factors—Risks Relating to Our Business—Delayed, non-collectible and non-cash payments by our customers could adversely affect us."

The FSU

In the nine months ended September 30, 2018 and 2017 our gas sales to the FSU countries accounted for approximately 7% and 7% of the volume of gas we sold and for 8% and 9% of our gas net sales revenues during the same periods,

respectively. In 2017 and 2016 our gas sales to the FSU countries accounted for approximately 7% and 7% of the volume of gas we sold and for 9% and 9% of our gas net sales revenues, adjusted for retroactive gas price revisions, during the same periods, respectively. We supply a significant proportion of the volume of natural gas consumed in the FSU countries. Belarus is the largest consumer of the natural gas we supply to the FSU.

The following table sets out our natural gas sales volumes to the FSU countries for the periods indicated:

	For the nine months ended September 30,		For the year ended December 31,		
Country	**2018[1]**	**2017[1]**	**2017[1]**	**2016[1]**	**2015[1]**
			(bcm)		
Armenia	1.3	1.3	1.8	1.8	1.8
Azerbaijan	0.8	–	0.4	–	0.1
Belarus	14.0	13.2	18.8	18.3	18.4
Estonia	0.3	0.3	0.5	0.4	0.5
Georgia	0.0	0.1	0.1	0.1	0.3
Kazakhstan	4.8	3.0	4.8	4.7	4.7
Kyrgyzstan	0.2	0.2	0.3	0.3	0.3
Latvia	1.0	1.7	1.8	1.3	1.3
Lithuania	0.9	0.9	1.4	0.9	2.2
Moldova	2.0	1.8	2.7	3.0	2.9
Ukraine	1.8	1.6	2.4	2.4	7.8
South Ossetia	0.0	0.0	0.0	0.0	0.0
Total[2]	**27.1**	**24.1**	**35.0**	**33.2**	**40.3**

Notes:

(1) Management estimates.

(2) Totals may not sum due to rounding.

Sales to the FSU countries are primarily made directly by Gazprom, though we also sell natural gas through Gazprom Export and its subsidiaries. Currently, on average, the annual contract prices for the natural gas we supply to the FSU countries are higher than the Russian domestic prices but lower than our prices in Europe.

In January 2009, Gazprom and Naftogaz entered into the 2009 Contract pursuant to which we agreed to provide natural gas supply to Ukraine in the amount of 40.0 bcm in 2009 and 52.0 bcm per year thereafter. The contract price for gas was calculated quarterly using a formula that takes into account changes in price indexes on fuel and gas oil. Since 2012, Naftogaz has failed to off-take the contracted for volumes of gas and accumulated substantial overdue debt for our gas supplies. In accordance with the Gas Supplies Award, Naftogaz is obliged to off-take 5 bcm of natural gas under the 2009 Contract annually starting from 2018 or pay for 80% of this volume if it fails to off-take it. See “Gazprom—Litigation and Investigations.” We currently supply gas to Ukraine pursuant to the 2009 Contract through the Platovo and Prokhorovka gas measuring stations in the eastern part of Ukraine. However, Naftogaz has neither paid for nor recognized these supplies as made under the 2009 Contract. In the end of February 2018, Naftogaz made a prepayment for gas deliveries beginning from March 2018. We returned the prepayment and did not recommence the deliveries of gas because the parties had not agreed to certain supplements to the 2009 Contract reflecting provisions of the Gas Supplies Award. See “—Litigation and Investigations.” See “Risk Factors—Risks Relating to Our Business—We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas”, “—Distribution—The FSU” and “—Litigation and Investigations.”

In December 2014, we signed contracts for gas supply to Belarus and gas transit through its territory in the period from 2015 through the end of 2017. In April 2017, we signed with the government of Belarus a protocol that determines a pricing mechanism for our gas supplies to Belarus for 2018 and 2019. In December 2017, we extended our contracts for gas supply to Belarus through the end of 2019.

We also supply natural gas to Kazakhstan, Moldova, Armenia and other FSU countries under contracts signed with counterparties in respective countries. Our subsidiaries Gazprom transgas Belarus, Gazprom Armenia and Gazprom Kyrgyzstan supply gas to end consumers in Belarus, Armenia and Kyrgyzstan, respectively.

In addition, we sell gas through our network of NGV-refueling stations in the FSU countries. See “—Natural gas as motor fuel and small scale LNG—FSU.”

Debt settlement. The failure of a number of FSU customers to pay us for supplies of natural gas has resulted in substantial debts to us. The following table sets out accounts receivable due from customers in the FSU countries for sales of natural gas (before deduction of allowance for expected credit losses) as of the dates indicated:

	As of September 30, 2018	As of December 31, 2017	2016	2015
	(million RR)			
Ukraine	121,946	80,231	188,307	192,756
Belarus	26,680	16,801	46,678	14,159
Moldova	400,217	339,410	342,690	385,287
Other	5,147	6,942	9,606	19,364
Total	**553,990**	**443,384**	**587,281**	**611,566**

As of September 30, 2018, 95% of our aggregate accounts receivable for natural gas from FSU customers presented in the table above were doubtful or overdue, which mostly related to natural gas sales in Moldova and Ukraine. In particular, as of September 30, 2018, all of our gross accounts receivable for gas supplies to Moldova and Ukraine were doubtful or overdue. As of September 30, 2018, we made provisions of RR523 billion for expected credit losses on our accounts receivable due from customers for gas sales in the FSU countries, including provisions in the amount of RR122 billion in respect of Naftogaz's overdue debt. See "Risk Factors—Risks Relating to Our Business—Delayed, non-collectible and non-cash payments by our customers could adversely affect us."

To date, our efforts to obtain repayment of the debt and ensure full payments for current gas deliveries to the Transdnestria Region of Moldova, which is under separate administration, have been unsuccessful. We are limited in our ability to decrease gas deliveries to the Transdnestria Region because doing so may adversely affect our deliveries to Balkan countries.

Arbitration over the 2009 Contract price and Naftogaz's debt owed to us for gas supplies in 2013 and 2014 and the failure to purchase contracted gas volumes under the "take-or-pay" clause in the period from 2012 through 2016 proceeded from 2014 through 2017. In December 2017 and February 2018, the SCC Arbitration rendered the Gas Supplies Award and the Transit Dispute Award, respectively. As of September 30, 2018, our accounts payable accrued as a result of these arbitration awards amounted to RR175 billion. Currently, we are appealing against the arbitral awards. See "Gazprom—Litigation and Investigations." Our gas transit to Europe through Ukraine was not affected by these developments. See "Risk Factors—Risks Relating to Our Business—We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas."

In the past, we were engaged in disputes with Gazprom transgaz Belarus (formerly known as Beltransgaz, which was owned by the government of Belarus) regarding pricing terms and payment for gas supplies. In 2010, we suspended our supply of natural gas to Belarus until our Belorussian customers settled their indebtedness for our gas supplies. In 2016 and early 2017, Belorussian customers accumulated a significant amount of debt for our gas supplies. In April 2017, we signed with the government of Belarus a protocol that determines a pricing mechanism for our gas supplies to Belarus for the period from 2018 through 2019. Simultaneously, the Belorussian customers fully repaid their debt for gas supplies to the Gazprom Group. Our gas transit to Europe through Belarus was not affected. See "Risk Factors—Risks Relating to Our Business—We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas" and "—Transport—Existing routes of gas export and participation in foreign gas distribution networks—Natural gas transit through Ukraine and Belarus."

Cooperation with FSU countries in gas marketing

A significant element of our policy in Central Asia is the development of the gas, oil and energy infrastructure in the region to ensure effective industrial cooperation, established during the time of the USSR. In this respect, we began assessing and executing a number of joint investment projects in production, processing and transportation of hydrocarbons in the Central-Asian region. In addition, we have entered into agreements to purchase natural gas from Central Asia. See "—Joint Ventures and Alliances—Central Asia."

We purchase gas in Kazakhstan and Uzbekistan under contracts signed with our counterparties in the respective countries.

Our amended and restated long-term contract with GK Turkmengaz signed in December 2009 provided for our annual purchase of up to 30 bcm of Turkmen natural gas. We have not purchased natural gas from Turkmenistan since 2016. We are also engaged in a price revisions dispute with GK Turkmengaz which is currently suspended in order to come to an amicable resolution of the dispute. See "—Litigation and Investigations."

We also signed an agreement with Intergas Central Asia JSC which has been extended through March 31, 2019 and provides for the transportation of central Asian natural gas through Kazakhstan. The agreement is an important part of our strategy to increase the reliability of gas supplies from the region.

The following table sets out the volumes of gas we purchased from the FSU countries for the periods indicated:

	For the nine months ended September 30,		For the year ended December 31,		
	2018	2017	2017	2016	2015
			(bcm)		
Turkmenistan	–	–	–	–	3.1
Kazakhstan	10.1	10.8	14.1	12.9	12.8
Uzbekistan	6.1	5.5	7.2	6.2	6.4
Total	**16.2**	**16.3**	**21.3**	**19.1**	**22.3**

Sales of liquid hydrocarbons and refined products

This section sets forth information relating to our Production of crude oil and gas condensate segment and Refining segment as they relate to sales of liquid hydrocarbons and refined products, each as defined in the Group's Financial Statements. For information relating to exploration and production of oil and gas condensate, see "Reserves and Production," for information relating to processing of oil, gas condensate and other hydrocarbons, see "Refining."

Our sale of liquid hydrocarbons and refined products in Russia is principally conducted by Gazprom and Gazprom Neft. Our export operations are conducted primarily by Gazprom Export and Gazprom Neft.

In Russia, we also sell liquid hydrocarbons pursuant to long-term contracts and engage in spot deliveries to consumers at market prices. The prices for liquefied petroleum gases sold in Russia are regulated by the Government.

The primary export markets for our crude oil are European countries, where we mainly supply Urals crude oil. The prices for our supplies are based on formulas tied to prices of Urals crude oil. In the nine months ended September 30, 2018, the average price of Urals crude oil increased by 39% to U.S.$71 as compared to the respective period of 2017.

The following table sets out sales volumes of crude oil and gas condensate for the periods indicated:

	For the nine months ended September 30,		For the year ended December 31,		
	2018	2017	2017	2016	2015
			(million tons)		
Russia[1]	1.9	3.5	4.3	5.9	5.3
Europe and Other Countries	13.8	14.5	21.6	17.1	9.8
FSU countries	1.3	1.3	1.7	1.7	1.9
Total	**17.1**	**19.3**	**27.6**	**24.7**	**17.0**

Note:

(1) The volumes of crude oil and gas condensate sold to indicated markets do not include intra-group sales. The total volume of crude oil and gas condensate sold by the Group is included, both own production and purchased from third parties.

In the nine months ended September 30, 2018, our sales volumes of crude oil and gas condensate decreased as compared to the respective period of 2017 primarily due to the growth of crude oil throughput at our oil refining plants following the completion of scheduled reconstruction and capital repairs.

In 2017, our sales volumes of crude oil and gas condensate increased as compared to 2016, primarily due to increased oil production at the Novoportovskoye and Prirazlomnoye fields, the start of production at the Vostochno-Messoyakhskoye field in Russia, the growth of oil production in Iraq and a reduction in oil refining. The decrease in sales in the domestic market was due to reduced economic efficiency of oil trading operations in Russia.

The following table sets out sales volumes of refined and petrochemical products (excluding helium) for the periods indicated:

	For the nine months ended September 30,		For the year ended December 31,		
	2018	2017	2017	2016	2015
			(million tons)		
Russia[1]	33.3	31.5	41.0	41.2	41.3
Europe and Other Countries	14.5	14.8	21.5	23.3	23.8
FSU countries	3.4	2.8	3.6	3.6	4.3
Total	**51.1**	**49.2**	**66.1**	**68.1**	**69.4**

Note:

(1) The volumes of refined and petrochemical products sold to the consumers of the corresponding sales markets are presented net of intercompany

sales. The data includes sales volumes of refined products produced by the Group and purchased from third parties.

In 2017 and 2016, our sales of gaseous helium amounted to 3.3 million cm and 3.2 million cm, respectively. In the nine months ended September 30, 2018 and 2017, our sales of gaseous helium amounted to 2.6 million cm and 2.5 million cm, respectively. We sell almost all of our gaseous helium in Russia. In addition, we sold 290 tons and 299 tons of liquid helium in 2017 and 2016, respectively. In the nine months ended September 30, 2018 and 2017 our sales of liquid helium amounted to 222 tons and 213 tons, respectively.

In the nine months ended September 30, 2018, our sales volumes of refined and petrochemical products increased as compared to the respective period of 2017 primarily due to the growth of crude oil throughput at our oil refining plants following the completion of scheduled reconstruction and capital repairs.

In 2017, our sales volumes of refined and petrochemical products decreased as compared to 2016, primarily due to reduced oil refining in connection with scheduled capital repairs at certain refining plants of Gazprom Neft.

Distribution Networks

Gazprom Neft operates one of the most extensive distribution networks in Russia. Gazprom Neft also owns the retail network in the FSU, Europe and Other Countries, including Serbia, Romania, Bulgaria, Bosnia and Herzegovina.

As of September 30, 2018, our subsidiary, Gazprom Neft, operated a network of 1,784 gasoline stations (excluding franchisees' stations), including 608 gasoline stations outside Russia. In addition, Gazprom Neft's franchisees operated 57 gasoline stations in Russia and Europe. Gazprom Neft sold approximately 11.0 million tons and 10.5 million tons of oil products through its own and franchisees' gasoline station networks in 2017 and 2016, respectively. Gazprom Neft sold approximately 8.5 million tons and 8.3 million tons of oil products through its own and franchisees' gasoline station networks in the nine months ended September 30, 2018 and 2017, respectively.

Natural gas as motor fuel and small scale LNG

Europe

We operate in the NGV fuel segment in the European market through our 100% subsidiary Gazprom NGV Europe GmbH in Germany, the Czech Republic, Poland, and through NIS, a subsidiary of Gazprom Neft, in Serbia. As of mid-December 2018, we owned 67 NGV-refueling and two cryo gas filling stations in Europe. Through our NGV-refueling and cryo gas filling stations, we sold 10.2 mmcm, 9.4 mmcm, 12.3 mmcm and 12.2 mmcm of compressed natural gas in Europe in the nine months ended September 30, 2018 and 2017 and years ended December 31, 2017 and 2016, respectively.

In September 2017, we signed with Volkswagen a cooperation agreement and a road map providing for the parties' cooperation in the promotion of natural gas as motor fuel for the European market.

Asia

In October 2015, pursuant to the agreement with PV Gas, a subsidiary of Petrovietnam, we established a joint venture, PVGAZPROM, which is expected to engage in the construction and operation of gas engine fuel production and marketing facilities in Vietnam. Currently, PV Gas holds a 29% interest in PVGAZPROM while GGT, our 50/50 joint venture with GPB, and our subsidiary Gazprom EP Int., each holds a 35.5% interest in PVGAZPROM. PVGAZPROM has conducted and the project participants have approved a feasibility study of a project for the construction of a small-scale gas liquefacton complex ("**GLC**") with an annual production capacity of up to 20 mmcm of LNG and six LNG or NGV-refuelling stations in the southern provinces of Vietnam. PVGAZPROM has prepared the tender documentation and is currently arranging the tender procedures.

In December 2016, we signed with Mitsui an agreement for strategic cooperation. The document envisages collaboration in various areas, including an expansion of the Sakhalin II project.

In September 2017, we signed with Mitsui a framework agreement for cooperation, pursuant to which the parties intend to consider opportunities for cooperation in production, transportation and marketing of small- and mid-scale LNG in Japan and LNG bunkering in the Russian Far East.

In November 2016, we also signed with CNPC a memorandum to explore the opportunities to promote natural gas as vehicle fuel, including performing a joint marketing study of using LNG as a vehicle fuel along the Europe – China international transport route. In May 2017, we signed with CNPC, China Communications Construction Company Ltd. and Russian Highways State Company a memorandum providing for the parties' cooperation in developing road

infrastructure of the Europe–China international transport route and in promoting LNG to fuel vehicles along that route.

In October 2017, we signed a memorandum of understanding with CNPC and KazMunayGaz reflecting the parties' interest in long term strategic cooperation in the NGV market, including the development of NGV-refueling infrastructure of the Europe –China international transport route. In particular, the memorandum contemplates a study of the volume of trucks' gas fuel consumption in the Russian, Kazakh and Chinese parts of the route through 2030. This study is expected to form the basis for taking a decision on the development of a roadmap for building a NGV-refueling network alongside the route.

Russia

We sell compressed gas in Russia through a network of NGV-refueling stations and are expanding this network in Russia by constructing new NGV-refueling stations, purchasing third-party stations and installing compressed natural gas units at existing and projected third-party gasoline stations. We also sell LNG from our GLCs in Russia. To enhance the efficiency of implementing our strategy in the gas engine fuel market, we have established GGT which is currently our 50/50 joint venture with GPB.

Public transport, cargo trucks, passenger vehicles and municipal vehicles are currently major consumers of compressed gas in Russia. We are implementing a number of pilot projects relating to the utilization of LNG in long-distance motor transport, railway and water transport.

GGT has signed memoranda of understanding with major Russian and foreign machinery and automobile producers and a railroad transportation company concerning potential cooperation in using gas as a motor fuel. We have also signed agreements with certain Russian regions, including Moscow and Saint-Petersburg, providing for promotion of natural gas as a motor fuel, in particular, for public transport and road machinery.

In addition, Gazprom LNG technologies, our 50/50 joint venture with GazHolodTekhnologiya, plans to construct three GLCs in the Tyumen Region and one GLC in the Yamal-Nenets Autonomous Area to produce LNG for railway locomotives, with an aggregate annual projected capacity of approximately 0.1 million tons, and put them into operation in the period from 2020 to 2024. Gazprom LNG technologies also plans to construct a GLC in the Tver Region to produce LNG for motor fuel, with an annual projected capacity of 40,000 tons, and put it into operation in 2020. Gazprom LNG technologies is expected to engage in the construction and operation of the GLCs, while GGT is to market LNG as motor fuel to retail customers.

As of September 30, 2018, we operated a network consisting of 285 operating NGV-refueling stations in Russia. We sold 528 mmcm of compressed natural gas through NGV-refueling stations in Russia in 2017, as compared to 481 mmcm in 2016. We sold 429 mmcm and 384 mmcm of compressed natural gas through NGV-refueling stations in Russia in the nine months ended September 30, 2018 and 2017, respectively.

FSU

We also sell compressed gas through NGV-refueling stations in the FSU countries. In particular, our subsidiaries, Gazprom transgaz Belarus, Gazprom Armenia and Gazprom Kyrgyzstan operate NGV-refueling stations in Belarus, Armenia and Kyrgyzstan, respectively. We sold a total of 35.0 mmcm and 31.7 mmcm of compressed natural gas through these stations in 2017 and 2016, respectively.

Electric and heat energy generation and sales

Our Electric and heat energy generation and sales segment sells electric and heat energy to third parties.

Financial Highlights

The following table sets forth selected financial data with regard to our Electric and heat energy generation and sales segment as defined in the Group's Financial Statements:

	Electric and heat energy generation and sales				
	As of and for the nine months ended September 30,		As of and for the year ended December 31,		
	2018	2017	2017	2016	2015
Assets, million RR	857,700	829,991	868,933	990,120	852,103
Share of Group's total assets	5%	5%	5%	6%	5%
Sales,[1] million RR	361,769	349,599	503,819	481,716	424,665
Share of Group's total sales	6%	7%	8%	8%	7%
Capital additions, million RR	35,950	26,192	58,110	63,485	98,963

Share of Group's total capital additions	3%	3%	4%	5%	7%

Note:

(1) Excluding inter-segment and intra-segment operations.

The following table sets out electric power and heat generated by the Group for the periods indicated:

	For the nine months ended September 30,		For the year ended December 31,		
	2018	**2017**	**2017**	**2016**	**2015**
			(billion kWh)		
Electric power generated					
Russia	110.3	112.9	155.5	156.7	147.4
Europe and Other Countries	—	—	—	—	—
FSU countries	1.3	0.7	1.1	0.9	0.6
Total	**111.6**	**113.6**	**156.6**	**157.5**	**148.0**
			(million Gcal)		
Heat generated					
Russia	85.4	83.6	127.3	129.5	118.6
Europe and Other Countries	—	—	—	—	—
FSU countries	—	—	—	—	—
Total	**85.4**	**83.6**	**127.3**	**129.5**	**118.6**

Russia

We own the largest power generating assets in Russia most of which are consolidated in our subsidiary Gazprom Energoholding and include OGK-2, TGC-1, Mosenergo and MIPC. In addition, our subsidiary Gazprom neftekhim Salavat is the owner of certain power generation assets.

In 2017, Gazprom Energoholding accounted for approximately 16% of the total installed power generating capacity and approximately 15% of total electricity generation in Russia.

The following table sets out electric power and heat generating capacity of the major Russian generation companies controlled by the Group as of September 30, 2018:

Electric power generating capacity, GW	
Mosenergo	12.8
OGK-2	18.6
TGK-1	6.9
Gazprom neftekhim Salavat	0.9
Heat generating capacity, thousand Gcal/h	
Mosenergo	43.1
OGK-2	3.9
TGK-1	13.6
MIPC	4.3
LLC TSK Novaya Moskva and LLC TSK Mosenergo	2.9
Gazprom neftekhim Salavat	2.4

The electric power generated by the Group's Russian generating companies is sold on the domestic wholesale electric power and capacity market with small volumes being exported. To maintain the required level of supplies under regulated contracts during repair periods, the Group's generating companies purchase additional electric power for resale. Most of our electric power sales revenues come from sales at unregulated prices in the day-ahead market and the balancing market with a portion of our elelctric power being sold at regulated prices (tariffs). We sell heat energy at prices regulated by the FAS. Capacity sales are made primarily at regulated prices which apply to the capacity delivered under capacity supply contracts and in certain other circumstances as well as through competitive procedures at unregulated prices.

Our investment projects in power generation are aimed at increasing the reliability, safety and efficiency of our assets as well as modernization of equipment. Currently, we are also completing the investment projects necessary to meet our obligations under capacity supply contracts. As of December 31, 2018, we had commissioned 8.8 GW out of 8.9 GW of committed capacity contracted for under our capacity supply agreements.

FSU and Europe and Other Countries

Gazprom Armenia, our wholly owned subsidiary, currently owns and operates Razdan-5, with an installed capacity of approximately 0.5 GW. Razdan-5 is the fifth energy unit of the Razdan thermal power plant, a major thermal power plant in Armenia. In January 2012, Razdan-5 started supplying electricity domestically. Gazprom Armenia generated 1.3 billion kWh, 0.7 billion kWh, 1.0 billion kWh and 0.7 billion kWh of electricity in the nine months ended September 30,

2018 and 2017 and the years ended December 31, 2017 and 2016, respectively.

We carry out electric power trade operations at European trading platforms and supply electric power to end consumers. In 2017 and 2016, the total volume of such trading operations amounted to 782 billion kWh and 370 billion kWh and the supplies to end consumers amounted to 1.6 billion kWh and 1.8 billion kWh. In 2018, we supplied electric power to end consumers in the United Kingdom and the Netherlands.

In June 2015, our subsidiaries, JSC Tsentrenergokholding and NIS j.s.c. Novi Sad, signed a shareholders' agreement to establish Serbskaya Generaciya LLC Novi Sad. This entity is engaged in the construction of an electric power plant in Panchevo, with a projected installed capacity of approximately 200MW. We expect to commission the plant in 2020.

We are considering opportunities to increase our gas supplies to electric power generating facilities outside Russia. In particular, we are considering opportunities to participate in construction of and acquire interests in power generation assets in Asia, Africa and Latin America in order to enable additional supplies of our LNG. We are also entering into commercial transactions (contracts for supply of electric power, tolling agreements, energy management agreements) with European power plants.

All other segments

Because of the broad geographic range of our core business, the remoteness of our fields and the relatively undeveloped infrastructure in the regions in which we produce natural gas, we operate our own communication business as well as various other activities, such as food processing and procurement and transportation (including road transport and aviation), to support our operations in the exploration, production, and transportation of our gas. We also have interests in various companies that conduct other activities supporting our main business.

Financial highlights

The following table sets forth selected financial data with regard to our All other segments segment which combines operating segments that are not separately disclosed in the Group's Financial Statements:

	All other segments				
	As of and for the nine months ended September 30,		As of and for the year ended December 31,		
	2018	2017	2017	2016	2015
Assets, million RR	1,290,298	1,051,358	1,131,509	937,460	885,287
Share of Group's total assets	7%	6%	6%	6%	6%
Sales,[1] million RR	269,073	260,581	372,225	345,925	287,411
Share of Group's total sales	4%	6%	6%	6%	5%
Capital additions, million RR	84,449	73,374	86,457	54,926	69,701
Share of Group's total capital additions	8%	8%	6%	4%	5%

Note:

(1) Excluding inter-segment and intra-segment operations

Insurance

Exploration, production, refining and transportation of natural gas, gas condensate and crude oil carry numerous operational risks.

The Group maintains insurance coverage to cover the substantial operations of the Group and to minimize the volume of financial resources directed to the mitigation of consequences resulting from natural and technogenic accidents and other undesired events.

The Group maintains comprehensive insurance policies covering the following: (i) fixed assets, including pipelines, compressor and gas distribution stations, gas processing plants, wells and field equipment against "all risks" with a per incident coverage limit of U.S.$55.0 million (U.S.$70.0 million with respect to gas processing plants); (ii) business

interruption risks as a result of property damage to gas processing plants with a per incident coverage limit of U.S.$24.0 million; (iii) full value insurance of offshore drilling units and ships; (iv) full value insurance of builder's risks with respect to new construction, repairs, reconstruction and modernization projects; (v) full value insurance of material and technical resources used for the construction, reconstruction and modernization of major production facilities, in particular during transportation periods; (vi) environmental liability, life, health and third-party property liability insurance with a per incident and aggregate coverage limit of U.S.$470.0 million (including a U.S.$235.0 million of per incident and aggregate coverage limit for environmental risks); and (vii) liability insurance for members of Gazprom's Board of Directors, Management Committee and heads of departments of Gazprom with respect to potential unintentional erroneous actions while carrying out management activity, with a total indemnity cover of U.S.$100.0 million.

In accordance with Russian laws, the Group also maintains insurance policies covering: (i) mandatory liability insurance of owners of dangerous objects resulting from incidents on production facilities of the Group, (ii) civil liabilities of automobile owners and (iii) compulsory liability insurance of carriers resulting from damage to life, health and property of passengers.

In addition, the employees of the Group and their family members are insured under our voluntary medical insurance programs and our accident and illness insurance programs. Our management is insured under long term life insurance programs.

Gazprom Neft maintains insurance policies covering: (i) the production fixed assets of its production companies against all risks with a coverage limit of RR3.75 billion per incident for onshore assets and €2.0 billion for offshore assets (including shelf projects); (ii) business risks (revenue losses and necessary fixed costs caused by an interruption of operation) of its production companies with a per incident coverage limit up to €0.8 billion; (iii) the production fixed assets against all risks and business risks (revenue losses and necessary fixed costs caused by an interruption of operation) of its refining companies with a combined per incident coverage limit of up to €0.9 billion; (iv) export products, such as oil, refined and petrochemical products, with insurance coverage of up to U.S.$100.0 million for each shipment; (v) risks relating to construction, reconstruction and modernization of fixed assets (with a value of more than RR600 million for production companies and RR500 million for refining companies); (vi) fueling vehicle liability with a coverage limit of up to U.S.$250 million per incident; (vii) certain risks required by applicable law to be insured against, including liabilities of enterprises exploiting dangerous production facilities and civil liabilities of automobile owners; (viii) medical insurance for employees and partial accident insurance; (ix) liability insurance for members of Gazprom Neft's board of directors and its management with a total indemnity cover of U.S.$50.0 million per incident (with certain limitations of insurance coverage for independent directors); (x) third-party liability insurance for ship owners with a coverage limit of U.S.$1.0 billion to U.S.$3.0 billion; and (xi) hull insurance for land, maritime and aircraft transport; (xii) voluntary third-party environmental liability insurance with an extension of coverage in accordance with applicable law with a per incident coverage limit of €500 million; (xiii) insurance against loss of well control and related costs for wells costing over RR600 million or located at fields with extremely high formational pressure and/or temperature, with a per incident coverage limit of RR5.5 billion for offshore wells and RR1.2 billion for onshore wells.

We select the insurers in accordance with our Procurement Regulation. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Procurement Law." We purchase our insurance policies mainly from Sogaz Insurance, one of the leaders in the Russian insurance market. Gazprom Neft also obtains insurance through PJSC Rosgosstrakh. The Group's risks are reinsured on the international and domestic insurance markets with insurance and reinsurance companies with high ratings of reliability.

Competition

The oil and gas industry is currently subject to several important influences that impact the industry's competitive landscape. These include the following:

Consolidation. In the past few years, the strategic and competitive landscapes of the oil and gas markets have been transformed by mergers and acquisitions, driven mainly by aspirations for greater profits and intensified competition to capture the growing potential of new, attractive business opportunities.

Technological advances. Technological innovations in the oil and gas industry have improved the efficiency in exploring and developing hydrocarbon resources. Active and effective application of advanced technology has helped to improve geological exploration success rates, to increase field life and recovery rates from existing fields and to reduce full project cycle costs. In general, there is comparable access to technology across the industry, and to achieve our strategic and financial goals, we seek to compete by applying available technology to complex projects.

Environmental and social concerns. Oil and gas companies worldwide are also facing increasing demands to conduct their

operations in a manner consistent with environmental protection and social goals. Investors, customers and governments are more actively following companies' performance with respect to environmental responsibility, human rights and the development of alternative and renewable fuel resources. As a result, we expect competition of natural gas with non-fossil energy sources to intensify. However, international policies and initiatives that purport to address climate change, such as the Paris Agreement and the related commitments made by participating countries, could have a positive effect on the competitive position of natural gas as compared to other fossil fuels. See "Risk factors— Environmental concerns and actions, such as initiatives to address climate change or direct action by activist groups or other means, may hamper our operations."

Increased competition in our core markets. The excess supply of natural gas in the European market increased competition and drove spot prices for natural gas down from 2010. Among other factors, the spot market prices have been affected by speculative activity of traders on trading floors. In order to prevent a significant difference between the prices we charge and prices charged by our competitors, since 2010 we have gradually amended our long-term contracts, including by introducing a spot component to the pricing mechanisms and revising the obligations under the take-or-pay provisions with some of our customers. Currently, a significant portion of our gas sales volumes in Europe and Other Countries is priced with reference to various price indices quoted on the European liquid trading floors.

However, the surplus of contracted gas deliveries above gas demand in Europe has been decreasing in recent years. The actual pipeline gas imports to Western Europe almost matched the aggregate minimum supply obligations under pipeline gas supply contracts in 2016 and exceeded them in 2017. Based on experts' forecasts of gas production and consumption in Europe, we anticipate a growing demand for additional gas volumes, currently uncontracted for, on the part of European customers from 2020 through 2035. Accordingly, long term arrangements for gas supply to Europe are likely to be of a continuing importance. By providing long term guarantees for natural gas supplies and offtake, and setting predictable prices, the long-term contracts meet both suppliers' and consumers' strategic interests.

Europe

The table below shows the proportion of European natural gas consumption attributable to different sources of natural gas supply to Europe in the nine months ended September 30, 2018:

Country	% of natural gas consumption in Europe in the nine months ended September 30, 2018
Russia (the Group)	39%
Algeria	9%
Qatar	5%
Nigeria	2%
Iran	2%
Norway[(1)]	25%
Netherlands	7%
United Kingdom	9%
Other supplies excluding reexport, net change in UGSFs	2%

Source: Data for Gazprom Group exports in Europe in the nine months ended September 30, 2018, IEA, EUROSTAT, Bloomberg, national statistical agencies.

Note:

(1) Deliveries from Norway include natural gas and LNG supplied to the European markets. LNG delivered to other regions is disregarded.

Over the long term, we expect production in European countries to continue to decline due to the depletion of explored natural gas reserves and gas production restrictions in the region. Therefore, we expect imports from Russia, Algeria and other countries outside of Europe to increase in importance.

According to some industry experts, there is a risk of future competition between our gas and LNG from the United States in the European market. However, the current LNG market conditions, the high cost of the full circle LNG production in North America and a considerable gap between LNG prices in Europe and the Asia-Pacific region constrain the U.S. LNG export to Europe.

European gas markets have been undergoing significant restructuring in the recent years. In particular, the Gas Directives

have sought to deregulate and liberalize the EU gas market by introducing greater competition into the market and proposing vertical disintegration of gas producers and suppliers from operators of gas transportation networks. See "— Litigation and Investigations."

Although we believe that the majority of natural gas imported into Europe is likely to continue to be supplied under long-term export contracts, in response to the changes in the European market, we have been increasingly involved in short-term gas transactions, including those on trading boards. In addition, in 2015 and 2016, we arranged gas sale auctions to test this new marketing tool for European customers. Based on the results of such gas sale auctions, in August 2018, we launched an electronic trading board at Gazprom Export in order to flexibly respond to changing market conditions and sell additional balancing gas volumes, complementing our gas sales under long-term contracts. In particular, such mechanism makes our sales more competitive because it enables us to offer to our customers a range of delivery periods, starting from one day, and a variety of gas transfer points, including illiquid and near-border ones.

In addition, we have entered into a number of marketing joint ventures operating in certain European countries.

Russia

With regard to natural gas sales in Russia, we face competition from independent suppliers that increased their combined share in Russian gas production from 27% in 2013 to 34% in 2015 and 2016 and decreased to 32% in 2017. The largest independent gas suppliers in Russia are Novatek, Rosneft and Lukoil.

Wholesale gas prices we realize in Russia are regulated by the Government. This limits our opportunities to compete with independent gas suppliers that sell their gas at unregulated prices allowing them to offer their customers more flexible pricing terms. In addition, our gas tends to be replaced by gas supplied by the independent suppliers in the regions where the independent suppliers produce gas and adjacent regions. For instance, independent suppliers dominate in the gas market of the Khanty-Mansi Autonomous Area, the Perm Territory, the Tyumen Region and the Novosibirsk Region. In addition, the independent suppliers exclusively supply gas to certain regions including the Chelyabinsk Region, Sverdlovsk Region, the Kostroma Region and the Lipetsk Region. However, independent suppliers do not supply gas to a number of regions in the Central and Southern Federal Districts of Russia due to their remoteness from their production sites.

We are taking the following steps to maintain and expand our market share: (i) purchasing gas from independent suppliers for resale to customers in the domestic market, and (ii) implementing gasification programs in Russian regions that increase gas consumption through new gas utilizing infrastructure facilities and customers in the housing and utilities sector. The amendments to the current legislation allowing us to grant discounts to large industrial customers in Russia are under consideration by the Government. We continue to engage with Russian federal state authorities regarding these amendments and believe that their adoption will enable us to retain and expand our market share in Russia.

We also face competition in the Russian market of liquid hydrocarbons and refined products, primarily from Rosneft and Lukoil and their respective subsidiaries. In addition, Sibur, Novatek and Lukoil are our major competitors in the Russian market of liquefied hydrocarbon gases.

Research and Development

We have pursued a policy of investing in research and development in a number of scientific and technical areas for technological and organizational development. In June 2016, the Board of Directors adopted a program for innovation development of Gazprom, which sets out priorities in carrying out innovation activities through 2025. The program's primary aim is to continually increase our level of technological and organizational development in order to maintain our leadership as a global and reliable energy supplier. In general, our research and development focuses on:

- forecasting and development planning;
- maintaining high levels of hydrocarbon resources;
- insuring ongoing hydrocarbon production;
- insuring security of supplies to customers;
- increasing competitiveness of our products and services in the Russian and international markets;
- insuring safety of our operations; and

- improving our investment and public appeal.

In 2017, our innovative research and development costs amounted to RR8.2 billion compared to RR6.3 billion in 2016.

In addition, we carry out certain technological works including rendering research and development services, development of financing and investing mechanics for scientific and technical projects and execution of technological strategy in the oil production business.

Health, Safety and Environment

The Group's businesses primarily involve the intensive use of natural resources. Therefore, our operations in Russia and abroad are subject to environmental, sanitation-and-epidemiological, industrial and fire safety laws and regulations. These laws govern, among other things, regulations on the composition of emissions into the atmosphere, wastewater discharges and discharges to water, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination, pollution of the geological environment, conservation of biodiversity and human health and industrial safety. We believe that our business is in compliance with the requirements of Russian and international laws and regulations.

Because we are a global energy company, environmental, health and safety risks are inherent in our operations. See "Risk Factors—Risks Relating to Our Business—As an energy company we may incur material costs to comply with, or as a result of, environmental, health and safety laws and regulations" and "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Environmental requirements." In May 2015, Gazprom's Management Committee approved a new Gazprom's Environmental Policy which reflects major trends in environmental protection, including our commitment to ensure environmental safety while developing hydrocarbon fields on the continental shelf and in the Artic zone of the Russian Federation, and sets forth our obligations to reduce greenhouse gas emissions. In addition, the Group employs renewable energy sources for electric power generation. In particular, in 2017, generation from renewable sources accounted for approximately 9% of our total electric power generation, which was mostly attributable to hydrogenation but also included wind and solar energy.

We have developed and continue to improve a system for environmental monitoring and control in the regions where our facilities are deployed, including the continental shelf. We are implementing our systems of environmental management in our subsidiaries in accordance with the ISO 14001:2015 standard. Our core natural gas, gas condensate and crude oil production, transportation, storage, processing and refining, and our principle power generating subsidiaries have adopted the ISO 14001:2015. In December 2017, an independent certifying entity confirmed that Gazprom's system of environmental management complied with the ISO 14001:2015 standard. Our operations have not caused any serious accident or malfunction that has resulted in a material financial impact on the company.

The table below shows environmental costs of the Group for the periods indicated:

	For the year ended December 31,		
	2017	**2016**	**2015**
		(RR million)	
Current operational expenditures and costs of environmental protection services	32,715.4	31,915.3	29,206.2
Expenditures on refurbishment of fixed assets related to environmental protection	1,752.6	2,187.9	2,962.9
Payment for environmental pollution	768.0	824.8	1,790.4
Capital expenditures related to environmental protection and sustainable use of natural resources	35,584.5	22,541.9	15,754.3
Total	**70,820.5**	**57,469.9**	**49,713.8**

Our capital investments in environmental protection and sustainable use of natural resources in Russia increased by 58% in 2017 as compared to 2016 mainly due to the implementation of investment programmes by Gazprom Neft to increase its utilization rate of associated gas.

Recently inspections of the Group's facilities, including field development, the GTS, refining and energy generating facilities, by the Russian state environmental authorities have not identified any significant environmental violations.

Work site restoration costs that may arise at the end of life of any of our production facilities are recognized when there is a current legal or a voluntarily assumed obligation having arisen from past events and the probability of an outflow of funds due to the need to fulfill such obligation, and, if a reasonable estimate of the obligation can be made. Assessing the quantum of such obligations and determining the time of their occurrence is to a large extent based on judgement. Such assessment is based on cost analysis and available technical solutions taking into account the existing technologies and is carried out in accordance with the applicable environmental laws. Work site restoration obligations may change due to changes in laws, regulations and their interpretation.

With regard to health and safety, Gazprom carries on its operations in accordance with the policy on labor protection, industrial and fire safety (the "**H&S Policy**"), the Labor Code of the Russian Federation, Federal Law No. 116-FZ "On Industrial Safety of Hazardous Production Facilities", dated July 21, 1997, as amended, and other enactments. Our health and safety policy prioritizes: (i) maintaining safe working conditions and preservation of life and health of our personnel; (ii) minimizing the risk of occurrence of accidents at hazardous production sites; and (iii) ensuring fire safety. These objectives are achieved through prevention of occupational illnesses, industrial accidents and fires by means of (i) identification of hazards; (ii) assessing and managing risks relating to health and safety; and (iii) health and safety awareness of employees and their involvement into the health and safety management system.

To implement the H&S Policy, Gazprom has been operating the Unified Health and Safety Management System of PJSC Gazprom (the "**H&S System**"), which provides for a set of provisions, measures and recommendations that establish a unified procedure for organizing work aimed at securing safe and healthy working conditions for the employees, consistent with law, based on achievements of science and technology, having regard to industry specifics and peculiarities of the companies within the Group.

The H&S System is adopted in Gazprom and its main exploration, production, processing, transportation and underground storage subsidiaries, as well as our subsidiaries responsible for the procurement for our core business activities and our service subsidiaries. As of December 31, 2017, the H&S System applied to over 330,000 employees.

In order to ensure sustainable production process while maintaining requisite level of industrial safety by improving interconnected complex approaches, principles, mechanisms, organizational arrangements, and in full compliance with laws and corporate standards, Gazprom has adopted a production safety management system development strategy of Gazprom for the period until 2020 (the "**H&S Strategy**"). The implementation of the H&S Strategy will allow for the system integration and coordination of research and development, production and technological, financial, administrative and educational resources aimed at developing innovative technologies, effective organizational structures and economically justified measures ensuring highest standards of industrial safety within the Group.

Starting from 2014, the H&S System has been certified for compliance with the requirements of OHSAS 18001:2007 by the international certification body Russian Register (IQNet International Certification Network).

In order to ensure safety at hazardous production sites, our subsidiaries carry out industrial control over compliance with industrial safety requirements set out in the Regulations on industrial control over observance of industrial safety requirements at hazardous industrial facilities of Gazprom.

Gazprom Neft's subsidiaries and our power generating companies employ proprietory production safety management systems, which comply with and, in certain instances, exceed statutory requirements. Certain subsidiaries of Gazprom Neft have also obtained the OHSAS18001:2007 standard compliance certificates. The purpose of implementing the labor protection management and industrial safety management systems by our subsidiaries is to ensure labor and industrial safety, preserve the health of our employees, maintain reliability of operations at our industrial sites and reduce the amount of industrial injuries and accidents.

In 2017 and 2016, we had, sadly, 8 and 8 fatalities, respectively.

Litigation and Investigations

We are from time to time the subject of legal proceedings and other investigations in the ordinary course of our business. Except as disclosed below, neither Gazprom nor any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Gazprom is aware) during the twelve months preceding the date of this Base Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Group.

International Litigation and Investigations

Within the framework of Council Regulation (EC) No 1/2003 of December 16, 2002 on the implementation of the rules on competition set forth in Articles 101 and 102 of the Treaty of Rome, in September 2011, the EU conducted inspections at the premises of our affiliates in Central and Eastern Europe, and in the following year moved to a formal antitrust investigation in our operations.

In April 2015, the European Commission published a press release where it was alleged that in violation of the EU antimonopoly laws we have been:

(a) imposing territorial restrictions in our gas supply contracts with wholesale off-takers and certain industrial customers in eight European countries (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia).

(b) pursuing an unfair pricing policy in five EU member states (Bulgaria, Estonia, Latvia, Lithuania and Poland) by charging prices to wholesalers that are significantly higher compared to our costs or to benchmark prices.

(c) leveraging our dominant market position by making gas supplies to Bulgaria and Poland conditional on obtaining unrelated commitments from wholesalers concerning gas transport infrastructure.

In December 2016, following a series of talks with the European Commission, Gazprom submitted to the European Commission its formal settlement proposal containing certain pro-competition commitments.

In March 2017, the European Commission published a press release on its official website disclosing our initial pro-competition commitments and initiated the procedure of testing of the proposed obligations by the market.

In March 2018, following a series of negotiations with the European Commission and taking into account the results of the market testing of our initial pro-competition commitments, we submitted to the European Commission a revised settlement proposal. On May 24, 2018, the European Commission announced the termination of the antimonopoly investigation against Gazprom in Central and Eastern Europe. Our pro-competition commitments came into effect on May 28, 2018 and consist of the following key obligations:

(a) The elimination of contractual barriers for free movement of gas in and between eight countries of Central and Eastern Europe (Estonia, Lithuania, Latvia, Poland, Slovakia, the Czech Republic, Hungary and Bulgaria):

- commitments not to use and not to introduce new territorial restrictions and to send notice on that to relevant gas buyers;
- a commitment to facilitate intergration of the Bulgarian gas market with gas markets of neighboring EU member states through amending our contracts with buyers in Bulgaria on conditions provided by the pro-competition commitments;
- a commitment to offer relevant gas buyers from selected countries of Central and Eastern Europe the rights to transfer points of delivery of gas to or from Estonia, Latvia, Lithuania and Bulgaria on conditions provided by the pro-competition commitments.

(b) Changing contractual practices regarding the revision of gas prices:

- a commitment to address within the prescribed period to relevant gas buyers with a proposal for setting appropriate competitive price benchmarks when gas prices revision being performed, and more frequent and accelerated mechanism for gas prices revision.

(c) Changing behavioral practices in Bulgaria:

- commitment to the Bulgarian partners that Gazprom and its subsidiaries will not sue them for damages in connection with the termination of the implementation of the Bulgarian part of the South Stream project.

On October 15, 2018, PGNiG S.A. filed an appeal to the Europen Court of Justice against the decision of the European Commission on pro-competition commitments of May 24, 2018.

In February 2016, the European Commission within the framework of Council Regulation (EC) No 1/2003 of December 16, 2002 on the implementation of the rules on competition set forth in Articles 101 and 102 of the Treaty of Rome sent to Gazprom and Gazprom Germania an official request for information in connection with an alleged violation of EU antitrust legislation related to natural gas supplies to Bulgaria. The request also advised us that the European Commission is in possession of information that Gazprom could have abused its dominant position (Article 102 of the Treaty of Rome) in the Bulgarian wholesale gas market and/or, directly or indirectly, could have entered into a non-competitive agreement (Article 101 of the Treaty of Rome) in relation to the Bulgarian wholesale gas market, thereby violating EU antitrust law. Delivery of the request does not constitute an initiation of any formal stage of investigation or any accusation of committing any antitrust offense by Gazprom, and intended solely to collect information on Gazprom's relations with the Bulgarian gas wholesalers. In April 2016, we submitted our response to the request for information made by the European Commission. On December 18, 2018, the European Commission informed Gazprom of the closing of the matter.

On March 14, 2017, PGNiG S.A. submitted a complaint to the European Commission in relation to alleged violation by Gazprom and Gazprom Export of Article 102 of the Treaty on the Functioning of the European Union stating that at least from 2006, Gazprom and Gazprom Export allegedly have (a) imposed unfair prices on PGNiG S.A.; (b) hindered the free flow of gas across member states; (c) tied commercial issues with those relating to infrastructure. Although the complaint was registered by the European Commission, this does not constitute an initiation of any formal stage of investigation or an accusation of committing any EU antitrust offense by Gazprom or Gazprom Export. The complaint relates to the matters covered by the European Commission's investigation in respect of the Gazprom Group's activity in Central and Eastern Europe that was formally initiated in 2012 and terminated in 2018.

We have always supported competition in the gas market and have sought to comply with all international, European and national laws and regulations in countries where we operate. Terms and conditions of our contractual relationships with customers are determined by international legal obligations, commercial interests and the relevant market conditions. We have always been open to dialogue with the relevant authorities of any EU member state, as well as, the European Commission.

As of the date of this Base Prospectus, it is impossible to assess the potential negative impact of the aforementioned complaint submitted by PGNiG S.A. on our operations in Europe or on our financial position as a whole. Furthermore, in accordance with Russian law, our actions taken in response to certain requirements or requests of foreign governments (including their regulatory and controlling bodies), international organizations and unions of foreign states are subject to the prior approval of the Ministry of Energy of the Russian Federation. Therefore, our ability to address such requirements or requests, including any possible decision of the European Commission, may be limited. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Foreign Investments" and "Risk Factors—Risks Relating to Our Business—The Government has exercised, and can be expected to continue to exercise, a strong influence over our operations."

In 2014, Gazprom Neft filed claims with the Court of First Instance of the European Court of Justice (General Court) challenging the EU sanctions imposed against Gazprom Neft and its projects in August, September and December 2014. The hearings in the Gazprom Neft's case were held on December 12, 2017. On September 13, 2018, the European Court of Justice (General Court) denied Gazprom Neft's claims.

In January 2016, AMCU published a decision in relation to its investigation of Gazprom's operations. AMCU alleges that Gazprom is a monopoly with regard to gas transit through the Ukrainian territory, and from 2011 has been allegedly violating the terms and conditions of the transit agreement with Naftogaz by refusing to adjust the volumes and the price of transit to levels that are economically justified. AMCU imposed a fine on Gazprom of approximately UAH86 billion, which together with penalties and execution fee currently amounts to approximately UAH189 billion (the "**AMCU Disputed Amount**") and demanded that the alleged violations be rectified. We believe that AMCU's allegations are without merit. The transit agreement with Naftogaz is made under Swedish law with all disputes arising out or in relation to the agreement to be resolved by arbitration administered by the Arbitration Institute of the Stockholm Chamber of Commerce.

Gazprom challenged the AMCU's decision and the enforcement actions taken against it in Ukrainian courts and the Ukrainian courts (including the Supreme Court of Ukraine) ruled against Gazprom.

In May 2017, the State Executive Service of the Ministry of Justice of Ukraine ruled to levy the AMCU Disputed Amount against Gazprom. Recently, the State Executive Service of the Ministry of Justice of Ukraine has undertaken actions to levy execution on Gazprom's Ukrainian assets, arrested Gazprom's equity interests in various companies, bank accounts of the representative office of Gazprom in Ukraine as well as appropriated the 2016 dividends attributable to the shares in AT Gastransit held by Gazprom. The monetary value of the arrested and foreclosed assets is insignificant as compared to the amount claimed by AMCU. Gazprom is challenging actions of the bailiffs and other parties to the execution proceedings in Ukrainian courts and is considering other legal remedies available under applicable law to protect its interests.

On October 25, 2018, Gazprom initiated an arbitration against Ukraine under the UNCITRAL rules to protect its investments in Ukraine in connection with the imposition of an unfair and groundless fine by AMCU in an amount of over U.S.$6.0 billion (including interest) for an alleged abuse of a monopoly position in the Ukrainian gas transit market. As the fine and subsequent enforcement actions taken by Ukraine violate Gazprom's rights under the Agreement between the Government of the Russian Federation and the Cabinet of Ministers of the Ukraine on the Encouragement and Mutual Protection of Investments dated November 27, 1998, Gazprom has claimed a monetary and other relief. Currently, the arbitral tribunal is being formed.

On December 4, 2016, PGNiG Supply & Trading GmbH filed a complaint to the European Court of Justice against the decision of the European Commission dated October 28, 2016 (the "**Decision**") to provisionally approve a settlement

agreement in relation to the OPAL gas pipeline entered into by and among Gazprom, Gazprom Export, OPAL Gastransport GmbH and the German Federal Network Agency (*Bundesnetzagentur*) (the "**Settlement Agreement**") and a claim to suspend this Decision. On December 16, 2016 and March 1, 2017, similar petitions were filed with the European Court of Justice on behalf of the Republic of Poland and PGNiG S.A., respectively. The Settlement Agreement entitles us to use over 50% of the transit capacity of the OPAL gas pipeline.

On December 14, 2017 and March 15, 2018 the General Court of EU denied the Polish claims. The Polish parties appealed against these decisions to the European Court of Justice. In addition, on March 9, 2018, the General Court of EU denied a claim to annul the Decision brought by Naftogaz on March 27, 2017.

On December 15, 2016, PGNiG S.A. and PGNiG Supply & Trading GmbH also brought a legal action to challenge the Settlement Agreement and the Decision and seeking to suspend the implementation of the Settlement Agreement before a Dusseldorf district court. On October 11, 2017, the Dusseldorf district court issued the final decision dismissing the PGNiG S.A. and PGNiG Supply & Trading GmbH legal action. As a result of that, the Decision and the Settlement Agreement continue to be effective.

On May 4, 2018, Gazprom received a notice from the Polish Competition Committee in relation to the alleged violation of the Polish antitrust laws in connection with the arranging of funding for Nord Stream 2 AG. According to the notice, the president of the Polish Competition Committee in accordance with Polish law may introduce certain sanctions against the entities that, in his or her opinion, seek to expand the market concentration without an approval of the Polish Competition Committee (in particular, by imposing a fine of up to 10% of the annual turnover of such entity). On June 15, 2018, Gazprom submitted its objections to the Polish Competition Committee and moved to terminate the antitrust investigation.

International Arbitration Disputes

In October 2012, the Ministry of Energy of Lithuania submitted a request for arbitration to the SCC Arbitration against us alleging a breach of the shareholders' agreement in respect of Lietuvos Dujos on our part and demanding recovery of damages in an amount of 5 billion Lithuanian Litas. The claimant alleges that this sum represents the difference between the monetary value of our actual gas supplies to Lietuvos Dujos since 2005 and the value of gas supplies calculated at the allegedly fair market price. In June 22, 2016 the arbitration tribunal issued a final award by which all the Lithuania's claims were dismissed, including the allegations made by Lithuania in respect of charging unfair prices for the natural gas that we had supplied to Lithuania in 2006 – 2015. On September 22, 2016, we became aware of the fact that the Ministry of Energy of Lithuania had filed a petition for annulment of the final arbitral award dated June 22, 2016 with the Stockholm Court of Appeal. In June 2017, we submitted our response and on October 10, 2017 Lithuania submitted its detailed written responses. Gazprom is considering the submissions in order to determine its position. The hearing is scheduled for May 2019.

In June 2014, Gazprom submitted a request for arbitration to the SCC Arbitration against Naftogaz to recover the U.S.$4.5 billion debt for gas supplies incurred as a result of improper performance by Naftogaz of its obligations under the 2009 Contract and a failure to pay for the ongoing supplies of gas. We subsequently revised the amount of our claim due to partial repayment of debt by Naftogaz. On July 21, 2014, this case was consolidated with the case described in the next paragraph.

In June 2014, Naftogaz submitted a request for arbitration to the SCC Arbitration against Gazprom seeking a retroactive revision of the price under the 2009 Contract, compensation of all amounts it alleges it overpaid since May 20, 2011 and cancellation of the contractual prohibition on reexport of natural gas. The final amount of Naftogaz's claim in arbitration was U.S.$14.23 billion. The amount of our claim in arbitration was approximately U.S.$37.1 billion, which included the debt owed by Naftogaz for gas supplies in 2013 and 2014, obligations under the "take-or-pay" provisions for 2012-2016 and late payment charges and penalties. On May 31, 2017 and December 22, 2017, the arbitration tribunal rendered the interim (separate) award and the Gas Supplies Award, respectively. In particular, the arbitration tribunal (a) obligated Naftogaz to pay Gazprom the amount of overdue debts for supplied gas of around U.S.$2.03 billion together with interest of 0.03 per cent. per day accrued from December 22, 2017 to the payment date, (b) rejected the Naftogaz claim to retroactively revise the gas price for the period from May 2011 to the end of April 2014, as well as recover allegedly overpaid amounts for the same period, and ruled to introduce a new pricing formula from the end of April 2014 until the expiration of the contract, and (c) required Naftogaz to annually off-take 5 bcm of natural gas or pay for 80% of that volume if it fails to off-take it. Gazprom is challenging both interim (separate) award and the Gas Supplies Award in the Svea Court of Appeal (Sweden) seeking a partial annulment of both awards. According to a preliminary schedule drawn up by the Swedish court on the basis of procedural hearings, court hearings of the case for challenging the interim (separate) award are scheduled for October 2019. The dates of hearings for challenging the Gas Supplies Award will depend on a court's decision regarding a consolidation of the appeals against both awards and will be determined later. See "—Distribution—The FSU."

In October 2014, Naftogaz brought an action against Gazprom to the SCC Arbitration challenging the 2009 contract for transit of gas through Ukraine. Among its claims, Naftogaz sought compensation from Gazprom for an alleged shortfall in gas transit through Ukraine. The final amount of Naftogaz's claim in arbitration was U.S.$14.86 billion. On February 28, 2018, the arbitral tribunal rendered the Transit Dispute Award ruling to pay US$4.67 billion to Naftogaz for such shortfall and to net the awarded amount against the amount that Naftogaz has to pay in favour of Gazprom under the Gas Supplies Award. In addition, the arbitral tribunal denied Naftogaz's claim to revise the transit tariff, affirmed the validity of most of the contract terms, acknowledged that neither Ukrainian, nor EU antitrust laws are applicable to the transit contract and refused to effect transfer of rights and obligations under the transit contract to any third party. On March 29 and May 28, 2018, Gazprom filed motions with the Svea Court of Appeal (Sweden) to vacate the Transit Dispute Award. On June 13, 2018, the Svea Court of Appeal (Sweden) stayed enforcement of the Transit Dispute Award and confirmed its order on June 28, 2018. On September 13, 2018, however, the court cancelled its order to stay enforcement of the Transit Dispute Award. Hearings dates on Gazprom's appeal against the Transit Dispute Award are yet to be determined.

On May 29, 2018, Gazprom became aware that Naftogaz had taken steps to enforce the Transit Dispute Award in Switzerland. In particular, in May 2018 a Swiss court issued an enforcement injunction prohibiting Nord Stream AG and Nord Stream 2 AG from paying receivables to Gazprom and directing that all such payments were instead to be made to Swiss bailiffs, of which Gazprom received no official notice. Further, in August 2018 Gazprom filed its objections against the injunction with the Swiss court and on January 16, 2019 the Swiss court lifted all prohibitions previously imposed on the assets of Gazprom. Based on that court decision, the seizure of shares in Nord Stream AG and Nord Stream 2 AG and the ban in relation to payment of receivables by these company ceased to be effective.

On June 5, 2018, Gazprom became aware that Naftogaz had taken steps to enforce the Transit Dispute Award in the Netherlands. In particular, on May 30, 2018, the District Court of Amsterdam provisionally seized Gazprom's shares in BSPC, the operator of the Blue Stream pipeline, and prohibited to pay any receivables payable to Gazprom by its Dutch subsidiaries (with such receivables remaining at the disposal of the Dutch subsidiaries). On September 17, 2018, Naftogaz filed a petition for recognition and enforcement of the Transit Dispute Award in the Netherlands. Gazprom has received no official notice in relation to such action.

On June 22, 2018, Gazprom received a freezing order of the English High Court of Justice dated June 18, 2018, in relation to Gazprom's assets in the United Kingdom, granted on application of Naftogaz to enforce the Transit Dispute Award, and the English court order dated June 8, 2018 permitting Naftogaz to enforce the award in England and Wales. On September 13, 2018, the High Court of Justice fully discharged its freezing order of June 18, 2018. The discharge of the freezing injunction is conditional on Gazprom's undertaking not to dispose of any shares of Nord Stream AG owned by Gazprom until the handing down of the judgment of the English court on the recognition and enforcement of the Transit Dispute Award. The hearing in this case is tentatively set for February 2019.

On December 12, 2018, Gazprom became aware that Naftogaz had filed claims with various courts in the United States seeking permission to obtain evidence for its subsequent use in Swiss and Dutch court proceedings to facilitate the Naftogaz enforcement efforts in respect of the Transit Dispute Award. Gazprom is not a party to such legal proceedings and has received no official notice of them.

On March 5, 2018, Gazprom proposed to Naftogaz to enter into talks to restore the balance of interests of the parties under the gas supply and transit agreements disrupted by the awards of the SCC Arbitration. In April 2018, after the negotiations had failed, Gazprom submitted a request for arbitration to the SCC Arbitration seeking to amend or terminate the gas supply and transit agreements with Naftogaz in order to restore a balanced distribution of the contractual obligations and eliminate disproportions in terms of parties' contractual liability. On May 22, 2018, Naftogaz submitted its response and made its counterclaims under the gas supply and transit agreements. On September 6, 2018, the SCC Arbitration, on Gazprom's motion, ruled to consolidate the proceedings with the proceedings described in the next paragraph.

On July 10, 2018, Naftogaz filed a request for arbitration with the SCC Arbitration Naftogaz seeking a revision of the transit tariff rate charged for the gas transit through Ukraine from March 18, 2018 and recovery from Gazprom of approximately U.S.$11.6 billion for the period from March 18, 2018 to December 31, 2019. Gazprom submitted its rebuttal on August 14, 2018. On September 6, 2018, the SCC, on Gazprom's motion, consolidated these proceedings with the proceedings described in the preceding paragraph. The arbitral tribunal for the consolidated case has been formed. The procedural schedule has not been agreed yet. In December 2015, SST received from the Secretariat of the ICC International Court of Arbitration a notice of arbitration initiated by Saipem against SST in relation to unilateral termination of an agreement on the South Stream gas pipeline construction dated March 14, 2014. Currently, the amount of Saipem's claim to SST is approximately EUR615 million. Hearings are scheduled to be held in June 2019.

In February 2018, Gazprom filed an action with the ICAC against Moldovagaz seeking recovery of debt for gas supplies in 2015 in the amount of approximately U.S.$475.8 million. On August 24, 2018, the ICAC satisfied Gazprom's claim in

full.

In March 2018, Gazprom Export initiated proceedings against S. Donchev and his affiliated companies DDI Holdings, Overgas Inc. and Overgas Mrezhi in the High Court of London to recover damages in connection with an illegal dilution of the equity interest of Overgas Inc. in Overgas Mrezhi for the benefit of DDI Holdings. On July 31, 2018, Gazprom Export submitted the particulars of claim. On October 8, 2018, the defendants submitted their joint statement of defense which, among other things, contains counterclaims against Gazprom Export.

Additionally, we are at times engaged in arbitration proceedings where our counterparties or, conversely, we are seeking to revise prices for gas supplies under their contracts. In particular, during the twelve months preceding the date of this Base Prospectus, we were involved in such disputes with Akfel Gaz Sanayi ve Ticaret A.Ş., BOTAŞ Petroleum Pipeline Corporation, DONG Naturgas A/S, and Shell Energy Europe Ltd. and are currently a party to the proceedings initiated by PGNiG S.A. We have also brought the arbitration claims against Uniper Global Commodities SE, METHA-Methanhandel GmbH, Batı Hattı Doğalgaz Ticaret A.Ş., Kibar Enerji A.Ş., Enerco Enerji A.Ş. and Avrasya Gaz A.S. We are also a party to arbitration proceedings with GK Turkmengaz that have been suspended in an effort to reach a settlement agreement.

Domestic Litigation and Investigations

In July 2016, Gazprom Neft brought an action against Service Terminal LLC, a customs clearance agent, in the Arbitration Court for Saint-Petersburg and the Leningrad Region to recover unjustified enrichment of RR10.4 billion. Service Terminal LLC filed for bankruptcy in the Arbitration Court for the Yaroslavl Region. Gazprom Neft's claims in the amount of RR10.4 billion have been included in the register of creditors in the bankruptcy proceedings in respect of Service Terminal LLC. In April 2017, the Arbitration Court for the Yaroslavl Region declared Service Terminal LLC bankrupt, appointed a bankruptcy manager and initiated bankruptcy proceedings which are currently expected to continue through the end of March 2019.

In January 2017, Gazprom received an order of the FAS initiating an antimonopoly case against Gazprom, Gazprom mezhregiongas, the governor and the ministry of housing and utilities of the Samara Region regarding alleged concerted actions which have resulted or may result in a restriction of access to, or exit from, the commodity market. The FAS found that the respondents had violated antimonopoly regulations by entering into an agreement that restricted competition and issued instructions compelling the respondents to rectify the violation and take necessary actions to promote competition. On November 15, 2017, the Moscow Arbitration Court denied Gazprom's claim to vacate the decision and instructions of the FAS. The Moscow Arbitration Court's decision was upheld on appeal by the 9th Commercial Court of Appeals. Gazprom filed a cassation petition. On August 1, 2018, the Arbitration Court of the Moscow District set aside prior judgments in the case and remanded the case for a new trial to the Moscow Arbitration Court. Additionally, the FAS has initiated an administrative case citing Gazprom's entry into an agreement prohibited under applicable antimonopoly legislation. As a result of the investigation, the FAS issued a ruling on May 16, 2018 imposing a fine in the amount of nearly RR211 million on Gazprom. Gazprom has filed a petition with the Moscow Arbitration Court challenging such ruling. On September 19, 2018, the Moscow Arbitration Court ordered to consolidate both cases (in relation to the remanded dispute and the new ruling by the FAS) into a single proceeding. The hearing of the consolidated matter is scheduled for early February 2019.

Employees

For the years ended December 31, 2017 and 2016, we had a weighted average of approximately 463,000 and 456,000 employees, respectively.

We have a trade union, the Gazprom Worker's Union ("**GPWU**") (forms part of the Russian Oil, Gas and Construction Workers' Union), to which more than 279,000 of our employees belonged as of December 31, 2017. We have never experienced any strikes, work stoppages, labor disputes or actions that have affected the operation of our business and we consider our relationship with our employees to be good. In March 2018, we extended a collective bargaining agreement for the period from 2019 to 2021. The collective bargaining agreement applies to the employees of Gazprom and its fully-owned subsidiaries engaged in natural gas production, transportation, processing, storage and marketing, as well as the employees of GPWU and the trade unions of our subsidiaries. The key objective of the collective bargaining agreement is balancing the interests of employers and employees in the form of a social partnership and, to the extent possible, providing additional guarantees, benefits, healthcare plans and compensation to employees. We have developed and operate a unified labor protection and industrial safety management system. The union monitors our compliance with the terms of the collective bargaining agreement.

We sponsor a benefit plan which covers the majority of our employees and is accounted for as a defined benefit plan in the Group's Financial Statements in accordance with IAS 19 Employee Benefits. The benefits provided by the plan include

pension benefits provided by the non-governmental pension fund, NPF Gazfund, and certain benefits that we provide to our employees upon and after their retirement date. The amount of benefits depends on the period of the employees' service (years of service), salary level in latest years preceding retirement, certain predetermined fixed amounts or a combination of these factors.

We apply material incentive plans to motivate our employees, in particular, payment of year-end bonuses, bonuses for carrying out work being of particular importance to Gazprom, as well as bonuses for field discovery, for putting production facilities and completed facilities into operation, for supply of gas for export, and for introducing new technology, and other bonuses in accordance with internal company regulations.

To encourage our managers to contribute to our success and increased capital efficiency, we also use additional motivation systems. The annual bonus system takes into account the achievement of corporate and individual key performance indicators in a respective reporting period. We have also introduced a management equity participation plan to incentivize key management to increase Gazprom's shareholder value.

MANAGEMENT OF GAZPROM

Members of the Board of Directors are elected annually at Gazprom's General Meeting of Shareholders. The current members of the Board of Directors are as follows:

Name	Position	Year of Birth
V. Zubkov	Chairman of the Board of Directors and Russia's Special Presidential Representative for Cooperation with Gas Exporting Countries Forum	1941
A. Miller	Deputy Chairman of the Board of Directors and Chairman of Gazprom's Management Committee	1962
A. Akimov	Chairman of the Management Board of Gazprombank (Joint Stock Company)	1953
T. Kulibaev	Chairman of Association of Legal Entities Kazakhstan Association of Oil, Gas and Energy Sector Organizations ("**KAZENERGY**"), Chairman of the Presidium of the National Chamber of Entrepreneurs of the Republic of Kazakhstan (Atameken)	1966
D. Manturov	Minister of Industry and Trade of the Russian Federation	1969
V. Markelov	Deputy Chairman of Gazprom's Management Committee, Editor in Chief of the Gas Industry magazine	1963
V. Martynov	Rector of the Federal State Autonomous Educational Institution of Higher Education "Gubkin Russian State University of Oil and Gas (National Research University)"	1953
V. Mau	Rector of the Russian Presidential Academy of National Economy and Public Administration (Federal State Budgetary Educational Institution of Higher Education)	1959
A. Novak	Minister of Energy of the Russian Federation	1971
D. Patrushev	Minister of Agriculture of the Russian Federation	1977
M. Sereda	Deputy Chairman of Gazprom's Management Committee and Head of Administration of Gazprom's Management Committee	1970

The current members of Gazprom's Management Committee are as follows:

Name	Position	Year of Birth	Term expires
A. Miller	Deputy Chairman Gazprom's Board of Directors and Chairman of Gazprom's Management Committee	1962	May 2021
V. Golubev	Deputy Chairman of Gazprom's Management Committee	1952	April 2023
S. Khomyakov	Deputy Chairman of Gazprom's Management Committee; Director General of Gazprom's Corporate Security Service	1953	March 2022
A. Kruglov	Deputy Chairman of Gazprom's Management Committee	1969	June 2022
V. Markelov	Deputy Chairman of Gazprom's Management Committee	1963	January 2022
A. Medvedev	Deputy Chairman of Gazprom's Management Committee	1955	September 2022
M. Putin	Deputy Chairman of Gazprom's Management Committee	1967	March 2023
E. Vasilieva	Deputy Chairwoman of Gazprom's Management Committee and Chief Accountant	1959	November 2021
O. Aksyutin	Head of Department 123	1967	November 2023
V. Cherepanov	Head of Department 307	1966	March 2020
I. Fyodorov	Head of Department 104	1965	January 2022
V. Mikhalenko	Head of Department 308	1965	September 2020
V. Markov	Head of Department 613	1955	January 2022
E. Mikhailova	Head of Department 105	1977	January 2022
S. Prozorov	Head of Department 333	1958	November 2019
K. Seleznev	Head of Department 614; Director General of LLC Gazprom mezhregiongaz	1974	September 2022

The business address for the Board of Directors and Management Committee is 16 Nametkina Street, 117420 Moscow, Russian Federation.

Director Biographies

Viktor Alexeevich Zubkov

Since	Till	Company Name	Position
2008	Present	PJSC GAZPROM	Chairman of the Board of Directors
2012	Present		Special Representative of the President of the Russian Federation on Cooperation with Gas Exporting Countries Forum
2014	Present	LLC Gazprom gazomotornoe toplivo	Deputy Chairman of the Board of Directors
2014	Present	Charity relief fund for vulnerable populations and organizations which implement socially important projects “Creating the future”	President of the Supervisory Board
2014	Present	“New Technologies in Gas Industry” Association of Equipment Manufacturers	Chairman of the Supervisory Board
2015	Present	Federal State Autonomous Educational Institution of Higher Education “Gubkin Russian State University of Oil and Gas (National Research University)”	Chairman of the Board of Trustees
2017	Present	Moscow P. I. Tchaikovsky Conservatory	Member of the Board of Trustees
2018	Present	Boao Forum for Asia	Member of the Board of Directors
2008	2012	Government of the Russian Federation	First Deputy Prime Minister of the Russian Federation
2008	2011	JSC Russian Agricultural Bank	Chairman of the Supervisory Board
2008	2012	State corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”	Member of the Supervisory Board
2009	2011	JSC Rosagroleasing	Chairman of the Board of Directors
2012	2014	LLC Gazprom gazomotornoe toplivo	Member of the Board of Directors, Chairman of the Management Committee, Director General

Alexei Borisovich Miller

Since	Till	Company Name	Position
2001	Present	PJSC GAZPROM	Chairman of the Management Committee
2002	Present	PJSC GAZPROM	Deputy Chairman of the Board of Directors
2001	Present	JSC Gazprombank	Chairman of the Board of Directors
2003	Present	JSC Sogaz Insurance	Chairman of the Board of Directors
2005	Present	PJSC Gazprom Neft	Chairman of the Board of Directors, member of the Board of Directors
2007	Present	Non-state Pension Fund “GAZFOND”	Chairman of the board of the Fund
2007	Present	JSC Gazprom Media Holding	Chairman of the Board of Directors, member of the Board of Directors
2010	Present	Gazprom Neft International S.A.	Chairman of the Supervisory Board
2012	Present	The Saint-Petersburg University Graduate School of Management (SPbSU GSOM)	Member of the Board of Trustees
2012	Present	JSC Russian racecourses	Chairman of the Board of Directors, member of the Board of Directors
2013	Present	The Global Energy Association	Member of the Supervisory Board
2013	Present	“New Technologies in Gas Industry” Association of Equipment Manufacturers	President - Chairman of the Management Committee
2013	Present	Federal State Budget Educational Institution of Higher Education M.V.Lomonosov Moscow State University	Member of the Board of Trustees
2014	Present	Federal State Budget Educational Institution of Higher Education “Saint-Petersburg State University of Economics”	Chairman of the Board of Trustees
2015	Present	Federal State Budget Institution “The Russian Academy of Education”	Chairman of the Board of Trustees
2016	Present	International Business Congress (IBC) e. V.	President, Chairman of the Board, Chairman of the Presidium

2017	Present	Federal State Autonomous Educational Institution for Higher Education National Research University Higher School of Economics	Member of the Board of Trustees
2018	Present	Foundation for the Preservation and Development of the Solovki Archipelago	Member of the Board of Trustees
2018	Present	Russia's Presidential Council for the Development of Physical Culture and Sports	Member of the Council
2008	2009	Gazprom EP International B.V.	Member of the Board of Directors
2008	2018	Shtokman Development AG	President of the Board of Directors
2012	2013	JSC Rusgeology	Member of the Board of Directors
2012	2013	South Stream Transport Services AG	Member of the Board of Directors
2012	2015	South Stream Transport B.V.	Member of the Board of Directors, Member of the Supervisory Board

Andrey Igorevich Akimov

Since	**Till**	**Company Name**	**Position**
2011	Present	PJSC GAZPROM	Member of the Board of Directors
2002	Present	JSC Gazprombank	Chairman of the Management Committee, Member of the Board of Directors, Deputy Chairman of the Board of Directors
2010	Present	Energy and Finance Institute Fund	Chairman of the Supervisory Board
2006	Present	PJSC NOVATEK	Member of the Board of Directors
2011	Present	JSC Rosneftegaz	Member of the Board of Directors
2012	Present	LLC Gazprom gazomotornoe toplivo	Deputy Chairman of the Board of Directors
2014	Present	LLC Professional hockey club "CSKA"	Member of the Supervisory Board
2006	2012	Carbon Trade & Finance SICAR S.A.	Member of the Board of Directors
2007	2015	LLC Congress-Center "Konstantinovsky"	Member of the Board of Directors
2007	2017	The Association of Russian Banks (ARB)	Member of the Board
2008	2016	Gazprom EP International B.V.	Member of the Supervisory Board
2008	2015	GAZPROM Germania GmbH	Member of the Supervisory Board
2009	2013	Gazprombank (Switzerland) Ltd.	Chairman of the Board of Directors
2011	2011	JSC Rosneftegaz	Member of the Board of Directors
2011	2012	JSC Rosneftegaz	Chairman of the Board of Directors
2011	2013	Russian Highways State Company	Chairman of the Supervisory Board
2013	2018	Bank GPB International S.A.	Chairman of the Board of Directors
2014	2017	Rosneft	Member of the Board of Directors

Timur Askarovich Kulibaev

Since	**Till**	**Company Name**	**Position**
2007	Present	Association of legal entities The KAZENERGY Kazakh association of oil, gas and energy sector organizations	Chairman
2011	Present	PJSC GAZPROM	Member of the Board of Directors
2012	Present	International Boxing Association (AIBA)	Vice-President, member of the Executive Committee
2013	Present	National Chamber of Entrepreneurs of the Republic Kazakhstan (Atameken)	Chairman of the Presidium
2015	Present	National Olympic Committee of the Republic of Kazakhstan	President
2016	Present	Olympic Council of Asia	Vice-President
2008	2011	JSC Kazakhstan Electricity Grid Operating Company (KEGOC)	Chairman of the Board of Directors
2007	2013	President of the Republic of Kazakhstan	Extraordinary Advisor
2009	2011	JSC Samruk-Energy	Chairman of the Board of Directors
2009	2011	JSC National Company Kazakhstan Temir Zholy	Chairman of the Board of Directors
2008	2011	JSC Sovereign Wealth Fund "Samruk-Kazyna"	Deputy Chairman of the Management Committee
2010	2014	National Economic Chamber of the Republic of Kazakhstan (Atameken Union)	Chairman of the Presidium

2011	2011	JSC Sovereign Wealth Fund "Samruk-Kazyna"	Chairman of the Management Committee and a member of the Board of Directors
2008	2012	JSC National Atomic Company "Kazatomprom"	Chairman of the Board of Directors
2009	2012	JSC National Company "KazMunayGas"	Chairman of the Board of Directors
2012	2016	Combat and Strength Sports Confederation	Chairman

Denis Valentinovich Manturov

Since	Till	Company Name	Position
2017	Present	PJSC GAZPROM	Member of the Board of Directors
2012	Present	The Ministry of Industry and Trade of the Russian Federation	Minister of Industry and Trade of the Russian Federation
2012	Present	State Corporation Rostec	Chairman of the Supervisory Board
2012	Present	Russian Foundation for Advanced Research Projects	Member of the Supervisory Board
2015	Present	Russian Foundation for Technological Development	Chairman of the Supervisory Board
2015	Present	PJSC United Aircraft Corporation	Chairman of the Board of Directors
2015	Present	JSC United Shipbuilding Corporation	Chairman of the Board of Directors
2016	Present	JSC Rosnano	Member of the Board of Directors
2016	Present	JSC Russian Export Center	Member of the Board of Diretors
2017	Present	Moscow Institute of Physics and Technology (State University)	Member of the Supervisory Board

Vitaliy Anatolievich Markelov

Since	Till	Company Name	Position
2012	Present	PJSC GAZPROM	Member of the Board of Directors, Deputy Chairman of the Management Committee, member of the Management Committee
2012	Present	JSC Gazprom Space Systems	Member and Chairman of the Board of Directors
2012	Present	JSC United Shipbuilding Corporation	Member of the Board of Directors
2012	Present	LLC Gazprom gazomotornoe toplivo	Member and Chairman of the Board of Directors
2013	Present	Wintershall AG	Member of the Supervisory Board
2014	Present	LLC Gazprom Kyrgyzstan	Chairman of the Board of Directors
2013	Present	Association of Pipe Manufacturers	President
2013	Present	"New Technologies in Gas Industry" Association of Equipment Manufacturers	Member of the Management Committee, Vice-president and Deputy President – Chairman of the Management Committee
2016	Present	Gazprom EP International B.V.	Member of the Supervisory Board
2016	Present	Nord Stream 2 AG	Member of the Board of Directors
2016	Present	International Business Congress (IBC) e. V.	Member of the Presidium
2017	Present	Association of construction companies of the gas industry	Chairman of the Board
2017	Present	CJSC Gazprom Armenia (formerly known as ArmRosGazprom)	Member of the Board of Directors, Chairman of the Board of Directors
2018	Present	LLC RosChemAlliance	Chairman of the Board of Directors
2011	2011	LLC Gazprom invest Vostok	Director General
2009	2012	JSC Daltransgaz	Director General and member of the Board of Directors
2011	2012	PJSC Kamchatgazprom	Member of the Board of Directors
2014	2015	South Stream Transport B.V.	Chairman of the Board of Directors
2015	2018	Shtokman Development AG	Member of the Board of Directors

Victor Georgievich Martynov

Since	Till	Company Name	Position
2008	Present	Federal State Autonomous Educational Institution of Higher Education "Gubkin Russian State University of Oil and Gas (National Research University)"	Rector

2013	Present	PJSC GAZPROM	Member of the Board of Directors
2016	Present	PJSC RussNeft	Member of the Board of Directors
2013	2015	JSC Zarubezhneft	Member of the Board of Directors
2018	2018	Russian National Committee of the World Petroleum Council Association	Chairman

Vladimir Alexandrovich Mau

Since	Till	Company Name	Position
2011	Present	PJSC GAZPROM	Member of the Board of Directors
2010	Present	Federal State Budgetary Educational Institution of Higher Education "Russian Presidential Academy of National Economy and Public Administration"	Rector
2008	Present	PJSC Sberbank	Member of the Supervisory Board
2013	Present	PJSC TRANSCAPITALBANK	Member of the Board of Directors
2015	Present	PAO Severstal	Member of the Board of Directors
2010	Present	Yegor Gaidar Foundation	Member of the Board of Trustees
2011	Present	Center of Strategic Developments Foundation	Chairman of the Board, Member of the Board
2018	Present	JSC "Academy of Education"	Member of the Board of Directors, Chairman of the Board of Directors
2002	2010	Academy of National Economy under the Government of Russian Federation	Rector
2008	2011	Economic Reform, Development and Cooperation Fund	Member of the Board of Regents
2008	2011	OJSC OTKRITIE Financial Corporation	Member of the Board of Directors
2010	2011	JSC Prosveshcheniye publishers	Member of the Board of Directors
2008	2013	Non-state Educational Institution of Additional Professional Education "Moscow School of Management SKOLKOVO"	Member of the Board of Trustees
2010	2013	Fond Economicheskoy Politiki	Member of the Managing Board
2010	2013	The Ye.T. Gaidar Institute for Economic Policy	Member of the Board of Directors

Alexander Valentinovich Novak

Since	Till	Company Name	Position
2015	Present	PJSC GAZPROM	Member of the Board of Directors
2012	Present	The Ministry of Energy of the Russian Federation (Minenergo of Russia)	Minister of Energy of the Russian Federation
2012	Present	State Atomic Energy Corporation Rosatom	Member of the Supervisory Board
2012	Present	Federal State Autonomous Educational Institution of Higher Education "Siberian Federal University"	Member of the Supervisory Board
2014	Present	National Research University "Moscow Power Engineering Institute"	Chairman of the Supervisory Board
2015	Present	Federal State Autonomous Educational Institution of Higher Education "Gubkin Russian State University of Oil and Gas (National Research University)"	Member of the Board of Trustees
2015	Present	PJSC Transneft	Member of the Board of Directors
2015	Present	PJSC ROSSETI	Chairman of the Board of Directors
2015	Present	Rosneft	Member of the Board of Directors
2010	2012	Ministry of Finance of the Russian Federation	Deputy Finance Minister of the Russian Federation
2010	2012	JSC Rosspirtprom	Member of the Board of Directors
2010	2012	JSC United Aircraft Corporation	Member of the Board of Directors
2011	2013	Russian Highways State Company	Member of the Supervisory Board

Dmitry Nikolaevich Patrushev

Since	Till	Company Name	Position

2016	Present	PJSC GAZPROM	Member of the Board of Directors
2011	Present	JSC Russian Agricultural Bank	Chairman of the Supervisory Board
2014	Present	Federal State Budget Educational Institution of Higher Professional Education "Saint-Petersburg State University of Economics"	Member of the Board of Trustees
2015	Present	The Russian Academy of Education	Member of the Board of Trustees
2016	Present	Federal State-Funded Educational Institution of Higher Education "Diplomatic Academy of Russian Foreign Ministry"	Member of the Board of Trustees
2018	Present	Ministry of Agriculture of the Russian Federation	Minister of Agruculture
2018	Present	OJSC Russian Railways	Member of the Board of Directors
2018	Present	JSC Russian Export Center	Member of the Board of Directors
2011	2018	JSC Russian Agricultural Bank	Chairman of the Management Committee , Member of the Supervisory Board
2016	2018	JSC RSKHB Insurance Company	Chairman of the Board of Directors, Member of the Board of Directors

Mikhail Leonidovich Sereda

Since	Till	Company Name	Position
2002	Present	PJSC GAZPROM	Member of the Board of Directors
2001	Present	PJSC GAZPROM	Deputy Chairman of Management Committee - Head of the Administration of the Management Committee
2002	Present	Gazprom (UK) Limited	Member of the Board of Directors, Chairman of the Board of Directors
2002	Present	JSC Gazprombank	Member of the Board of Directors, Deputy Chairman of the Board of Directors
2002	Present	OJSC Vostokgazprom	Member of the Board of Directors, Chairman of the Board of Directors
2004	Present	JSC "Gazprom tcentrenergogaz"	Member of the Board of Directors, Chairman of the Board of Directors
2004	Present	OJSC Tomskgazprom	Chairman of the Board of Directors
2005	Present	OJSC Gazpromtrubinvest	Member of the Board of Directors, Chairman of the Board of Directors
2007	Present	JSC Gazprom Space Systems (formerly OJSC Gazkom)	Member of the Board of Directors
2010	Present	Panrusgas Co.	Member of the Management Committee
2013	Present	PJSC Gazprom Neft	Member of the Board of Directors
2015	Present	GAZPROM Schweiz AG	President of the Administrative Board
2016	Present	GAZPROM Germania GmbH	Managing Director
2016	Present	Gazprom Austria GmbH	Member of the Supervisory Board, Chairman of the Supervisory Board
2016	Present	International Business Congress (IBC) e. V.	Member of the Presidium
2017	Present	LLC Gazpom Transservice	Member of the Board of Directors, Chairman of the Board of Directors
2017	Present	WIGA Transport Beteiligungs-GmbH & Co. KG	Member of the Board
2002	2018	WIEH GmbH	Member of the Board, Deputy Chairman of the Board, Chairman of the Board
2002	2018	WINGAS GmbH	Member of the Board, Deputy Chairman of the Board, Chairman of the Board
2008	2015	LLC Gazprom tsentrremont	Member of the Board of Directors
2006	2009	JSC Stroytransgaz	Member of the Board of Directors, Deputy Chairman of the Board of Directors
2004	2009	GWH Gas und Warenhandels GmbH	Member of the Board of Directors
2007	2009	JSC Volgogradneftemash	Member of the Board of Directors, Chairman of the Board of Directors
2002	2009	JSC KRASNODARGAZSTROY	Member of the Board of Directors
2010	2014	JSC Centrgaz	Member of the Board of Directors, Chairman of the Board of Directors

2003	2013	LLC Gazprom telekom (formerly CJSC Gaztelekom)	Member of the Board of Directors, Chairman of the Board of Directors
2003	2014	LLC Temryukmortrans	Member of the Board of Directors, Chairman of the Board of Directors
2012	2013	LLC Gazprom neftekhim Salavat	Member of the Board of Directors
2015	2016	GAZPROM Germania GmbH	Member of the Supervisory Board, Chairman of the Supervisory Board
2015	2018	Gazprom Global LNG Ltd.	Member of the Board of Directors
2015	2018	Gazprom Marketing & Trading Singapore Pte Ltd.	Member of the Board of Directors, Chairman of the Board of Directors
2015	2018	Gazprom Marketing & Trading Ltd.	Member of the Board of Directors, Chairman of the Board of Directors
2016	2017	WIEE AG	Member of the the Administrative Council
2016	2018	Gazprom Marketing & Trading Switzerland AG	Member of the the Administrative Council
2016	2018	WIBG GmbH	Member of the Administrative Board

Management Committee Biographies.

Alexei Borisovich Miller. See "—Director Biographies."

Elena Alexandrovna Vasilieva

Since	Till	Company Name	Position
2001	Present	PJSC GAZPROM	Deputy Chairman of Gazprom's Management Committee, Chief Accountant, member of Management Committee
2002	Present	JSC Gazprombank	Member of the Board of Directors
2001	Present	LLC Lazurnaya	Member of the Board of Directors, Deputy Chairman of the Board of Directors, member of the Board of Directors
2008	Present	OJSC Vostokgazprom	Member of the Board of Directors
2016	Present	OJSC Tomskgazprom	Member of the Board of Directors
2002	2013	CJSC Yamalgazinvest	Member of the Board of Directors
2002	2013	Gazprom (UK) Limited	Member of the Board of Directors
2009	2013	LLC Gazprom investproekt (formerly LLC Russkiye Energeticheskiye Proekty)	Member of the Board of Directors

Valery Alexandrovich Golubev

Since	Till	Company Name	Position
2003	Present	PJSC GAZPROM	Member of the Management Committee, since 2006 Deputy Chairman of the Management Committee
2005	Present	JSC Volgogradneftemash	Member and Chairman of the Board of Directors
2006	Present	KazRosGas LLP	Member of the Supervisory Board
2006	Present	Union of Oil and Gas Industry Organizations "Russian Gas Society"	Member of the Supervisory Board, First Vice-President of the Supervisory Board
2007	Present	JSC Moldovagaz	Chairman of the Supervisory Board
2007	Present	LLC International Consortium for Management and Development of Gas Transportation System of Ukraine	Member of the Board
2007	Present	PJSC Mosenergo	Member of the Board of Directors
2007	Present	PJSC Gazprom Neft	Member of the Board of Directors
2009	Present	LLC Gazprom investproekt (formerly LLC Russkiye Energeticheskiye Proekty)	Member of the Board of Directors
2009	Present	Sakhalin Energy Investment Company Ltd.	Co-Chairman of the Production Sharing Supervisory Board, member of the Board of Directors
2010	Present	OJSC Gazprom-Yuzhnaya Osetia	Member of the Board of Directors, Chairman of the Board of Directors
2012	Present	Gazprom Neft Finance B.V.	Member of the Supervisory Board

2006	2013	Kaunas Combined Heat and Power Plant	Member of the Management Committee
2007	2013	LLC Gazpromtrans	Chairman of the Board of Directors
2007	2017	CJSC Gazprom Armenia (formerly known as ArmRosGazprom)	Chairman of the Board of Directors
2006	2014	CJSC Gazprom Zarubezhneftegaz (formerly CJSC Zarubezhneftegaz)	Member and Chairman of the Board of Directors
2007	2014	JSC Lietuvos Dujos	Member of the Management Committee, Chairman of the Management Committee, Deputy Chairman of the Management Committee, Chairman of the Management Committee
2005	2014	JSC Centrgaz	Member of the Board of Directors, Chairman of the Board of Directors
2007	2012	OJSC Gazprom transgaz Belarus	Member of the Supervisory Board, Chairman of the Supervisory Board
2006	2009	OJSC YuzhNIIgyprogas	Chairman of the Board of Directors
2005	2009	OJSC Severneftegazprom	Member of the Board of Directors
2007	2011	PJSC SIBUR Holding	Member of the Board of Directors
2012	2012	LLC Gas-Oil	Member of the Board of Directors, Chairman of the Board of Directors
2014	2014	AS Vorguteenus Valdus	Chairman of the Board of Directors
2014	2014	LLC Gazprom Kyrgyzstan	Chairman of the Board of Directors
2016	2017	JSC Moscow Energy Exchange	Member of the Board of Directors

Andrey Vyacheslavovich Kruglov

Since	**Till**	**Company Name**	**Position**
2004	Present	PJSC GAZPROM	Member of the Management Committee, Deputy Chairman of the Management Committee
2003	Present	JSC Gazprombank	Member of the Board of Directors
2004	Present	OJSC Vostokgazprom	Member of the Board of Directors
2004	Present	OJSC Tomskgazprom	Member of the Board of Directors
2002	Present	OJSC Belgazprombank	Chairman of the Board of Directors
2005	Present	PJSC Gazprom Neft	Member of the Board of Directors
2006	Present	JSC Sogaz Insurance	Member of the Board of Directors
2009	Present	Gazprom EP International B.V.	Member of the Supervisory Board, Chairman of the Supervisory Board
2010	Present	AD Overgaz Inc.	Deputy Chairman of the Board of Directors
2010	Present	Gazprom Neft Finance B.V.	Member of the Supervisory Board
2012	Present	The Charity Fund for reconstruction of the Voskresensky New-Jerusalem Stauropegial Friary Monastery of the Russian Orthodox Church	Member of the Board
2016	Present	The International Foundation for the Unity of Orthodox Christian Nations	Member of the Board of Trustees
2016	Present	International Business Congress (IBC) e. V.	Member of the Presidium
2003	2014	PJSC GAZPROM	Head of Finance and Economic Department
2015	2015	PJSC GAZPROM	Head of Department 816
2008	2015	LLC Gazprom tsentrremont	Member of the Board of Directors, Chairman of the Board of Directors
2009	2015	GAZPROM Germania GmbH	Member of the Supervisory Board
2009	2015	Gazprom Marketing & Trading Ltd.	Member of the Board of Directors
2009	2017	LLC Gazprom investproekt (formerly LLC Russkiye Energeticheskiye Proekty)	Member of the Board of Directors, Chairman of the Board of Directors, Member of the Board of Directors, Chairman of the Board of Directors
2002	2010	CJSC Gazenergoprombank	Member of the Board of Directors
2004	2010	JSC Gazprom centrenergogaz	Chairman of the Board of Directors
2009	2009	CJSC Gerosgas	Member of the Board of Directors

Vitaliy Anatolievich Markelov. See "—Director Biographies."

Alexander Ivanovich Medvedev

Since	Till	Company Name	Position
2002	Present	PJSC GAZPROM	Member of the Management Committee, since 2005 - Deputy Chairman of the Management Committee
2003	Present	Prometheus Gas S.A.	Chairman of the Board of Directors
2003	Present	Overgaz Inc. AD	Chairman of the Board of Directors
2005	Present	OJSC Severneftegazprom	Member of the Board of Directors, Chairman of the Board of Directors
2005	Present	KazRosGas LLP	Chairman of the Supervisory Board
2005	Present	Blue Stream Pipeline Company B.V.	Member of the Board of Directors
2011	Present	JSC Gaztranzit (formely CJSC Gaztranzit)	Chairman of the Supervisory Board
2003	Present	SGT EuRoPol GAZ S.A.	Member of the Supervisory Board, Chairman of the Supervisory Board
2006	Present	LLC SKA Ice Hockey Club	Chairman of the Board of Directors, Deputy Chairman of the Board of Directors
2008	Present	Gazprom EP International B.V.	Member of the Supervisory Board
2009	Present	Sakhalin Energy Investment Company Ltd.	Member of the Board of Directors, member of the Supervisory Board
2010	Present	Erdgasspeicher Peissen GmbH	Deputy Chairman of the Supervisory Board, Chairman of the Supervisory Board
2003	Present	Panrusgas Co.	Member of the Management Committee
2006	Present	AD YugoRosGaz	Chairman of the Management Committee, Chairman of the Supervisory Board
2011	Present	Association MHL	Chairman of the Managing Committee, member of the Managing Committee
2012	Present	LLC Hockey House	Chairman of the Board of Directors
2013	Present	Moravia Gas Storage a.s.	Member of the Supervisory Board
2014	Present	Gazprom Austria GmbH	Member of the Supervisory Board, Chairman of the Supervisory Board
2015	Present	WIGA Transport Beteiligungs-GmbH & Co. KG	Member of the Board
2015	Present	Global Gas Centre	Member of the Committee
2016	Present	Nord Stream 2 AG	Member of the Board of Directors
2017	Present	JSC Gaso	Member of the Board of Directors
2017	Present	LLC KHL	Member of the Board of Directors
2002	2014	LLC Gazprom Export (formerly Gazexport)	Director General, Chairman of the Management Committee
2003	2018	WIEH GmbH	Member of the Board, Chairman of the Board
2003	2018	WINGAS GmbH	Member of the Board, Chairman of the Board
2003	2017	GazCop S.A.	Chairman of the Board of Directors
2003	2016	VTB Bank (Austria) AG (formerly Donau Bank)	Member of the Supervisory Board, Deputy Chairman of the Supervisory Board
2008	2014	LLC KHL	President, First Deputy Chairman of the Board of Directors, Chairman of the Management Committee - President
2006	2012	Gazprom (UK) Limited	Member of the Board of Directors
2003	2014	CJSC Gazprom Zarubezhneftegaz (formerly CJSC Zarubezhneftegaz)	Member of the Board of Directors, Chairman of the Board of Directors
2006	2015	GAZPROM Germania GmbH	Chairman of the Consultancy Board, Chairman of the Supervisory Board
2005	2015	Gazprom Marketing & Trading Ltd.	Chairman of the Board of Directors
2011	2015	ANO KHL	Chairman of the Managing Committee, Chairman of the Board of Founders
2003	2011	JSC Fragas	President of the Supervisory Board
2007	2010	CJSC Gerosgaz	Chairman of the Board of Directors, Deputy Chairman of the Board of Directors
2008	2018	Shtokman Development AG	Member of the Board of Directors
2009	2012	CEA Centrex Energy and Gas GmbH (formerly CEA Centrex Energy and Gas AG)	Chairman of the Supervisory Board
2009	2010	OJSC ARCTICGAZ	Chairman of the Board of Directors
2009	2010	OJSC Neftegaztechnologiya	Chairman of the Board of Directors

2009	2010	CJSC Urengoil Inc.	Chairman of the Board of Directors
2009	2010	LLC SeverEnergia	Member of the Board of Directors, Chairman of the Board of Directors
2009	2012	South Stream Serbia AG	Chairman of the Board of Directors
2010	2012	South Stream Hungary Zrt.	Member of the Board of Directors
2010	2011	South Stream Bulgaria AD	Executive director, member of the Board of Directors
2010	2017	South Stream Greece S.A.	Chairman of the Board of Directors, Member of the Board of Directors
2012	2014	South Stream Austria GmbH	Member of the Management Committee
2012	2015	South Stream Transport B.V.	Member of the Board of Directors, member of the Supervisory Board
2012	2015	Non-governmental educational organization for supplemental professional education "KHL Corporate Institute"	Member of the Management Committee
2012	2013	South Stream Transport Services AG	Member of the Board of Directors

Mikhail Evgenievich Putin

Since	Till	Company Name	Position
2018	Present	PJSC GAZPROM	Deputy Chairman of the Management Committee
2013	Present	JSC Sogaz Insurance	Deputy Chairman of the Management Committee
2013	2018	PJSC Gazprom	Advisor to the Chairman of the Management Committee

Sergey Fedorovich Khomyakov

Since	Till	Company Name	Position
2007	Present	PJSC GAZPROM	Deputy Chairman of the Management Committee, member of the Management Committee
2008	Present	Gazprom's Corporate Security Service	Director General
2005	Present	JSC Gazprom Space Systems (formerly OJSC Gazkom)	Member of the Board of Directors
2014	Present	Federal Independent Educational Institution "National Research Tomsk Polytechnic University"	Member of the Supervisory Board
2015	Present	Federal State Autonomous Educational Institution of Higher Education "Saint-Petersburg State Electrotechnical University after V.I.Ulianov (Lenin)"	Member of the Supervisory Board
2015	Present	Federal State Autonomous Educational Institution of Higher Education "Gubkin Russian State University of Oil and Gas (National Research University)"	Member of the Board of Trustees
2016	Present	International Business Congress (IBC) e. V.	Member of the Presidium
2017	Present	ANO "Voleyball Club Zenit – Saint-Petersburg"	Member of the Supervisory board, Chairman of the Supervisory board
2017	Present	JSC Zenit Football Club	Member of the Board of Directors
2009	2017	LLC Gazprom investproekt	Member of the Board of Directors

Oleg Evgenievich Aksyutin

Since	Till	Company Name	Position
2008	Present	PJSC GAZPROM	Member of the Management Committee
2015	Present	PJSC GAZPROM	Head of Department 123
2012	Present	OJSC Gazprom transgaz Belarus	Member of the Supervisory Board
2012	Present	PGS Banatski Dvor d.o.o.	Member of the Supervisory Board
2013	Present	South Stream Transport B.V.	Chief executive director, Member of the Board of Directors

2013	Present	"New Technologies in Gas Industry" Association of Equipment Manufacturers	Member of the Management Committee
2015	Present	Self-regulated organization "Association of gas and oil complex builders"	Member of the Board of Association
2016	Present	Nord Stream 2 AG	Member of the Board of Directors
2016	Present	International Business Congress (IBC) e. V.	Member of the Presidium
2014	2016	CJSC Gazprom Armenia	Member of the Board of Directors, Deputy Head of the Board of Directors
2014	2016	LLC Gazprom Kyrgyzstan	Deputy Head of the Board of Directors
2008	2014	PJSC GAZPROM	Head of Gas Transportation, Underground Storage and Utilization Department.
Jan 2015	July 2015	PJSC GAZPROM	Head of Department 308
2012	2013	LLC Gazprom gazomotornoe toplivo	Member of the Board of Directors

Vladimir Konstantinovich Markov

Since	**Till**	**Company Name**	**Position**
2012	Present	PJSC GAZPROM	Member of the Management Committee
2015	Present	PJSC GAZPROM	Head of Department 613
2009	Present	Union of Oil and Gas Industry Organizations "Russian Gas Society"	Member of the Supervisory Board
2012	Present	JSC Insurance company "SOGAZ–Med"	Member of the Board of Directors
2012	Present	LLC Gazprom gazomotornoe toplivo	Member of the Board of Directors
2007	2011	State Duma of the Russian Federation	Deputy, member of the energy committee
2011	2011	PJSC GAZPROM	Deputy Head of the Department of Relations with Regional Authorities of the Russian Federation
2012	2014	PJSC GAZPROM	Head of the Department of Relations with Regional Authorities of the Russian Federation
2012	2014	JSC Gazprom gazoraspredeleniye	Member of the Board of Directors
2012	2013	CJSC Yamalgazinvest	Member of the Board of Directors

Elena Vladimirovna Mikhailova

Since	**Till**	**Company Name**	**Position**
2012	Present	PJSC GAZPROM	Member of the Management Committee
2015	Present	PJSC GAZPROM	Head of Department 105
2007	Present	LLC Gazprom mezhregiongaz	Deputy Director General in charge of corporate and property relations
2012	Present	PJSC Gazprom Neft	Member of the Board of Directors
2012	Present	PJSC Mosenergo	Member of the Board of Directors
2012	Present	OJSC Severneftegazprom	Member of the Board of Directors
2012	Present	CJSC Leader	Member of the Board of Directors
2012	Present	LLC Gazprom gazomotornoe toplivo	Member of the Board of Directors
2013	Present	JSC Latvijas Gaze	Member of the Board
2016	Present	Non-state Pension Fund "GAZFOND"	Member of the Board of the Fund
2017	Present	ANO "Voleyball Club Zenit – Saint-Petersburg"	Member of the Supervisory Board
2018	Present	JSC Zenit Football Club	Member of the Board of Directors
2018	Present	LLC RusChemAlliance	Member of the Board of Directors
2012	2014	PJSC GAZPROM	Head of Asset Management and Corporate Relations Department
2007	2010	LLC Gazprom mezhregiongaz Vologda	Chairman of the Board of Directors
2007	2010	CJSC Gazprom mezhregiongaz Astrakhan	Chairman of the Board of Directors
2007	2010	LLC Astrakhanregiongas	Chairman of the Board of Directors
2007	2010	LLC Gazprom mezhregiongaz Saint Petersburg	Chairman of the Board of Directors
2007	2010	LLC Petersburgregiongas	Chairman of the Board of Directors
2007	2010	LLC Gazprom mezhregiongaz Pskov	Chairman of the Board of Directors
2007	2010	LLC Gazprom mezhregiongaz Samara	Chairman of the Board of Directors
2007	2012	OJSC Regiongasholding	Chairman of the Board of Directors

2007	2010	CJSC Gazenergoprombank	Member of the Board of Directors
2007	2011	OJSC Astrakhanoblgas	Member of the Board of Directors
2007	2011	OJSC Kalmgas	Member of the Board of Directors
2007	2014	JSC Gazprom gazoraspredeleniye	Member of the Board of Directors
2007	2017	LLC Gazprom Gazenergoset	Member of the Board of Directors
2008	2013	LLC Gazprom neftekhim Salavat	Member of the Board of Directors
2008	2012	CJSC Gazprom mezhregiongaz Kazan	Chairman of the Board of Directors
2009	2014	OJSC Neftyanoy Dom	Chairman of the Board of Directors
2009	2014	JSC Sobinbank	Member of the Board of Directors
2012	2013	CJSC Nortgaz	Member of the Board of Directors
2012	2017	LLC Gazprom investproekt (formerly LLC Russkiye Energeticheskiye Proekty)	Member of the Board of Directors
2016	2017	AS Conexus Baltic Grid	Member of the Board
2016	2017	Gazprom Social Initiatives Fund	Member of the Board of Fund, Chairman of the Board of Fund

Vyacheslav Alexandrovich Mikhalenko

Since	Till	Company Name	Position
2015	Present	PJSC GAZPROM	Member of the Management Committee
2015	Present	PJSC GAZPROM	Head of the Department 308
2015	Present	Union of Oil and Gas Industry Organizations “Russian Gas Society”	Member of the Supervisory Board
2016	Present	“New Technologies in Gas Industry” Association of Equipment Manufacturers	Member of the Management Committee
2016	Present	CJSC Gazprom Armenia	Member of the Board of Directors, Deputy Chairman of the Board of Directors
2016	Present	LLC Gazprom gazomotornoe toplivo	Member of the Board of Directors
2016	Present	JSC Gazprom Space Systems	Member of the Board of Directors
2016	Present	LLC Gazprom Kyrgyzstan	Deputy Chairman of the Board of Directors
2016	Present	OJSC Gazprom transgaz Belarus	Deputy Chairman of the Supervisory Board
2016	Present	International Business Congress (IBC) e. V.	Member of the Presidium
2017	Present	JSC REPH	Chairman of the Board of Directors
2017	Present	LLC “Gazprom LNG Technology”	Member of the Board of Directors
2012	2015	LLC Gazprom transgaz Moscow	Director General
2007	2012	LLC Gazprom transgaz Tomsk	Chief Engineer – First Deputy Director General

Sergey Frolovich Prozorov

Since	Till	Company Name	Position
2014	Present	PJSC GAZPROM	Member of the Management Committee
2015	Present	PJSC GAZPROM	Head of Department 333
2015	Present	JSC Gazprom Orgenergogaz	Member of the Supervisory Board
2013	Present	JSC Giprospetsgaz	Member of the Board of Directors
2014	Present	LLC Gazprom Kyrgyzstan	Member of the Board of Directors
2015	Present	OJSC Gazprom transgaz Belarus	Member of the Supervisory Board
2015	Present	Self-regulated organization “Association of gas and oil complex builders”	Member of the Board
2015	Present	LLC Gazprom pererabotka Blagoveshchensk	Member of the Board of Directors, Chairman of the Board of Directors
2017	Present	LLC Gazprom Spetzgasavtotrans	Chairman of the Board of Directors
2017	Present	Association of construction companies of the gas industry	Executive Director of the Association, Deputy Chairman of the Board
2017	Present	LLC Gazprom Transservice	Member of the Board of Directors
2017	Present	South Stream Transport B.V.	Member of the Board of Directors
2018	Present	LLC RusChemAlliance	Member of the Board of Directors
2007	2014	PJSC GAZPROM	First Deputy Head of the Investment and Construction Department
2009	2015	OJSC Daltransgaz	Member of the Board of Directors
2009	2013	LLC Gazpromtrans	Member of the Board of Directors
2009	2011	OJSC Gazpromtrubinvest	Member of the Board of Directors
2009	2014	LLC Temrukmortrans	Member of the Board of Directors

2009	2013	LLC Gazprom telecom	Member of the Board of Directors
2009	2010	PeterGas B.V.	Chairman of the Supervisory Board
2009	2016	LLC Gazprom spetzgasavtotrans	Chairman of the Board of Directors, member of the Board of Directors
2013	2015	OJSC Kamchatgazprom	Member of the Board of Directors
2014	2014	PJSC GAZPROM	Head of Construction Department

Kirill Gennadievich Seleznev

Since	Till	Company Name	Position
2002	Present	PJSC GAZPROM	Member of the Management Committee
2015	Present	PJSC GAZPROM	Head of Department 614
2003	Present	LLC Gazprom mezhregiongaz	Director General
2002	Present	JSC Latvijas Gaze	Member of the Board, Chairman of the Board
2002	Present	KazRosGas LLP	Member of the Supervisory Board
2003	Present	OJSC Vostokgazprom	Member of the Board of Directors
2004	Present	OJSC Tomskgazprom	Member of the Board of Directors
2006	Present	JSC Zenit Football Club	Member of the Board of Directors
2006	Present	Union of Oil and Gas Industry Organizations “Russian Gas Society”	Member of the Supervisory Board
2007	Present	PJSC Mosenergo	Chairman of the Board of Directors
2008	Present	PJSC TGC-1	Chairman of the Board of Directors
2005	Present	PJSC Gazprom Neft	Member of the Board of Directors
2011	Present	JSC AB Rossiya	Member of the Board of Directors
2010	Present	JSC Gazprombank	Member of the Board of Directors
2011	Present	Gazprom Neft Finance B.V.	Member of the Supervisory Board
2013	Present	JSC Russian Regional Development Bank	Member of the Supervisory Board
2017	Present	LLC RusGasAlliance	Member of the Board of Directors
2018	Present	LLC RusChemAlliance	Member of the Board of Directors
2002	2014	PJSC GAZPROM	Head of Gas and Liquid Hydrocarbons Processing and Marketing Department
2003	2014	JSC Gazprom gazoraspredeleniye	Member of the Board of Directors, Chairman of the Board of Directors
2007	2011	PJSC SIBUR Holding	Member of the Board of Directors
2005	2013	CJSC Nortgaz	Member and the Chairman of the Board of Directors
2012	2013	LLC Gazprom gazomotornoe toplivo	Member of the Board of Directors
2013	2015	PJSC MIPC	Chairman of the Board of Directors
2006	2014	PJSC NOVATEK	Member of the Board of Directors
2004	2014	PJSC Inter RAO	Member of the Board of Directors
2006	2013	LLC Gazprom neftekhim Salavat	Member of the Board of Directors, Chairman of the Board of Directors
2006	2013	Kaunas Combined Heat and Power Plant	Member the Management Committee, Chairman of the Management Committee
2004	2014	AO Lietuvos Dujos	Member of the Management Committee
2016	2017	AS Conexus Baltic Grid	Chairman of the Board of Directors

Igor Yuryevich Fyodorov

Since	Till	Company Name	Position
2017	Present	PJSC GAZPROM	Head of Department 104
2006	Present	PJSC GAZPROM	Member of the Management Committee
2017	Present	JSC REPH	Member of the Board of Directors
2017	Present	South Stream Transport B.V.	Member of the Board of Directors
2018	Present	OJSC Gazprom transgaz Belarus	Member of the Board of Directors
2018	Present	SGT EuRoPol GAZ S.A.	Member of the Supervisory Board
2018	Present	PJSC Gazprom Neft	Member of the Board of Directors
2018	Present	LLC Lazurnaya	Member of the Board of Directors
2018	Present	JSC Moldovagaz	Member of the Supervisory Board
2018	Present	Gazprom Holding Coöperatie U.A.	Member of the Supervisory Board
2018	Present	JSC Gazprom Media Holding	Member of the Board of Directors
2006	2017	LLC Gazprom komplektatsiya	Director General

2013	2017	"New Technologies in Gas Industry", Association of Equipment Manufacturers	Member of the Management Committee

Vsevolod Vladimirovich Cherepanov

Since	Till	Company Name	Position
2010	Present	PJSC GAZPROM	Member of the Management Committee
2015	Present	PJSC GAZPROM	Head of Department of 307
2010	Present	AO Achimgaz	Chairman of the Board of Directors, member of the Board of Directors
2010	Present	Gazprom EP International B.V.	Member of the Supervisory Board
2010	Present	OJCS Severneftegazprom	Member of the Board of Directors
2010	Present	Wintershall AG	Member of the Supervisory Board
2011	Present	PJSC Gazprom Neft	Member of the Board of Directors
2011	Present	LLC Gazpromviet	Chairman of the Board of Directors
2012	Present	Sakhalin Energy Investment Company Ltd.	Member of the Board of Directors
2012	Present	LLC Gazpromneft-Sakhalin	Member of the Board of Directors
2013	Present	"New Technologies in Gas Industry" Association of Equipment Manufacturers	Member of the Management Committee
2016	Present	LLC Gazprom Kyrgyzstan	Member of the Board of Directors
2016	Present	LLC Achim Development	Member of the Board of Directors
2017	Present	LLC RusGasAlliance	Chairman of the Board of Directors
2008	2010	LLC Gazprom dobycha Nadym	Deputy Director General, Senior geologist
2010	2016	LLC TsentrCaspNeftegaz	Chairman of the Board of Directors
2010	2014	PJSC GAZPROM	Head of Gas, Gas Condensate and Oil Production Department
2010	2014	CJSC Gazprom Zarubezhneftegaz	Member of the Board of Directors
2010	2012	LLC Gazpromneft-Orenburg	Chairman of the Board of Directors
2010	2018	Shtokman Development AG	Member of the Board of Directors
2013	2014	LLC Gazprom Geologorazvedka	Member of the Board of Directors

Description of Gazprom's Management

In accordance with Federal Law No. 208-FZ "On Joint Stock Companies" dated December 26, 1995, as amended ("**Joint Stock Company Law**") and Gazprom's Charter, Gazprom's operations are governed by Gazprom's General Meeting of Shareholders, Board of Directors, Management Committee and the Chairman of the Management Committee. The General Meeting of Shareholders is Gazprom's highest governing body and, among other things, elects the Board of Directors. The Board of Directors is responsible for formulating the strategy and the executive bodies (the Management Committee and the Chairman of the Management Committee) are responsible for implementing the strategy and managing Gazprom on a day-to-day basis. All of the governing bodies act in accordance with the laws of the Russian Federation, Gazprom's Charter and the regulations of these governing bodies which were approved by the General Meeting of Shareholders of Gazprom.

General Meeting of Shareholders

The General Meeting of Shareholders takes place annually, usually in June. The following decisions, among others, can be taken only by the General Meeting of Shareholders: amendments to the Charter, Gazprom's reorganization or liquidation, the election of the members of the Board of Directors and Internal Audit Commission, the determination of the quantity, category and nominal price of authorized shares as well as rights arising out of the ownership of shares, increases in the charter capital (when such decision is reserved for the General Meeting of Shareholders by the Charter in accordance with provisions of the Joint Stock Companies Law), reduction of the charter capital, approval of the annual report and annual accounts, approval of large transactions and transactions that involve interested parties (where such decision is within the authority of the General Meeting of Shareholders in accordance with the Joint Stock Companies Law), as well as making other decisions in accordance with the terms of the Joint Stock Companies Law and the Charter.

Board of Directors

The Board of Directors is responsible for the general management of Gazprom's activities. The General Meeting of Shareholders determines the number of members of the Board of Directors, which cannot be less than nine. Currently, there are 11 members of the Board of Directors. A total of nine members of the Board of Directors were nominated by the Russian Federation, including the Chairman of the Management Committee. Six of them were nominated as representatives of the Russian Federation and three of them as independent directors. The remaining members of the Board of Directors consist of one member of the Management Committee and one member of Gazprom's management.

The powers of the Board of Directors include determining the priorities of Gazprom's operations, approving annual budgets, calling General Meetings of Shareholders and determining the agenda for such meetings, determining the record date for Gazprom's General Meetings of Shareholders, increasing Gazprom's charter capital (except where such increase is within the authority of the General Meeting of Shareholders), issuing bonds or other securities in accordance with the Joint Stock Companies Law, appointing Gazprom's executive bodies (such as the Management Committee and the Chairman of the Management Committee), deciding on early termination of the powers of these bodies, approving candidates nominated by the Chairman of the Management Committee for the position of Deputy Chairman of the Management Committee, determining the remuneration of the Chairman and members of the Management Committee, recommending the size of dividends for approval by the General Meeting of Shareholders, using the reserve and other funds, creating branch and representative offices, specifying the means of effecting transactions, adopting decisions on major transactions and certain "interested party" transactions (except for those major or "interested party" transactions for which approval is within the competence of the General Meeting of Shareholders), establishing the terms of cooperation with subsidiaries and organizations of which Gazprom holds stock and equity participations, and other matters.

In 2002, the Board of Directors adopted a resolution whereby all transactions, involving: (i) acquisition, disposal or charge of interests that Gazprom holds in other companies; (ii) disposal or charge of interests that Gazprom's subsidiaries hold in other companies; (iii) acquisition of interests in other companies by Gazprom's subsidiaries (as amended in 2014, this is applicable to transactions exceeding 15% of a subsidiary's total assets as of the date of latest available financial statements); (iv) loans or other borrowings including guarantees by Gazprom having a value greater than 0.3% of Gazprom's balance sheet assets determined under Russian accounting principles; and (v) purchases or disposals of Gazprom's fixed assets having a value greater than 0.3% of its balance sheet assets determined under Russian accounting principles, require approval by the Board of Directors. Similar documents were adopted by all of Gazprom's significant joint-stock subsidiaries with respect to their activities.

Members of the Board of Directors are elected by the General Meeting of Shareholders by a system of cumulative voting for a term lasting until the next annual General Meeting of Shareholders and may be re-elected an unlimited number of times. The General Meeting of Shareholders may also terminate the authority of all members of the Board of Directors before the expiration of their terms. Members of the Management Committee may not comprise more than one-quarter of the Board of Directors. The Chairman of the Board of Directors is elected from and by the members of the Board of Directors by a majority vote and may be re-elected at any time by a special resolution requiring at least a two-thirds majority. The Chairman of the Management Committee cannot simultaneously serve as the Chairman of the Board of Directors.

Audit Committee

The Audit Committee of the Board of Directors is primarily focused on assessing the nominations for Gazprom's auditor, the auditor's report, ensuring independence and objectivity of internal and external audit, control of completeness, accuracy and reliability of Gazprom's financial statements as well as reliability and effectiveness of Gazprom's risk management and internal controls. The Audit Committee members are elected pursuant to the guidelines in relation to the formation and functioning of the Audit Committee that have been adopted by the Board of Directors. The powers of the Audit Committee expire concurrently with the termination of the powers of the Board of Directors that has appointed the relevant Audit Committee. Currently, V. Martynov (independent director) is the Chairman and M. Sereda and V. Mau (independent director) are members of the Audit Committee.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for internal and external assessment of performance, and development, review and monitoring of compliance with the remuneration policy in respect of the members of the Board of Directors, committees of the Board of Directors, the Management Committee and the Chairman of the Management Committee; development of conditions for early termination of employment of the members of the Management Committee and the Chairman of the Management Committee; identification of ways to improve the composition of the Board of Directors, preparation of recommendations for the shareholders in respect of the nominees to the Board of Directors; planning top management appointments; planning of appointment of the Corporate Secretary; and development of recommendations for the Board of Directors in relation to the principles of remuneration of the Corporate Secretary. Currently, the Chairman of the Nomination and Remuneration Committee is M. Sereda, the members are V. Martynov (independent director) and V. Mau (independent director).

Management Committee

The Management Committee and the Chairman of the Management Committee are Gazprom's executive bodies. The Chairman and other members of the Management Committee are each appointed by the Board of Directors for a term of five years. The Board of Directors has the right to terminate the authority of any member of the Management Committee as well as the Chairman of the Management Committee.

The authority of the Management Committee includes (i) developing forward-looking plans and principal programs for approval by the Board of Directors, including Gazprom's annual budget and investment programs, and preparing reports

on the implementation of those programs; (ii) organizing gas flow management and management of the GTS; (iii) organizing control over the development of Gazprom's current and prospective plans and programs; (iv) approving the rules governing the organization and reliability of Gazprom's bookkeeping accounts and the timely preparation of the annual report and other financial reports; and (v) presenting information about Gazprom's activities for the use of shareholders, creditors, and the media.

The Management Committee meets, in general, at least twice every month in accordance with a schedule that is approved by the Chairman of the Management Committee.

Chairman of the Management Committee

The Chairman of the Management Committee has authority to act in Gazprom's name without power of attorney, presents Gazprom's interests, approves staff, issues orders and decrees, gives instructions to be carried out by all of Gazprom's employees and issues internal documents with respect to the current activities, with the exception of internal documents which are within the authority of Gazprom's other management bodies.

Additional Information about Gazprom's Directors and Management Committee Members

Directors' and officers' compensation

Key management personnel (the members of the Board of Directors and Management Committee of Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of Group companies, amounted to approximately RR4,537 million and RR4,685 million for the years ended December 31, 2017 and 2016, respectively. Such amounts include personal income tax and payments for certain healthcare services. The members of the Board of Directors, who are Government officials, do not receive remuneration from the Group. Compensation of the members of the Board of Directors (other than remuneration for serving as directors of a company of the Group) is determined by the terms of the employment contracts.

Share ownership by directors and Management Committee members

Members of the Board of Directors who simultaneously hold managing positions, members of the Managing Committee and other managers of Gazprom are entitled to purchase Gazprom's shares pursuant to the Management Share Capital Participation Program.

As of September 30, 2018, the aggregate direct ownership of Gazprom's shares by the members of Gazprom's Management Committee and Board of Directors was 0.01%.

Conflicts of Interest

Gazprom is not aware of any potential conflicts of interest between any duties of the members of its Board of Directors or Management Committee owed to it and their own private interests and/or other duties.

SHAREHOLDING STRUCTURE OF GAZPROM

Gazprom's charter capital amounts to RR118,367,564,500, consisting of 23,673,512,900 ordinary shares with a nominal value of RR5 per each ordinary share. Holders of the ordinary shares are entitled to dividends that may be declared in respect of a quarter, half-year, nine months or a full financial year. Each ordinary share, as a general rule, will carry one vote at a General Meeting of Shareholders.

The Russian Federation currently controls over 50% of our Shares. As our controlling shareholder, the Russian Federation has a strong influence over the major decisions made at our shareholder meetings and, as the nominating party for a majority of the members of the Board of Directors, is able to determine our strategy, make policy decisions in relation to the main areas of our business (including investments, borrowings, risk management and asset allocation), and supervise the implementation of such decisions. Minority shareholders of Gazprom enjoy protections provided under the applicable corporate laws of the Russian Federation to which Gazprom and the Russian Federation, as its controlling shareholder, strictly adhere. For a summary of these protections, see "Description of Share Capital and Certain Requirements of Russian Legislation." We are also a "natural monopoly" in the transportation of natural gas under Federal Law No. 147 FZ, dated August 17, 1995 (the "**Natural Monopoly Law**"), which means that the tariffs we charge for gas transportation through our trunk pipelines are subject to regulation by the Government.

Gazprom's Shares are admitted to trading at, and listed on the Level I quotation lists of, the Moscow Exchange and the Saint Petersburg Exchange, the leading Russian stock exchanges.

In April 2006, Gazprom converted the Regulation S GDR facility to an unrestricted GDR facility, which provides for the deposit of Gazprom shares for issuance of the global depositary receipts ("**GDRs**") and surrender of GDRs for delivery of shares. The Bank of New York Mellon acts as the depositary. The GDRs are freely tradable on the over-the-counter stock market in the United States, the regulated market of the London Stock Exchange and on the following other exchanges: the Berlin Stock Exchange, the Frankfurt Stock Exchange and the Moscow Exchange. In addition, Gazprom has previously sold Rule 144A ADRs in the United States to qualified institutional buyers. Under the permit received by Gazprom from the Federal Service for Financial Markets (subsequently replaced by the CBR as the Russian securities market regulator) in accordance with the Russian securities regulations, the maximum volume of Gazprom shares that may be circulated outside Russia in the form of GDRs or otherwise may not exceed 35% of Gazprom's charter capital. In June 2014, up to 4,000,000,000 unrestricted GDRs representing 8,000,000,000 of Gazprom shares were admitted to listing and quotation on the Singapore Exchange Securities Trading Limited.

The following table sets forth information regarding the beneficial ownership of Gazprom shares as of September 30, 2018:

Shareholders	**(%)**
Federal Agency For State Property Management [(1)]	38.37
Rosneftegaz [(1)]	10.97
AO Rosgazifikatsiya [(1)]	0.89
Depository receipts holders (through The Bank of New York Mellon) [(2)]	24.15
Other entities[(2)]	25.62
Total	**100.00**

Notes:

(1) Entities controlled by the Russian Federation. The Russian Federation currently controls over 50% of Gazprom's shares through holding a 100% interest in Rosneftegaz which, in turn, holds a 74.55% interest in AO Rosgazifikatsiya. The shareholding of AO Rosgazifikatsiya is presented as of June 4, 2018.

(2) Our subsidiaries control 6.6% of Gazprom shares and depository receipts.

In July 2016, we acquired ordinary shares and depository receipts representing 3.6% shares of Gazprom from VEB for RR132 billion.

CERTAIN TRANSACTIONS

Interested Party Transactions under Russian Law

The Joint Stock Companies Law sets forth certain requirements with respect to transactions involving interested parties. An interested party is any of the following: (i) a member of the board of directors, (ii) a person performing functions of the sole executive body (e.g., the Chairman of Gazprom's Management Committee), (iii) a member of the collective executive body (e.g., the Gazprom's Management Committee), (iv) a person controlling the company or (v) any person who has the right to issue mandatory instructions to the company, if such person or its spouse, parents, children, adoptive parents or children, full or half-blood brothers or sisters and/or persons (entities) controlled by it:

- is a party to, or beneficiary of, or a representative or intermediary in, a transaction with the company; or
- is a controlling person of a legal entity which is a party to, or beneficiary of, or a representative or intermediary in, a transaction with the company; or
- holds position in any management body of a legal entity which is a party to, or beneficiary of, or a representative or intermediary in, a transaction with the company (or in any management body of the management company of such entity).

In accordance with the Joint Stock Company Law the term "**controlling person**" includes any person which (directly or indirectly, through persons controlled by it, by virtue of its ownership in the share capital of the controlled entity, a trust, partnership, joint venture or agency agreement, shareholders agreement or any other agreement relating to the exercise of rights attached to the shares (interests) in the controlled entity) holds more than 50% of votes in the highest governance body of the controlled entity or has the powers to appoint or elect the sole executive body or more than 50% of the members of the collective executive body of the controlled entity. The aforementioned threshold is reduced to 20% with respect to the joint stock companies:

- included on the list of strategic enterprises and companies by a Decree of the President of the Russian Federation, or
- 50% or more of shares in which are held by the Russian Federation, or
- in which the Russian Federation holds a special management right ("golden share").

The Russian Federation, its constituent units or municipalities are not considered controlling persons under the Joint Stock Companies Law.

The Joint Stock Companies Law requires that the company shall notify the members of its board of directors, members of its collective executive body and, where all members of the board of directors of the company are interested, its shareholders of the contemplated interested party transaction. Such notice shall be given not later than 15 calendar days prior to the consummation of the transaction, unless the company's charter sets forth another notice period.

The Joint Stock Companies Law does not require the prior approval of an interested party transaction. However, the prior approval by the board of directors or by the general shareholders' meeting may be requested by

- the sole executive body, or
- a member of the collective executive body, or
- a member of the board of directors, or
- a shareholder holding not less than 1% of voting shares.

In such case, the transaction in a non-public joint stock company must be approved by a majority vote (unless a qualified majority vote is required under the company's charter) of the disinterested directors or, if the number of such disinterested directors is less than the quorum required under the company's charter, by a simple majority of the company's disinterested shareholders.

If the company is a public joint stock company, such as Gazprom, the transaction shall be approved by a simple majority vote (unless a qualified majority vote is required under the company's charter) of the disinterested directors, who are not, nor within one year preceding the decision to approve the transaction were not, among others:

- the sole executive body of the company; or

- members of any collective executive body of the company; or
- members of any management body of the company's management company; or
- controlling persons of the company or its management company (sole manager); or
- persons having the right to issue mandatory instructions to the company.

The company's charter may set forth additional criteria with respect to directors approving interested party transactions. Gazprom's Charter contains no such criteria.

An interested party transaction must be approved by the majority of disinterested shareholders holding voting shares of the company and participating in the relevant general meeting of shareholders where:

- the number of disinterested directors is not sufficient to constitute a quorum for voting on certain issues by directors of a public company under the company's charter; or
- the value of the assets in relation to which such transaction, or series of related transactions, is consummated is equal to or exceeds 10% of the balance sheet value of the company's assets as of the last reporting date; or
- the transaction, or series of related transactions, involves the disposal of the company's ordinary shares in an amount exceeding 2% of the previously issued ordinary shares of the company or securities convertible into such shares (unless the company's charter provides for a lower threshold); or
- the transaction, or series of related transactions, involves the disposal of the company's preference shares in an amount exceeding 2% of the previously issued shares of the company and shares convertible into such shares (unless the company's charter provides for a lower threshold).

If all the shareholders holding voting shares are interested in the transaction requiring approval by the general meeting of shareholders and there is another person being interested in the transaction, such transaction is to be approved by the majority of shareholders holding voting shares of the company and participating in the relevant general meeting of shareholders.

A general shareholders' meeting approving an interested party transaction is legally competent regardless of the number of participating disinterested shareholders.

The provisions of the Joint Stock Companies Law in respect of interested party transactions do not apply if:

- such transaction is to be consummated in the ordinary course of business, provided that similar transactions, which have not been interested party transactions, have been consummated for a long period of time on similar terms; or
- the company has only one shareholder holding 100% of the share capital who simultaneously is the sole executive body of the company; or
- all shareholders holding voting shares are interested in such transaction, provided that there are no other interested persons (except where the charter of a non-public company provides for the right of a shareholder to demand a prior approval of such transaction); or
- such transaction relates to the placement, including by way of subscription, of the company's shares and securities convertible into the company's shares; or
- such transaction relates to the public placement of bonds or purchase by the company of its bonds; or
- the company acquires or buys out its own shares; or
- the transaction is to be consummated as part of the company's reorganization, including under merger or accession agreements; or
- the company is required by the federal legislation of the Russian Federation to enter into the transactions, where settlements under such transactions are to be made pursuant to compulsory tariffs and prices established by the Government or competent federal state authorities authorized by the Government; or
- such transaction is consummated as a standard form (public) contract; or

- the transaction is consummated pursuant to paragraphs 6-8 of Article 8 of Federal Law No. 35-FZ "On Electric Power Sector" dated March 26, 2003, as amended; or

- the transaction is to be entered into under the same terms and conditions as set forth in the preliminary agreement containing all information set forth in paragraph 6 of Article 83 of the Joint Stock Companies Law, provided such preliminary agreement has been approved as an interested party transaction under the Joint Stock Companies Law; or

- the transaction is to be consummated at or as a result of a public tender, provided that such public tender and its terms have been approved in advance by the board of directors; or

- the value of the transaction or, if the transaction is to be consummated in respect of the assets, the price or the balance sheet value of which does not exceed 0.1% of the balance sheet value of the company's assets as of the last reporting date, provided that the price of such transaction does not exceed certain thresholds set forth by the Bank of Russia.

Directive No. 4335-U dated March 31, 2017 issued by the Bank of Russia sets forth such thresholds which, if exceeded, will result in an interested party transaction not qualifying for the de minimis exception. In case of Gazprom, such threshold level is RR2 billion.

If an interested party transaction is entered into without due approval, upon request of a member of the company's board of directors or a shareholder (or shareholders) holding not less than 1% of the company's voting shares, the company must provide the foregoing persons with information relating to such transaction, including documents confirming that such transaction does not prejudice the company's interests or is made substantially on arm's-length terms.

An interested party transaction may be challenged in court pursuant to an action of the company, a member of its board of directors or its shareholders holding not less than 1% of the company's voting shares if all of the following conditions are met:

- the transaction prejudices the company's interests; and

- the other party to the transaction knew or should have known that the transaction is an interested party transaction and/or that it had not been properly approved.

Unless otherwise proved in court, the transaction is deemed to have prejudiced the company's interests if all of the following criteria are met:

- there was no prior or subsequent approval of the challenged interested party transaction;

- it has been proved that the person filing an action challenging the interested party transaction was not provided with the information in respect of such transaction upon its request.

Irrespective of whether the interested party transaction has been invalidated by a court, the relevant interested party shall be responsible for the losses such interested party caused to the company.

Related Party Transactions Under IFRS

For the purposes of the Group's Financial Statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures." The nature of the related party relationships for those related parties with whom the Group had significant balances outstanding or entered into significant transactions as of or for the nine months ended September 30, 2018 and 2017 and years ended December 31, 2017 and 2016 are described below.

For further information about our significant transactions and balances with related parties, please see Note 22 to our Unaudited consolidated interim condensed financial information and Note 34 to our consolidated financial statements for the year ended December 31, 2017.

Government

The Government controls over 50% of Gazprom's shares. In the normal course of business the Group enters into transactions with other entities under the Government's control. Prices of natural gas sales and transportation and electricity tariffs in Russia are regulated by the FAS. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with tax legislation.

In the nine months ended September 30, 2018 and 2017, transactions with the Government and entities under the Government's control resulted in income of approximately RR246 billion and RR225 billion, respectively, and expenses of RR1,362 billion and RR1,140 billion, respectively. In the years ended December 31, 2017 and 2016, transactions with the Government and entities under the Government's control resulted in revenues of approximately RR337 billion and RR283 billion, respectively, and expenses of approximately RR1,671 billion and RR1,181 billion, respectively. These expenses include current tax on profits, compulsory insurance contributions, other taxes, accrued interests, and expenses relating to transportation of oil and refined products.

Associates and joint ventures

The Group's transactions with associates and joint ventures occur in the ordinary course of business and include gas production services, interest income and expense, sale and purchase of gas, gas condensate, crude oil and refined products, as well as gas transportation services, refining and other services. Such companies include, but are not limited to Slavneft and subsidiaries, Panrusgas Co., Arcticgas, GPB and it subsidiaries, Messoyakhaneftegaz, KazRosGaz, Nord Stream AG, WIGA and its subsidiaries and Achimgaz. For the nine months ended September 30, 2018 and 2017 and years ended December 31, 2017 and 2016, these transactions resulted in income of approximately RR195 billion, RR183 billion, RR243 billion and RR 234 billion, respectively, and expenses of approximately RR386 billion, RR319 billion, RR442 billion and RR425 billion, respectively.

In addition, in the nine months ended September 30, 2018 and 2017 and years ended December 31, 2017 and 2016 total revenues from operations with CJSC Gazprom YRGM Trading and JSC Gazprom YRGM Development amounted to RR51 billion, RR54 billion, RR73 billion and RR37 billion, respectively, while the expenses were RR78 billion, RR68 billion, RR94 billion and RR47 billion, respectively. CJSC Gazprom YRGM Trading and JSC Gazprom YRGM Development are our significant related parties but, for accounting purposes, they are not treated as either associates or joint ventures.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of Group companies, amounted to approximately RR4,537 million and RR4,685 million for the years ended December 31, 2017 and 2016, respectively. Such amounts include personal income tax and payments for certain healthcare services.

FACILITY AGREEMENT

The following is the text of the Amended and Restated Facility Agreement entered into between Gazprom and the Issuer, as amended on October 28, 2014. In the context of each Series of Notes and the corresponding Loan, this Amended and Restated Facility Agreement should be read in conjunction with, and is qualified in its entirety by, the relevant Loan Supplement for such Series and Loan.

This Amended and Restated Facility Agreement is made on 7 December 2005 **between:**

(1) **PUBLIC JOINT STOCK COMPANY GAZPROM**, a company established under the laws of the Russian Federation whose registered office is at 16 Nametkina Street, 117884 Moscow, Russian Federation ("**Gazprom**"); and

(2) **GAZ CAPITAL S.A.**, a société anonyme established under the laws of Luxembourg whose registered office is at 2, Boulevard Konrad Adenauer L-1115 Luxembourg, registered with the Register of Commerce and Companies, Luxembourg under registered number B-95071 (the "**Lender**").

Whereas:

(A) Pursuant to a Facility Agreement dated 22 September 2003, (the "**Original Facility Agreement**"), the Lender, at the request of Gazprom, agreed to make available to Gazprom a loan facility in the maximum amount of the Programme Limit (as defined below) on the terms and subject to the conditions of the Original Facility Agreement, as amended and supplemented in relation to each Loan by a loan supplement dated the Closing Date substantially in the form set out in the Schedule 1 thereto (each, a "**Loan Supplement**").

(B) It was intended that, concurrently with the extension of any Loan under the Original Facility Agreement, the Lender would issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such Loan.

(C) It has been agreed in the Principal Trust Deed (as defined below) that if following the assignment by the Lender of its rights and obligations under any Loan Agreement, the Trustee or any person receiving payments under the direction of the Trustee in accordance with Clause 2.8 of the Principal Trust Deed is no longer a resident of a state with which the Russian Federation has a double taxation treaty providing for a zero withholding tax rate on income in the form of interest, then the Trustee shall use its best endeavours (using its powers under the Principal Trust Deed) to select a new trustee or co-trustee, appoint an agent or nominee, delegate any of its functions or take such other measures that it deems advisable or necessary so that payments obtain the benefit of a zero withholding tax rate on payments in the form of interest.

(D) The parties hereto wish to amend and restate the Original Facility Agreement as set out below.

Now it is hereby agreed as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated:

"**Account**" means an account in the name of the Lender with the Principal Paying Agent as specified in the relevant Loan Supplement.

"**Administrative Services and Domiciliation Agreement**" means the administrative services and domiciliation agreement between the Lender and Deutsche Bank Luxembourg S.A. as amended and restated on 8 June 2005.

"**Affiliates**" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"**Agency Agreement**" means the amended and restated paying agency agreement relating to the Programme dated 7 December 2005 between the Lender, Gazprom, the Trustee and the agents named therein.

"**Arrangers**" mean Deutsche Bank AG, London Branch and UBS Limited or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has terminated pursuant to the Dealer Agreement.

"**Business Day**" means (save in relation to Clause 4) a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating and (d) in relation to a Loan corresponding to a Series of Notes to be sold pursuant to Rule 144A under the Securities Act, banks and foreign exchange markets are open for business generally in New York City.

"**Calculation Agent**" means, in relation to a Loan, Deutsche Bank AG, London Branch or any person named as such in the relevant Loan Supplement or any successor thereto.

"**Closing Date**" means the date specified as such in the relevant Loan Supplement.

"**Consolidated Net Tangible Assets**" means the total of all assets less (i) total liabilities, (ii) goodwill, trade names, trade marks, service marks, patents, licences, organisational expenses, research and development expenses, unamortised debt discount and expense, unamortised deferred charges and all other like intangible assets, (iii) all write-ups of fixed assets, net of accumulated depreciation thereon, after the most recent consolidated balance sheet of Gazprom and its consolidated Subsidiaries immediately preceding the relevant Closing Date prepared in accordance with IFRS, as consistently applied, excluding, for the avoidance of doubt, any restatement for changes in the general purchasing power of the Rouble in accordance with IFRS 29 "Financial Reporting in Hyperinflationary Economies" and revaluations supported by an independent appraisal completed by an appropriately qualified firm and (iv) preferred stock, if any, all as set forth on the most recent consolidated balance sheet of Gazprom and its consolidated Subsidiaries prepared in accordance with IFRS, as consistently applied.

"**Day Count Fraction**" has the meaning specified in the relevant Loan Supplement.

"**Dealer Agreement**" means the amended and restated dealer agreement relating to the Programme dated 7 December 2005 between the Lender, Gazprom, the Arrangers and the other dealers appointed pursuant to it.

"**Dollars**", "**$**" and "**U.S.$**" means the lawful currency of the United States of America.

"**Early Redemption Amount**" has the meaning specified in the relevant Loan Supplement.

"**Encumbrance**" means any mortgage, charge, pledge, lien (other than a lien arising solely by operation of law which is discharged within 45 calendar days of arising) or other security interest securing any obligation of any Person or any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

"**Environmental Law**" means any applicable law in any jurisdiction in which any member of the Group conducts business which relates to the pollution or protection of the environment or harm to or the protection of human health or the health of animals or plants.

"**euro**" or "**€**" means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome, as amended.

"**Event of Default**" has the meaning assigned to such term in sub-clause 11.1 hereof.

"**Fees and Expenses Side Agreement**" means, in relation to each Series, the agreement defined as such in the relevant Subscription Agreement.

"**Final Terms**" means, in relation to a Loan, final terms issued specifying the relevant issue details of such Loan, substantially in the form of Schedule C of the Dealer Agreement.

"**Financial Indebtedness**" means any obligation for the payment of money in any currency, other than an obligation for the payment of money in the lawful currency for the time being of the Russian Federation payable to any person domiciled, resident or having its head office or principal place of business in the Russian Federation, whether sole, joint or several, and whether actual or contingent, in respect of:

(a) moneys borrowed or raised (including the capitalised value of obligations under financial leases and hire purchase agreements and deposits, but excluding moneys raised by way of the issue of share capital (whether or not for a cash consideration) and any premium on such share capital) and interest and other charges thereon or in respect thereof;

(b) any liability under any debenture, bond, note, loan stock or other security or under any acceptance or documentary credit, bill discounting or note purchase facility or any similar instrument;

(c) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for a period not exceeding six months for goods or services supplied;

(d) any liability under any interest rate or currency hedging agreement;

(e) any liability under or in respect of any bonding facility, guarantee facility or similar facility; and

(f) (without double counting) any guarantee or other assurance against financial loss in respect of such moneys borrowed or raised, interest, charges or other liability (whether the person liable in respect of such moneys borrowed or raised, interest, charges or other liability is or is not a member of the Group),

but not where the same relates to or is in connection with any Project Financing.

"**Fixed Rate Loan**" means a Loan specified as such in the relevant Loan Supplement.

"**Floating Rate Loan**" means a Loan specified as such in the relevant Loan Supplement.

"**Gazprom Account**" means an account in the name of Gazprom as specified in the relevant Loan Supplement for receipt of Loan funds.

"**Gazprom Agreements**" means this Agreement, the Agency Agreement, the Dealer Agreement, the Trustee and Agents Fee Side Letter and together with, in relation to each Loan, the relevant Final Terms, Subscription Agreement and Loan Supplement.

"**Group**" means Gazprom and its Subsidiaries taken as a whole.

"**IFRS**" means the International Financial Reporting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time).

"**Interest Payment Date**" means the dates specified as such in the relevant Loan Supplement.

"**Interest Period**" means each period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

"**Lead Manager(s)**" means the Relevant Dealer(s) specified as such in the relevant Subscription Agreement.

"**Lender Agreements**" means the Dealer Agreement, this Agreement, the Agency Agreement, the Principal Trust Deed, the Administrative Services and Domiciliation Agreement, the Trustee and Agents Side Letter and together with, in relation to each Loan, the relevant Final Terms, Subscription Agreement, Loan Supplement and Supplemental Trust Deed and Fees and Expenses Side Agreement.

"**Loan**" means each loan to be made pursuant to, and on the terms specified in this Agreement and the relevant Loan Supplement and includes each Fixed Rate Loan and Floating Rate Loan.

"**Loan Agreement**" means this Agreement and (unless the context requires otherwise), in relation to a Loan means this Agreement as amended and supplemented by the relevant Loan Supplement.

"**Make Whole Premium**" has the meaning specified in the relevant Loan Supplement.

"**Material Adverse Effect**" means a material adverse effect on (a) the financial condition or operations of Gazprom and the Group taken as a whole or (b) Gazprom's ability to perform its obligations under a Loan Agreement or (c) the rights or remedies of the Lender under a Loan Agreement.

"**Notes**" means the loan participation notes that may be issued from time to time by the Lender under the Programme in Series, each Series corresponding to a Loan and in relation to a Loan as defined in the relevant Loan Supplement.

"**Noteholder**" means, in relation to a Note, the person in whose name such Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

"**Officer's Certificate**" means a certificate signed by an officer of Gazprom who shall be the principal executive officer, principal accounting officer or principal financial officer of Gazprom in the form of Schedule 2.

"**Opinion of Counsel**" means a written opinion from international legal counsel who is acceptable to the Lender.

"**Permitted Encumbrance**" means:

(i) any Encumbrance existing on the date of the relevant Loan Agreement;

(ii) any Encumbrance existing on any property, income or assets of any corporation at the time such corporation becomes a Subsidiary of Gazprom and not created in contemplation of such event, provided that no such Encumbrance shall extend to any other property, income or assets of such corporation or the Group;

(iii) any Encumbrance on any property, income or assets of any corporation existing at the time such corporation is merged or consolidated with or into Gazprom or any Subsidiary of Gazprom and not created in contemplation of such event, provided that no such Encumbrance shall extend to any other property, income or assets of the Group;

(iv) any Encumbrance on any property or assets securing Financial Indebtedness of Gazprom or any Subsidiary of Gazprom incurred or assumed for the purpose of financing all or part of the cost of acquiring, purchasing, constructing or developing such property or assets, provided that no such Encumbrance shall extend to any other property or assets of the Group, the principal amount of the Financial Indebtedness secured by such Encumbrance shall not exceed the cost of acquiring, purchasing, constructing or developing such property or assets, and such Encumbrance attaches to such property or assets concurrently with or within 90 calendar days after the acquisition or purchase, or the commencement of the construction or development, thereof;

(v) any Encumbrance on any property or assets securing Financial Indebtedness of Gazprom or any Subsidiary of Gazprom incurred or assumed for the purpose of financing all or part of the cost of repairing or refurbishing such property or assets of the Group, provided that no such Encumbrance shall extend to any other property or assets, the principal amount of the Financial Indebtedness secured by such Encumbrance shall not exceed the cost of such repairs or refurbishments, and such Encumbrance attaches to such property or assets concurrently with or within 90 calendar days after the commencement of such repairs or refurbishments;

(vi) any Encumbrance existing on any property, income or assets prior to the acquisition thereof by Gazprom or any Subsidiary of Gazprom and not created in contemplation of such acquisition, provided that no such Encumbrance shall extend to any other property, income or assets of the Group;

(vii) any Encumbrance on the property, income or assets of any Subsidiary of Gazprom securing intercompany Financial Indebtedness of such Subsidiary of Gazprom owing to Gazprom or another Subsidiary of Gazprom;

(viii) any Encumbrance securing Financial Indebtedness incurred in connection with a Project Financing if the Encumbrance is solely on the property, income, assets or revenues of the project for which the financing was incurred;

(ix) any Encumbrance securing Financial Indebtedness not exceeding 50 per cent. of Gazprom's Consolidated Net Tangible Assets at any time of determination;

(x) any Encumbrance arising out of the refinancing, extension, renewal or refunding of any Financial Indebtedness of Gazprom or any Subsidiary of Gazprom secured by any Permitted Encumbrance, provided that such Financial Indebtedness is not increased and, if the property, income or assets securing any such Financial Indebtedness are changed in connection with any such refinancing, extension, renewal

or refunding, the value of the property, income or assets securing such Financial Indebtedness is not increased;

(xi) any Encumbrance over any goods or products, or documents, insurance policies or sale contracts in relation to any goods or products, arising in the ordinary course of trading in connection with the provision of a letter of credit or any similar transaction where such Encumbrance secures only so much of the acquisition cost or selling price (and amounts incidental thereto) of such goods or products which is required to be paid within 120 calendar days after the date upon which liability in respect of the same was first incurred; and

(xii) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group.

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

"**Potential Event of Default**" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"**Principal Subsidiary**" means at any relevant time a Subsidiary of Gazprom:

(i) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent not less than 5 per cent. of the total consolidated assets or the gross consolidated revenues of Gazprom and its Subsidiaries, all as calculated by reference to the then latest audited accounts (or consolidated accounts as the case may be) (in each case, produced on the basis of IFRS, consistently applied) of such Subsidiary and the then latest audited consolidated accounts of Gazprom (produced on the basis of IFRS, consistently applied) and its consolidated Subsidiaries; or

(ii) to which is transferred all or substantially all the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary.

"**Principal Trust Deed**" means the amended and restated principal trust deed dated 7 December 2005 between the Lender and the Trustee as amended, varied or supplemented from time to time in accordance with its terms.

"**Programme**" means the programme for the issuance of loan participation notes.

"**Programme Limit**" means U.S.$15,000,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme as may be increased in accordance with the Dealer Agreement.

"**Project Financing**" means any financing of all or part of the costs of the acquisition, construction, development or operation of any asset or project if the person or persons providing such financing expressly agrees to limit its recourse solely to the asset or project financed and the revenues derived from such asset or project as the principal source of repayment for the moneys advanced.

"**Put Settlement Date**" has the meaning specified in the relevant Loan Supplement.

"**Rate of Interest**" has the meaning assigned to such term in the relevant Loan Supplement.

"**Relevant Time**" means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time.

"**Repayment Date**" means the date specified as such in the relevant Loan Supplement.

"**Roubles**" means the lawful currency of the Russian Federation.

"**Same-Day Funds**" means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time determine to be customary for the settlement of

international transactions in Brussels of the type contemplated hereby.

"**Series**" means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.

"**Side Letter**" means the letter specified as such in the relevant Loan Supplement.

"**Specified Currency**" means the currency specified as such in the relevant Loan Supplement.

"**Sterling**" means the lawful currency of the United Kingdom.

"**Subscription Agreement**" means the agreement specified as such in the relevant Loan Supplement.

"**Subsidiary**" means, with respect to any Person, (i) any corporation, association or other business entity of which more than 50 per cent. of the total voting power entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person (or any combination thereof) and (ii) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such person or (b) the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

"**Supplemental Trust Deed**" means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, *inter alia*, such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 10 of the Principal Trust Deed).

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereof.

"**Taxes**" means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Luxembourg or any taxing authority thereof or therein provided, however, that for the purposes of this definition the references to Luxembourg shall, upon the occurrence of the Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to any jurisdiction in which the Trustee is domiciled or resident for tax purposes; and the term "Taxation" shall be construed accordingly.

"**Trust Deed**" means the trust deed specified as such in the relevant Loan Supplement.

"**Trustee**" means Deutsche Bank Trust Company Americas, as trustee under the Trust Deed and any successor thereto as provided thereunder.

"**Trustee and Agents Side Letter**" means a side letter between Gazprom, the Trustee and the Agents (as named therein) dated on or around 7 December 2005.

"**Warranty Date**" means the date hereof, each Trade Date, the date of each Loan Supplement, each Closing Date, each date on which the Base Prospectus or any of the Lender Agreements is amended, supplemented or replaced and each date on which the Programme Limit is increased.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Principal Trust Deed, the Notes, the Agency Agreement or the Dealer Agreement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.3.1 All references to "Clause" or "sub-clause" are references to a Clause or sub-clause of this Agreement.

1.3.2 The terms "hereof", "herein" and "hereunder" and other words of similar import shall mean the relevant Loan Agreement as a whole and not any particular part hereof.

1.3.3 Words importing the singular number include the plural and vice versa.

1.3.4 All references to "taxes" include all present or future taxes, levies, imposts and duties of any nature and the terms "tax" and "taxation" shall be construed accordingly.

1.3.5 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

1.3.6 Any reference herein to a document being in "agreed form" means that the document in question has been agreed between the proposed parties thereto, subject to any amendments that the parties may agree upon prior to the Issue Date.

1.3.7 All references to "this Agreement" are references to this Amended and Restated Facility Agreement.

1.4 Amendment and Restatement

The parties hereto agree that this Agreement amends and restates the Original Facility Agreement. Any Loans made on or after the date hereof shall be made pursuant to, and have the benefit of, this Agreement. The amendments set out herein do not affect any Loans made prior to the date of this Agreement which shall be subject to the Original Facility Agreement or any Loans made in respect of loan participation note issues fungible with any such issue already outstanding which will be documented under the Original Facility Agreement.

2 Loans

2.1 Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to Gazprom Loans up to the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Loan will be used for general corporate purposes, but the Lender shall not be concerned with the application thereof.

2.3 Separate Loans

It is agreed that with respect to each Loan, all the provisions of this Agreement and the Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Loan and the expressions "**Account**", "**Closing Date**", "**Day Count Fraction**", "**Interest Payment Date**", "**Loan Agreement**", "**Notes**", "**Rate of Interest**", "**Repayment Date**", "**Specified Currency**", "**Subscription Agreement**" and "**Trust Deed**", together with all other terms that relate to such a Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that each such Loan shall be made pursuant to this Agreement and the relevant Loan Supplement, together comprising the Loan Agreement in respect of such Loan and that, unless expressly provided, events affecting one Loan shall not affect any other.

3 Drawdown

3.1 Drawdown

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on the Closing Date thereof the Lender shall make a Loan to Gazprom and Gazprom shall make a single drawing in the full amount of such Loan.

3.2 Loan Fees and Expenses

In consideration of the Lender making a Loan to Gazprom, Gazprom hereby agrees that it shall, one Business Day before each Closing Date, pay to the Lender, in Same-Day Funds, an amount equal to the reasonable documented reimbursable expenses incurred by the Lender in a total amount to be specified in the relevant Loan Supplement.

3.3 Disbursement

Subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on each Closing Date the Lender shall transfer the amount of the relevant Loan to the Gazprom Account specified in the relevant Loan Supplement.

3.4 Programme Fees and Expenses

In consideration of the Lender establishing and maintaining the Programme and agreeing to make Loans to Gazprom, Gazprom shall pay on demand to the Lender each year an amount to reimburse the Lender for its reasonable documented expenses relating to its management and operation in servicing the Loans as set forth to Gazprom in an invoice from the Lender.

4 Interest

4.1 Rate of Interest for Fixed Rate Loans

Each Fixed Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the applicable Rate of Interest.

If a Fixed Amount or a Broken Amount is specified in the relevant Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Loan Supplement.

4.2 Payment of Interest for Fixed Rate Loans

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date.

4.3 Interest for Floating Rate Loans

4.3.1 *Interest Payment Dates:* Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, such interest being payable in arrear not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 *Business Day Convention:* If any date referred to in the relevant Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 *Rate of Interest for Floating Rate Loans:* The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Loan Supplement.

(i) ISDA Determination for Floating Rate Loans

Where ISDA Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (i), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(a) the Floating Rate Option is as specified in the relevant Loan Supplement;

(b) the Designated Maturity is a period specified in the relevant Loan Supplement; and

(c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Supplement.

For the purposes of this sub-paragraph (i), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity", "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Loans

(a) Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(I) the offered quotation; or

(II) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Loans is specified in the applicable Loan Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Loans will be determined as provided in the applicable Loan Supplement.

(b) if the Relevant Screen Page is not available or if, sub-paragraph (a)(I) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (a)(II) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(c) if paragraph (b) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as

communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of Gazprom and the Lender suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

4.4 Accrual of Interest

Interest shall cease to accrue on each Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the applicable Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

4.5 Margin, Maximum/Minimum Rates of Interest and Rounding

4.5.1 If any Margin is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

4.5.2 If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.

4.5.3 For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 Calculations

The amount of interest payable in respect of any Loan for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding principal amount of such Loan by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the relevant Loan Supplement in respect of such period, in which case the amount of interest payable in respect of such Loan for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 Determination and Publication of Rates of Interest and Interest Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of such Floating Rate Loan for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to Gazprom, the Trustee, the Lender, each of the Paying Agents and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Clause 4.3.2, the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of Gazprom and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under Clause 11, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously in accordance with this Clause but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Lender otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Loan, the Lender and Gazprom agree that such determination or calculation may be made by or at the direction of the Trustee as set out in the conditions of the corresponding Series of Notes and such determination or calculation shall be deemed to have been made by the Calculation Agent. The parties acknowledge that in doing so, the Trustee shall apply or shall have applied the foregoing provisions of this Clause, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

4.9 Definitions

In this Clause 4, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of euro, a day on which the TARGET system is operating (a "TARGET Business Day"); and/or

(iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the "Calculation Period"):

(iv) if "Actual/365" or "Actual/Actual-ISDA" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(v) if "Actual/365 (Fixed)" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;

(vi) if "Actual/360" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;

(vii) if "30/360", "360/360" or "Bond Basis" is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));

(viii) if "30E/360" or "Eurobond Basis" is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and

(ix) if "Actual/Actual-ICMA" is specified in the relevant Loan Supplement:

(a) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(I) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(II) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date.

"**Determination Date**" means the date specified in the relevant Loan Supplement or, if none is so specified, the Interest Payment Date.

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means the amount of interest payable, and in the case of Fixed Rate Loans, means the Fixed Amount or Broken Amount, as the case may be.

"**Interest Commencement Date**" means the Closing Date or such other date as may be specified in the relevant Loan Supplement.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual

Period if the Specified Currency is euro.

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the relevant Loan Supplement.

"**ISDA Definitions**" means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement.

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the relevant Loan Supplement.

"**Reference Rate**" means the rate specified as such in the relevant Loan Supplement.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Loan Supplement.

4.10 Calculation Agent

The Lender shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the relevant Loan Supplement and for so long as any amount remains outstanding under a Loan Agreement. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement, the Lender shall (with the prior approval of Gazprom) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both Gazprom and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Agency Agreement in relation to each particular Series.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein and in the applicable Loan Supplement, Gazprom shall repay each Loan not later than 10.00 a.m. (Relevant Time) one Business Day prior to the Repayment Date therefor.

5.2 Special Prepayment

If, as a result of the application of or any amendments to or change in the double tax treaty between the Russian Federation and Luxembourg or the laws or regulations of the Russian Federation or Luxembourg or of any political sub-division thereof or any authority therein or the enforcement of the security provided for in any Trust Deed, Gazprom would thereby be required to make or increase any payment due pursuant to any Loan Agreement as provided in sub-clauses 6.2 or 6.3, or if (for whatever reason) Gazprom would have to or has been required to pay additional amounts pursuant to Clause 8, then Gazprom may (without premium or penalty), upon not less than 10 days' notice to the Lender (which notice shall be irrevocable), prepay the relevant Loan in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Loan, or at any time, in the case of a Fixed Rate Loan.

5.3 Illegality

If, at any time after the date of the relevant Loan Supplement, by reason of the introduction of, or any change in

any applicable law or regulation or regulatory requirement or directive of any agency of any state the Lender reasonably determines (such determination being accompanied by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by Gazprom) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of the relevant Loan or the corresponding Series of Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to such Loan, then upon notice by the Lender to Gazprom in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), Gazprom and the Lender shall consult in good faith as to a basis which eliminates the application of such circumstances; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 calendar days of the date on which it so notified Gazprom. If such a basis has not been determined within the 30 calendar days, then upon notice by the Lender to Gazprom in writing, Gazprom shall prepay such Loan in whole (but not in part) on the next Interest Payment Date therefor, in the case of a Floating Rate Loan, or, in the case of a Fixed Rate Loan, on such date as the Lender shall certify to be necessary to comply with such requirements.

5.4 Payment of Other Amounts

If a Loan is to be prepaid by Gazprom pursuant to any of the provisions of Clauses 5.2 or 5.3, Gazprom shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual receipt of payment by the Lender and all other sums payable by Gazprom pursuant to the relevant Loan Agreement.

5.5 Optional Prepayment under Call Option

If Call Option is specified in the relevant Loan Supplement, Gazprom may, at its option at any time prior to the Repayment Date on giving not less than 30 nor more than 60 days' irrevocable notice to the Issuer, in whole or in part, repay the Loan at the Early Redemption Amount plus the Make Whole Premium. The notice to be given shall specify the date for repayment of the Loan and the date for the redemption of the Notes (the "**Call Redemption Date**"), which shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of such notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. The Loan shall be repaid on the date specified in such notice.

5.6 Optional Prepayment under Put Option

If Put Option is specified in the relevant Loan Supplement, following notification from the Issuer, Gazprom shall prepay the Loan (without premium or penalty), to the extent of the aggregate principal amount of the Notes to be properly redeemed in accordance with Condition 6 of the terms and conditions of the Notes, two Business Days prior to the Put Settlement Date.

5.7 Provisions Exclusive

Gazprom may not voluntarily prepay any Loan except in accordance with the express terms of the relevant Loan Agreement. Any amount prepaid may not be reborrowed.

6 Payments

6.1 Making of Payments

All payments of principal and interest to be made by Gazprom under each Loan Agreement shall be made to the Lender not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the relevant Account. The Lender agrees with Gazprom that it will not deposit any other moneys into such Account and that no withdrawals shall be made from such Account other than as provided for and in accordance with the relevant Trust Deed and the Paying Agency Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by Gazprom under each Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If Gazprom shall be required by applicable law to make any deduction or withholding from any payment under a Loan Agreement for or on account of any Taxes, it shall increase any payment due under such Loan Agreement to such amount as may be necessary to ensure that the Lender receives a net amount in the

Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, Gazprom shall reimburse the Lender in the Specified Currency for such payment on demand. For the avoidance of doubt, this Clause 6.2 shall not be prejudiced by the failure (if any) by the Lender to satisfy its obligation to obtain a certificate from the competent Luxembourg authorities pursuant to Clause 10.7.1.

6.3 Withholding on Notes

If the Lender notifies Gazprom (setting out in reasonable detail the nature and extent of the obligation with such evidence as Gazprom may reasonably require) that it has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make under or in respect of a Series of Notes in circumstances where the Lender is required to pay additional amounts pursuant to Condition 8 of such Series of Notes, Gazprom agrees to pay to the Lender, not later than 10.00 am (Relevant Time) one Business Day prior to the date on which payment is due to the Noteholders of such Series in Same-Day Funds to the relevant Account, such additional amounts as are equal to the said additional amounts which the Lender must pay pursuant to Condition 8 of such Series of Notes; provided, however, that the Lender shall immediately upon receipt from any Paying Agent of any sums paid pursuant to this provision, to the extent that the Noteholders of such Series, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of such Series of Notes, repay such additional amounts to Gazprom (it being understood that neither the Lender, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series is entitled to such additional amount).

6.4 Reimbursement

To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which Gazprom has made a payment pursuant to this Clause 6 or obtains any reimbursement from the Trustee pursuant to the terms of any Trust Deed, it shall pay to Gazprom so much of the benefit it received as will leave the Lender in substantially the same position as it would have been had no additional amount been required to be paid by Gazprom pursuant to this Clause 6 or had no reimbursement been paid to the Lender pursuant to such Trust Deed; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to Gazprom, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender. The Lender shall use its best endeavours to obtain any credits or refunds available to it, and the Lender shall disclose to Gazprom any information regarding its tax affairs or computations requested by Gazprom and notify Gazprom of any tax credit or allowance or other reimbursement it receives from the Trustee pursuant to such Trust Deed.

6.5 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of Gazprom to make any deduction, withholding or payment as described in sub-clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or Gazprom's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances. Gazprom agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause.

7 Conditions Precedent

7.1 Documents to be Delivered

The obligation of the Lender to make each Loan shall be subject to the receipt by the Lender on or prior to the relevant Closing Date of evidence that the persons mentioned in sub-clauses 14.10.5 and 14.10.6 hereof have agreed to receive process in the manner specified therein.

7.2 Further Conditions

The obligation of the Lender to make each Loan shall be subject to the further conditions precedent that as of the relevant Closing Date (a) the representations and warranties made and given by Gazprom in Clause 9 shall be true and accurate as if made and given on such Closing Date with respect to the facts and circumstances then existing, (b) no event shall have occurred and be continuing that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default, (c) Gazprom shall not be in breach of any of the terms, conditions and provisions of the relevant Loan Agreement, (d) the relevant Subscription Agreement, Trust Deed and the Paying Agency Agreement shall have been executed and delivered, and the Lender shall have received the full amount of the proceeds of the issue of the corresponding Series of Notes pursuant to such Subscription Agreement and (e) the Lender shall have received in full the amount referred to in sub-clauses 3.2 and 3.4, if due and payable, above, as specified in the relevant Loan Supplement.

8 Change in Law or Increase in Cost

8.1 Compensation

In the event that after the date of a Loan Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof, which:

8.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any Taxes payable by the Lender on its overall net income or any Taxes referred to in sub-clauses 6.2 or 6.3); or

8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any Taxes referred to in sub-clauses 6.2 or 6.3); or

8.1.3 imposes or will impose on the Lender any other condition affecting such Loan Agreement or such Loan,

and if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining such Loan is increased; or

(ii) the amount of principal, interest or other amount payable to or received by the Lender under such Loan Agreement is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from Gazprom hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of such Loan, then subject to the following, and in each such case:

(a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to Gazprom, together with a certificate signed by two directors of the Lender or by any person empowered by the board of directors of the Lender to sign on behalf of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such written notice; and

(b) Gazprom, in the case of clauses (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of clause (ii) above, at the time the amount so

reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return,

provided that this sub-clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under sub-clauses 6.2 or 6.3.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to sub-clause 8.1:

8.2.1 the Lender shall consult in good faith with Gazprom and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, Gazprom's obligations to pay any additional amount pursuant to such sub-clause; and

8.2.2 Gazprom may, only in accordance with Clause 17 of the Principal Trust Deed (including with the consent of the Trustee thereunder), require the substitution of the Lender as lender under the relevant Loan Agreement(s) and as issuer of the corresponding Series of Notes, except that nothing in this sub-clause 8.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder unless Gazprom agrees to reimburse the Lender such costs or expenses.

9 Representations and Warranties

9.1 Gazprom's Representations and Warranties

Gazprom does, and on each Warranty Date shall be deemed to, represent and warrant to the Lender as follows, to the intent that such shall form the basis of each Loan Agreement:

9.1.1 Gazprom is duly organised and incorporated and validly existing under the laws of the Russian Federation and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under each Loan Agreement and to borrow Loans; Gazprom has taken all necessary corporate, legal and other action required to authorise the borrowing of Loans on the terms and subject to the conditions of each Loan Agreement and to authorise the execution and delivery of each Loan Agreement and all other documents to be executed and delivered by it in connection with each Loan Agreement, and the performance of each Loan Agreement in accordance with its terms.

9.1.2 The Loan Agreement, including each Loan Supplement in relation thereto, has been duly executed and delivered by Gazprom and constitutes a legal, valid and binding obligation of Gazprom enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); (ii) with respect to the enforceability of a judgment whether there is a treaty in force relating to the mutual recognition of foreign judgments; and (iii) to the fact that the gross-up provisions contained in sub-clause 6.2 or 6.3 may not be enforceable under Russian law.

9.1.3 The execution, delivery and performance of each Loan Agreement, including each Loan Supplement in relation thereto, by Gazprom will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of Gazprom or (iii) any agreement or other undertaking or instrument to which Gazprom is a party or which is binding upon Gazprom or any of its assets.

9.1.4 All consents, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation required by Gazprom in connection with the execution, delivery, performance, legality, validity, enforceability, and, subject to Russian legal requirements, admissibility in evidence of each Loan Agreement have been obtained or effected and are in full force and effect.

9.1.5 No event has occurred that constitutes, or that, with the giving of notice or the lapse of time, or both,

would constitute, an Event of Default or a default under any agreement or instrument evidencing any Financial Indebtedness of Gazprom, and no such event will occur upon the making of a Loan.

9.1.6 Except as disclosed in the base prospectus dated 7 December 2005 relating to the Programme (as amended or supplemented from time to time, the "Base Prospectus") there are no judicial, arbitral or administrative actions, proceedings or claims pending or, to the knowledge of Gazprom, threatened, against Gazprom or any of its Principal Subsidiaries, the adverse determination of which has or would be reasonably likely to have a Material Adverse Effect.

9.1.7 Except for Encumbrances of the types referred to in the definition of Permitted Encumbrances in sub-clause 1.1 hereof, Gazprom and each of its Principal Subsidiaries has the right of ownership (as that expression is defined under the laws of the Russian Federation) to its property free and clear of all Encumbrances which if created would be reasonably likely to have a Material Adverse Effect and Gazprom's obligations under the Loans will rank at least *pari passu* with all its other unsecured and unsubordinated Financial Indebtedness (apart from any obligations mandatorily preferred by law).

9.1.8 The most recent audited consolidated financial statements of Gazprom:

(i) were prepared in accordance with IFRS, as consistently applied; and

(ii) save as disclosed in such audited consolidated financial statements, present fairly in all material respects the assets and liabilities as at that date and the results of operations of Gazprom during the relevant financial year.

9.1.9 Except as disclosed in the Base Prospectus, there has been no material adverse change since the date of the last audited consolidated financial statements of Gazprom in the financial condition, results of business operations or prospects of Gazprom and the Group taken as a whole.

9.1.10 The execution, delivery and enforceability of each Loan Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein.

9.1.11 Neither Gazprom nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to each Loan Agreement.

9.1.12 Gazprom is in compliance in all material respects with all applicable provisions of law except where failure to be so in compliance would not have a Material Adverse Effect.

9.1.13 Neither Gazprom, nor any of its Principal Subsidiaries has taken any corporate action nor, to the best of the knowledge and belief of Gazprom, have any other steps been taken or legal proceedings started or threatened in writing against Gazprom or any of its Principal Subsidiaries (except for those which, being contested in good faith and which are capable of being discharged or stayed within 45 Business Days, the Lender reasonably considers to be frivolous or vexatious) for its or their bankruptcy, winding-up, dissolution, external administration or re-organisation related thereto (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of its or of any or all of its or their assets or revenues.

9.1.14 In any proceedings taken in the Russian Federation in relation to each Loan Agreement, the choice of English law as the governing law of each Loan Agreement and any arbitration award obtained in England pursuant to Clause 14.10 in relation to each Loan Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in the Russian Federation.

9.1.15 Subject to sub-clause 10.7.1, under the laws of the Russian Federation, it will not be required to make any deduction or withholding from any payment it may make hereunder.

9.1.16 Its execution of each Loan Agreement will constitute, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial acts done and performed for private

and commercial purposes.

9.1.17 It has no overdue tax liabilities which would be reasonably likely to have a Material Adverse Effect other than those which it has disclosed to the Lender prior to the date hereof or which it is contesting in good faith.

9.1.18 All licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable Gazprom and any of its Principal Subsidiaries to own its assets and carry on its business are in full force and effect and, if not, the absence of which would be reasonably likely to not have a Material Adverse Effect.

9.1.19 Gazprom, and each of its Principal Subsidiaries, is in compliance with all Environmental Law except where failure to do so could not have a Material Adverse Effect.

9.2 Lender's Representations and Warranties

The Lender represents and warrants to Gazprom as follows:

9.2.1 The Lender is duly incorporated under the laws of and is a resident for Luxembourg taxation purposes in Luxembourg and has full power and capacity to execute the Lender Agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same.

9.2.2 The execution of the Lender Agreements and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or the constitutive documents, rules and regulations of the Lender or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.

9.2.3 The Lender Agreements constitute legal, valid and binding obligations of the Lender.

9.2.4 All authorisations, consents and approvals required by the Lender for or in connection with the execution of the Lender Agreements, the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

9.2.5 So long as any amount remains outstanding under a Loan Agreement, it will comply with the provisions of Clause 14.14 of the Principal Trust Deed.

10 Covenants

So long as any amount remains outstanding under a Loan Agreement:

10.1 Negative Pledge

Neither Gazprom nor any Principal Subsidiary will create or permit to subsist any Encumbrance (other than a Permitted Encumbrance) upon or in respect of any of its undertakings, property, income, assets or revenues, present or future, to secure any Financial Indebtedness unless, at the same time or prior thereto, Gazprom's obligations hereunder are secured equally and rateably therewith or benefit from such other security or other arrangement, as the case may be, in each case to the satisfaction of the Trustee.

10.2 Maintenance of Authorisations

Gazprom shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of such Loan Agreement or for the validity or enforceability thereof.

10.3 Mergers

Gazprom shall not, without the prior written consent of the Lender, enter into any reorganisation (whether by way

of a merger, accession, division, separation or transformation, as these terms are construed by applicable Russian legislation), or participate in any other type of corporate reconstruction and Gazprom shall ensure that no Principal Subsidiary enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or participate in any other type of corporate reconstruction if such reorganisation or other type of corporate reconstruction could have a material adverse effect on Gazprom's ability to perform its payment or other material obligations under such Loan Agreement or the validity or enforceability of such Loan Agreement or the rights or remedies of the Lender under such Loan Agreement.

10.4 Disposals

10.4.1 Gazprom shall not and Gazprom shall ensure that no member of the Group shall, without the prior written consent of the Lender, (disregarding (i) sales in the ordinary course of business and assignments of or other arrangements over the rights or revenues arising from contracts for the sale of gas, gas condensate, crude oil or any other hydrocarbon products, (ii) any lease or related transaction, (iii) dispositions of assets or rights not related to the extraction, production, transportation, marketing or supply of gas and (iv) assignments or other arrangements by way of security permitted under Clause 10.1) sell, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets (which for the avoidance of doubt excludes payments of cash, or other consideration, for the acquisition of any asset on normal commercial terms) which have an aggregate value in excess of U.S.$3,000,000,000 or the equivalent thereof to a Person that is not a member of the Group.

10.4.2 Sub-clause 10.4.1 does not apply to disposals of assets in exchange for other assets comparable or superior as to type, value and quality.

10.5 Maintenance of Property

Gazprom and any Principal Subsidiary will cause all property used in the carrying on by it of its business for the time being to be kept in good repair and working order as, in the judgment of Gazprom or such Principal Subsidiary, may be reasonably necessary so that the business may be carried on and the failure to keep such property in such condition would have a Material Adverse Effect.

10.6 Payment of Taxes and Other Claims

Gazprom shall pay or discharge or cause to be paid or discharged, before the same shall become overdue, all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of Gazprom; provided that Gazprom shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS as consistently applied or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.$500,000,000.

10.7 Withholding Tax Exemption

10.7.1 The Lender shall provide Gazprom, as soon as practicable but in any event not later than 21 calendar days after 1 January in each calendar year with a certificate, issued and/or certified by the competent Luxembourg authorities, confirming that the Lender is resident in Luxembourg, provided that the Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the competent Luxembourg authorities, but shall notify Gazprom without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate. In the event that the Lender has not complied with its duty to provide such certificate as set out in this sub-clause, Gazprom has a right of recourse against the Lender in respect of such non compliance. Such certificate shall be appropriately apostilled and a certified translation supplied.

10.7.2 Gazprom and the Lender agree that, should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding change then the procedure referred to in sub-clause 10.7.1 will be deemed changed accordingly.

10.8 Maintenance of Insurance

Gazprom and any Principal Subsidiary shall keep those of their properties which are of an insurable nature insured with insurers who implement good business practices and are believed by Gazprom or such Principal Subsidiary, as the case may be, to be responsible against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated, except where the failure to maintain such insurance could not have a Material Adverse Effect.

10.9 Reports

10.9.1 Gazprom will furnish to the Lender, within 9 months of the relevant year-end, each set of audited annual financial statements prepared in accordance with IFRS as consistently applied, including a report thereon by Gazprom's certified independent accountants.

10.9.2 On each Interest Payment Date, Gazprom shall deliver to the Lender a written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred and shall be continuing, what action Gazprom is taking or proposes to take with respect thereto.

10.9.3 Gazprom will on request of the Lender provide the Lender with such further information, other than information which Gazprom determines in good faith to be confidential, about the business and financial condition of Gazprom and its Subsidiaries as the Lender may reasonably require (including pursuant to Clauses 14.5 and 14.12 of the Principal Trust Deed).

10.9.4 At any time after Gazprom or any subsidiary of Gazprom shall have purchased any Notes and retained such Notes for its own account or for the account of any other company, Gazprom will notify the Lender to that effect and thereafter deliver to the Lender as soon as practicable after being so requested in writing by the Lender a certificate of Gazprom setting out the total number of Notes which, at the date of such Note, are held by Gazprom for its own account or for the account of any other company or any subsidiary of Gazprom for its own account or for the account of any other company.

10.10 Compliance with Terms of Trust Deed

The Lender agrees that it will observe and comply with its obligations set out in the relevant Trust Deed and will not agree to any amendment to the terms of such Trust Deed without prior consultation, if reasonably practicable, with Gazprom. In addition, the Lender agrees that it will only exercise its power to appoint a new Trustee pursuant to Clause 26.1 of the Principal Trust Deed with the consent of Gazprom (such consent not to be unreasonably withheld or delayed).

11 Events of Default

11.1 Events of Default

11.1.1 Gazprom fails to pay within three Business Days any amount payable under a Loan Agreement as and when such amount becomes payable in the currency and in the manner specified therein, provided that such default will not be an Event of Default if (i) it occurs by reason only of administrative or technical difficulties affecting the transfer of the funds due from Gazprom, (ii) Gazprom issued the appropriate transfer and payment instructions in sufficient time to permit the transfer and payment of the amount due to be made on its due date and (iii) the Lender receives from Gazprom that amount within six Business Days after the due date for payment.

11.1.2 Gazprom fails to perform or observe any of its other obligations under a Loan Agreement and (except where in any such case that failure is not capable of remedy when no such notices as is hereinafter mentioned will be required) that failure continues for the period of 45 calendar days (or such longer period as the Lender may permit) next following the submission by the Lender to Gazprom of notice in writing requesting the same to be remedied.

11.1.3 Any representation or warranty of Gazprom or any statement deemed to be made by Gazprom in a Loan Agreement proves to have been inaccurate, incomplete or misleading in any material respect at the time it was made or repeated or deemed to have been made or repeated and the failure to render such representation or warranty true, correct and not misleading could have a Material Adverse Effect and

such representation or warranty shall not have been rendered true, correct and otherwise not misleading in any material respect within 30 calendar days following the submission by the Lender to Gazprom of notice in writing requesting the same to be remedied.

11.1.4 Gazprom or any Principal Subsidiary (i) fails to pay any of its Financial Indebtedness as and when such Financial Indebtedness becomes payable, taking into account any applicable grace period or (ii) fails to perform or observe any covenant or agreement to be performed or observed by it contained in any other agreement or in any instrument evidencing any of its Financial Indebtedness if, as a result of such failure, any other party to such agreement or instrument has exercised the right to accelerate the maturity of any amount owing thereunder and such amount becomes so accelerated; provided, that the total amount of such Financial Indebtedness unpaid and accelerated exceeds U.S.$20,000,000 (or its equivalent in another currency); provided however that this sub-clause 11.1.4 shall not apply to foreign currency Financial Indebtedness owed to Russian Persons (being Russian citizens or legal entities organised under Russian law or having their chief place of business in the Russian Federation).

11.1.5 Gazprom or any Principal Subsidiary commences negotiations with its creditors generally with a view to the general readjustment or rescheduling of its indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally; provided that the same could have a Material Adverse Effect.

11.1.6 Gazprom or any Principal Subsidiary takes any corporate action or any order is made by a competent court for its winding-up, dissolution, external administration or re-organisation whether by way of voluntary arrangement, scheme of arrangement or otherwise or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of all or a material part of its revenues and assets; provided that the same could have a Material Adverse Effect.

11.1.7 Gazprom or any Principal Subsidiary (i) fails or is unable to pay its debts generally as they become due (ii) commences a voluntary case in bankruptcy or any other action or proceeding for any other relief under any law affecting creditors' rights as is similar to bankruptcy law, or (iii) a bankruptcy (insolvency) petition in respect of Gazprom or any Principal Subsidiary is accepted by any competent court and bankruptcy proceedings are initiated by such competent court and are not dismissed within 30 calendar days, or any action is brought in and accepted by any competent court for the liquidation of Gazprom or any Principal Subsidiary or a Russian federal law that provides for the liquidation of Gazprom as operator of the Unified Gas Supply System is adopted and comes into effect provided that the same could have a Material Adverse Effect.

11.1.8 Any governmental authorisation necessary for the performance of any obligation of Gazprom under a Loan Agreement fails to be in full force and effect and such failure has not been remedied within 30 calendar days after the occurrence thereof.

11.1.9 Any governmental authority or court takes any action that has a material adverse effect on Gazprom's ability to perform its obligations under a Loan Agreement or the validity or enforceability of a Loan Agreement or the rights or remedies of the Lender under a Loan Agreement, save where such action is being contested in good faith by Gazprom and is not removed, paid out, stayed or discharged within 45 calendar days of such action being taken.

11.1.10 Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the assets of Gazprom or any event occurs which under the laws of any jurisdiction has a similar or analogous effect and the same could have a Material Adverse Effect unless such execution, distress, enforcement of an Encumbrance or similar or analogous event is being contested in good faith by Gazprom and is not removed, paid out, stayed or discharged within 45 calendar days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be.

11.1.11 There are unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against Gazprom and its Principal Subsidiaries which could have a Material Adverse Effect and there is a period of 30 calendar days following the entry thereof during which the relevant judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 10 calendar days after the notice specified in sub-clause 11.2.

11.1.12 Any seizure, compulsory acquisition, expropriation or nationalisation after the date of a Loan Agreement by or under the authority of a government authority of all or part (the book value of which is fifteen per cent. (15 per cent.) or more of the book value of the whole) of the assets or all or more than fifteen per cent. (15 per cent.) of the voting or non-voting shares of Gazprom or any Principal Subsidiary is made by any person.

11.1.13 Gazprom or any of its Principal Subsidiaries ceases to carry on the principal business it carries on at the date of a Loan Agreement; provided that, in the case of a Principal Subsidiary, the same could have a Material Adverse Effect.

11.1.14 At any time it is or becomes unlawful for Gazprom to perform or comply with any or all of its (in the opinion of the Lender) material obligations under a Loan Agreement or any of such material obligations (subject as provided in sub-clause 9.1.2) are not, or cease to be, legal, valid, binding and enforceable.

11.1.15 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs, subject to the same thresholds and cure periods as set out in the relevant paragraph.

11.2 Notice of Default

Gazprom shall deliver to the Lender and the Trustee, (i) promptly upon becoming aware thereof, or (ii) within 10 days of any written request by the Lender, written notice in the form of an Officers' Certificate substantially in the form of Schedule 2, stating whether any event which is a Potential Event of Default or an Event of Default has occurred, its status and what action Gazprom is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to Gazprom, (a) declare the obligations of the Lender under the relevant Loan Agreement to be immediately terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under such Loan Agreement by Gazprom that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all expressly waived by Gazprom; provided, however, that if any event of any kind referred to in sub-clause 11.1.7 occurs, the obligations of the Lender under such Loan Agreement shall immediately terminate, and all amounts payable under such Loan Agreement by Gazprom that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are especially waived by Gazprom.

11.4 Rights Not Exclusive

The rights provided for in each Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12 Indemnity

12.1 Indemnification

Gazprom undertakes to the Lender that if the Lender or any director, officer, employee or agent (other than the Principal Paying Agent or any of the Paying Agents) of the Lender (each an "**Indemnified Party**") incurs any loss, liability, cost, claim, charge, expense (including all legal fees properly incurred) demand or damage (a "**Loss**") which may be properly incurred in respect of a Loan Agreement (or enforcement thereof), and/or the issuance, constitution, sale, listing and/or enforcement of the corresponding Series of Notes and/or the Notes of such Series being outstanding (excluding a Loss that is the subject of the undertakings contained in Clauses 8 and 13 and sub-clause 14.6 of this Agreement (it being understood that the Lender may not recover twice in respect of the same Loss)) Gazprom shall pay to the Indemnified Party on demand an amount equal to such Loss (as evidenced by an invoice distributed to Gazprom by the Lender in accordance with sub-clause 14.4) unless, in any such case, such Loss was either caused by such Indemnified Parties' negligence or wilful misconduct or arose out of a breach of the representations and warranties of the Lender contained herein or in the Dealer Agreement; provided that this sub-clause 12.1 will not apply to or in respect of any Taxes with respect to payments of principal and interest on the Loan or any other amount payable under such Loan Agreement. It is understood and agreed that any payment to be made by Gazprom pursuant to this Clause 12.1 shall be made through the Lender acting

as paying agent pursuant to a paying agent agreement dated 7 December 2005 between Gazprom and the Lender, provided that any obligation of Gazprom to pay any amount pursuant to this Clause 12.1 shall only be discharged to the extent that payments of such amount is actually received by the relevant Indemnified Party. It is understood that the amount of Loss that is to be paid pursuant to the preceding provisions of this paragraph, provided such amount is duly documentarily evidenced, will be paid by Gazprom on the basis of an invoice distributed to Gazprom by the Lender and a delivery and acceptance act signed by the parties.

12.2 Notice and Payment of Loss, Defence of Action and Settlement

If any proceeding (including a governmental investigation), claim or demand shall be instituted involving an Indemnified Party, it shall promptly notify Gazprom in writing and Gazprom shall have the right to assume the defence thereof and appoint lawyers which are acceptable to the Indemnified Party (acting reasonably in assessing acceptability) and shall be liable to pay the fees and expenses of such lawyers related to such proceeding. In any proceeding, the Indemnified Party shall have the right to retain its own lawyers, but the fees and expenses of such lawyers shall be at the expense of the Indemnified Party unless (i) Gazprom and the Indemnified Party shall have mutually agreed to the retention of such lawyers or (ii) the named parties to any such proceeding (including any joined parties) include Gazprom and the Indemnified Party and representation of both parties by the same lawyers (in the reasonable opinion of the Indemnified Party) would be inappropriate due to actual or potential differing interests between them or (iii) pursuant to the previous sentence Gazprom has elected to assume the defence itself but has within a reasonable time after the notification of the institution of such action failed to appoint lawyers as contemplated above or (iv) pursuant to the previous sentence Gazprom has elected not to assume such defence itself and the Indemnified Party has assumed such defence and retained lawyers in respect thereof. It is understood that Gazprom shall reimburse such fees and expenses as they are incurred in respect of (i), (ii), (iii) and (iv) above. Gazprom shall not be liable for any settlement of any such proceeding, claim or demand effected without its written consent (provided that such consent shall not be unreasonably withheld or delayed), but if settled with such consent (or without such consent in circumstances where such consent shall have been unreasonably withheld or delayed as aforesaid) or if there be a final judgment for the Indemnified Party, Gazprom agrees to indemnify the Indemnified Party from and against any loss or liability by reason of such settlement or judgment. Gazprom will not settle any proceeding in respect of which indemnity may be sought pursuant to Clause 12.1 without the written consent of the relevant Indemnified Party, unless such settlement includes an unconditional release of each Indemnified Party from all liability arising out of such proceeding, claim or demand.

12.3 Independent Obligation

Sub-clause 12.1 constitutes a separate and independent obligation of Gazprom from its other obligations under or in connection with each Loan Agreement or any other obligations of Gazprom in connection with the issuance of Notes by the Lender and shall not affect, or be construed to affect, any other provision of a Loan Agreement or any such other obligations.

12.4 Evidence of Loss

A certificate of the Lender, supported by relevant documentation, setting forth the amount of losses, expenses and liabilities described in sub-clause 12.1 and specifying in full detail the basis therefor shall be prima facie evidence of the amount of such losses, expenses and liabilities.

12.5 Survival

The obligations of Gazprom pursuant to sub-clauses 6.2, 6.3 and 12.1 shall survive the execution and delivery of each Loan Agreement and the drawdown and repayment of the relevant Loan, in each case by Gazprom.

13 Expenses

13.1 Reimbursement of Front-end Expenses

Gazprom shall, pursuant to sub-clause 3.2 hereof and the relevant Loan Supplement, reimburse the Lender in the Specified Currency for all reasonable documented costs and expenses properly incurred by the Lender in connection with the negotiation, preparation and execution of each Loan Agreement. Reimbursement shall be made pursuant to invoices submitted by the Lender to Gazprom.

13.2 Payment of Ongoing Expenses

In addition, Gazprom hereby agrees to pay to the Lender on demand in the Specified Currency all reasonable documented ongoing commissions, costs, fees and expenses (including, without limitation, enforcement costs), payable by the Lender under or in respect of the Lender Agreements. Gazprom shall also reimburse the Lender for any indemnification or other payment obligations of the Lender under or in respect of the Lender Agreements, (other than the obligation of the Lender to make payments of principal, interest or additional amounts in respect of the corresponding Series of Notes). Payments to the Lender referred to in this sub-clause 13.2 shall be made by Gazprom on the basis of an invoice submitted to Gazprom by the Lender and a delivery and acceptance act signed by the parties at least two Business Days before the relevant payment is to be made or expense incurred.

14 General

14.1 Evidence of Debt

The entries made in the relevant Account shall, in the absence of manifest error, constitute prima facie evidence of the existence and amounts of Gazprom's obligations recorded therein.

14.2 Stamp Duties

14.2.1 Gazprom shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on Gazprom by any Person in the Russian Federation, Luxembourg or the United States of America which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by Gazprom to pay such taxes or similar charges.

14.2.2 Gazprom agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the Russian Federation, the United States of America or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and any documents related thereto as well as Notes of corresponding Series and any documents related thereto, Gazprom shall repay the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all costs and expenses connected with the payment of such amounts.

14.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or Gazprom, any right, power to privilege under any Loan Agreement and no course of dealing between Gazprom and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies provided in each Loan Agreement are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.4 Notices

All notices, requests, demands or other communications to or upon the respective parties to each Loan Agreement shall be given or made in the English language by facsimile transmission or otherwise in writing and shall be deemed to have been duly given or made to the party to which such notice, request, demand or other communication is required or permitted to be given or made under such Loan Agreement:

(a) if by way of hand or courier, when such communications have been signed for or a receipt has been issued or some similar delivery confirmation has been given; and

(b) if sent by facsimile transmission, when confirmation to its transmission has been recorded by the sender's fax machine at the end of the communication,

such notice, request, demand or other communication to be addressed as follows:

14.4.2 if to Gazprom:

Public Joint Stock Company Gazprom
16 Nametkina Street
117884 Moscow
Russian Federation
Fax: (7 495) 718 6393
Attention: Financial and Economic Department

14.4.3 if to the Lender:

Gaz Capital S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg
Fax: (352) 421 22 718
Attention: The Directors

or to such other address or facsimile number as any party may hereafter specify in writing to the other.

14.5 Assignment

14.5.1 Each Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Loan Agreement. Any reference in a Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender or the giving of an opinion by the Lender, following the enforcement of the security and/or assignment referred to in sub-clause 14.5.2 below, shall be references to the exercise of such rights or discretions or the giving of an opinion by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Lender and Gazprom or any agreements of the Lender or Gazprom pursuant to sub-clauses 6.4 or 6.5 or Clause 8.

14.5.2 Gazprom shall not assign or transfer all or any part of its rights or obligations hereunder to any other party.

14.5.3 The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement except pursuant to (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of the Lender's rights and benefits under such Loan Agreement and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under such Loan Agreement, in each case, pursuant to Clause 6 of the relevant Supplemental Trust Deed.

14.6 Currency Indemnity

To the fullest extent permitted by law, the obligation of Gazprom in respect of any amount due in the Specified Currency under a Loan Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the Specified Currency that the Lender may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in the Specified Currency that may be so purchased for any reason falls short of the amount originally due (the "Due Amount"), Gazprom hereby agrees to indemnify and hold harmless the Lender against any deficiency in the Specified Currency. Any obligation of Gazprom not discharged by payment in the Specified Currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided the relevant Loan Agreement, shall continue in full force and effect. If the amount in the Specified Currency that may be purchased exceeds that Due Amount the Lender shall promptly pay the amount of the excess to Gazprom.

14.7 Prescription

Subject to the Lender having received such amounts from Gazprom, the Lender shall forthwith repay to Gazprom as redundant payments the amount equal to the principal amount or the interest amount thereon, respectively, of any Series of Notes upon any Notes of such Series becoming void pursuant to Condition 11 of such Notes. The Lender and Gazprom shall, at such time, enter into an amendment to the relevant Loan Agreement providing for such repayment and the corresponding reduction of the relevant Loan in form satisfactory to Gazprom.

14.8 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to a Loan Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of such Loan Agreement.

14.9 Choice of Law

Each Loan Agreement shall be governed by, and construed in accordance with, the laws of England.

14.10 Jurisdiction

14.10.1 For the exclusive benefit of the other party, each of Gazprom and the Lender hereby irrevocably agrees that the courts of England shall have jurisdiction to settle any disputes which may arise out of or in connection with any Loan Agreement and that accordingly any suit, action or proceeding (collectively, "Proceedings") arising out of or in connection with such Loan Agreement may be brought in such courts.

14.10.2 Each of the parties irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any Proceedings in any such court referred to in this Clause 14 and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably agrees that a final and conclusive judgment in any Proceedings brought in the English courts with competent jurisdiction shall be conclusive and binding and may be enforced in the courts of any other jurisdiction.

14.10.3 Nothing contained in any Loan Agreement shall limit the right of any party to take Proceedings against another party in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Proceedings in connection with such Loan Agreement in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction or in any other court of competent jurisdiction in connection with such Loan Agreement to the extent permitted by any applicable law.

14.10.4 Each of the parties hereby agrees that, at the option of the other party, any dispute, controversy, claim or cause of action brought by any party against another party or arising out of or relating to any Loan Agreement may be settled by arbitration in accordance with the Rules of the LCIA (formerly the London Court of International Arbitration) (the "**LCIA**"), which rules are deemed to be incorporated by reference into this Clause. The place of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall not be interested in the dispute or controversy, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. Each party shall nominate an arbitrator, who, in turn, shall nominate the Chairman of the Tribunal. If a dispute, claim controversy or cause of action shall involve more than two parties, the parties thereto shall attempt to align themselves on two sides (i.e., claimant and respondent) each of which shall appoint an arbitrator as if there were only two sides to such dispute, claim controversy or cause of action. If such alignment and appointment shall not have occurred within twenty (20) calendar days after the initiating party serves the arbitration demand or if a Chairman has not been selected within thirty (30) calendar days of the selection of the second arbitrator, the Arbitration Court of the LCIA shall appoint the three arbitrators or the Chairman, as the case may be. The parties and the Arbitration Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The arbitrators shall have no authority to award punitive or other punitive type damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement.

Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar costs) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

14.10.5 The Lender agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Deutsche Bank Luxembourg S.A., c/o Deutsche Bank AG, London Branch, Winchester House, 1 Great Winchester Street, London EC2N 2DB or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted

from time to time). If such person is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall, on the written demand of Gazprom, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 calendar days, Gazprom shall be entitled to appoint such a person by written notice to the Lender. Nothing in this Clause shall affect the right of Gazprom to serve process in any other manner permitted by law.

14.10.6 Gazprom agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Gazprom (U.K.) Limited at its registered office being at 41 Vine Street, London EC3N 2AA or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on Gazprom's behalf, Gazprom shall, on the written demand of the Lender, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 calendar days, the Lender shall be entitled to appoint such a person by written notice to Gazprom. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

14.10.7 Gazprom irrevocably and unconditionally:

(i) waives all rights of immunity in respect of it or its assets;

(ii) agrees not to claim immunity from proceedings brought by the Lender against it in relation to any Loan Agreement and to ensure that no such claim is made on its behalf; and

(iii) consents generally to the giving of any relief or the issue of any process in connection with these proceedings.

14.11 Counterparts

Each Loan Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

14.12 Language

The language which governs the interpretation of each Loan Agreement is the English language.

14.13 Amendments

Except as otherwise provided by its terms, each Loan Agreement may not be varied except by an agreement in writing signed by the parties.

14.14 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of each Loan Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the date first written above.

SCHEDULE 1

FORM OF LOAN SUPPLEMENT

This Loan Supplement is made on ● between:

(1) **GAZ CAPITAL S.A.**, a société anonyme established under the laws of Luxembourg whose registered office is at 14, rue Edward Steichen L-2540 Luxembourg, registered with the Register of Commerce and Companies, Luxembourg under number B-95071 (the "**Lender**") and

(2) **PUBLIC JOINT STOCK COMPANY GAZPROM,** a company established under the laws of the Russian Federation whose registered office is at 16 Nametkina Street, 117420 Moscow, Russian Federation ("**Gazprom**").

Whereas:

(A) Gazprom has entered into an amended and restated facility agreement dated 7 December 2005 (the "**Facility Agreement**") with the Lender in respect of Gazprom's U.S.$30,000,000,000 Programme for the Issuance of loan participation notes (the "**Programme**").

(B) Gazprom proposes to borrow ● (the "**Loan**") and the Lender wishes to make such Loan on the terms set out in the Facility Agreement and this Loan Supplement.

It is agreed as follows:

1 Definitions

Capitalised terms used but not defined in this Loan Supplement shall have the meaning given to them in the Facility Agreement save to the extent supplemented or modified herein.

2 Additional Definitions

For the purpose of this Loan Supplement, the following expressions used in the Facility Agreement shall have the following meanings:

"**Account**" means the account in the name of the Lender with the Principal Paying Agent (account number ● , ●);

"**Base Prospectus**" means ● ;

["**Calculation Agent**" means Deutsche Bank AG, London Branch;]

"**Closing Date**" means ● ;

["**Early Redemption Amount**" means ● per ● amount of the Loan, plus accrued interest, if any, to the Redemption Date;]

"**Gazprom Account**" means the account in the name of Gazprom (account number ●);

"**Loan Agreement**" means the Facility Agreement as amended and supplemented by this Loan Supplement;

["**Make Whole Premium**" means the excess, if any (as reported in writing to the Issuer and the Trustee by a reputable financial institution operating in ● market in ● selected by the Issuer and approved in writing by the Trustee (the "**Financial Adviser**") (and rounded, if necessary, to the third decimal place (0.0005 being rounded upwards)), of (a) the value at the Redemption Date of the principal amount of the Loan, plus all required interest payments that would otherwise be due to be paid on the Loan during the period between the Redemption Date and the Repayment Date, excluding accrued but unpaid interest at the Redemption Date, calculated using a discount rate equal to ● basis points above the Treasury Rate over (b) the outstanding principal amount of the Loan;]

"**Notes**" means ● per cent. [Floating Rate] Loan Participation Notes due ● issued by the Lender as Series ● under the Programme;

[“**Put Settlement Date**” means ● ;]

“**Repayment Date**” means ● ;

“**Side Letter**” means ● ;

“**Specified Currency**” means ● ;

“**Subscription Agreement**” means an agreement between the Lender, Gazprom and ● dated ● relating to the Notes;

[“**Treasury Rate**” means a rate equal to the yield, as published by the ● , on actively traded ● with a maturity comparable to the remaining life of the Loan, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary ● dealers in ● selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in ● preceding the Redemption Date; and]

“**Trust Deed**” means the Amended and Restated Principal Trust Deed between the Lender and the Trustee dated 7 December 2005 as amended and supplemented by a Supplemental Trust Deed to be dated on or about ● constituting and securing the Notes.

3 Incorporation by Reference

Except as otherwise provided, the terms of the Facility Agreement shall apply to this Loan Supplement as if they were set out herein and the Facility Agreement shall be read and construed, only in relation to the Loan constituted hereby, as one document with this Loan Supplement.

4 The Loan

4.1 Drawdown

Subject to the terms and conditions of the Loan Agreement, the Lender agrees to make the Loan on the Closing Date to Gazprom and Gazprom shall make a single drawing in the full amount of the Loan on that date.

4.2 Interest

The Loan is a [Fixed Rate][Floating Rate] Loan [and the Notes comprise a Rule 144A Series]. Interest shall be calculated, and the following terms used in the Facility Agreement shall have the meanings, as set out below:

4.2.1	**Fixed Rate Loan Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Interest Commencement Date:	●
	(ii)	Rate[(s)] of Interest:	● per cent. per annum payable [annually/semi-annually] in arrears
	(iii)	Interest Payment Date(s):	● in each year
	(iv)	Fixed Amount[(s)]:	● per ● in principal amount
	(v)	Broken Amount:	[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount*[*(s)*]]
	(vi)	Day Count Fraction (Clause 4.9):	[30/360/Actual/Actual (ICMA/ISDA)/ other]
	(vii)	Determination Date(s) (Clause 4.9):	● in each year. [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/ Actual (ICMA)*]
	(viii)	Other terms relating to the method of calculating interest for Fixed Rate Loans:	[Not Applicable/*give details*]
4.2.2	**Floating Rate Loan Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Interest Commencement Date:	●

(ii)	Interest Period(s):	●
(iii)	Specified Interest Payment Dates:	●
(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
(v)	Business Centre(s) (Clause 4.9):	●
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other *(give details)*]
(vii)	Interest Period Date(s):	[Not Applicable/*specify dates*] *(will be not applicable unless different from Interest Payment Date)*
(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	
(ix)	Screen Rate Determination (Clause 4.3.3):	
	—Reference Rate:	
	—Interest Determination Date(s):	
	—Relevant Screen Page:	
(x)	ISDA Determination (Clause 4.3.3):	
	—Floating Rate Option:	
	—Designated Maturity:	
	—Reset Date:	●
(xi)	Margin(s):	● per cent. per annum
(xii)	Minimum Rate of Interest:	● per cent. per annum
(xiii)	Maximum Rate of Interest:	● per cent. per annum
(xiv)	Day Count Fraction (Clause 4.9):	●
(xv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Facility Agreement:	●
4.2.3	**Put/Call Options**	[Put Option/Call Option/Not Applicable]

5 Fees and Expenses

Pursuant to Clause 3.2 of the Facility Agreement and in consideration of the Lender making the Loan to Gazprom, Gazprom hereby agrees that it shall, one Business Day before the Closing Date, pay to the Lender, in Same-Day Funds, the amount of the reasonably documented reimbursable expenses incurred by the Lender in connection with such Loan, [which expenses shall include the amount of all of the commissions, fees, costs and expenses as set forth in sub-clauses [5.1] and [5.2] of the Subscription Agreement, paragraphs 1 and 4 of the Fee Side Letter and sub-clauses 3.2 and 13.1 of the Facility Agreement] pursuant to an invoice submitted by the Lender to Gazprom in the total amount of ● .

6 Governing Law

This Loan Supplement shall be governed by and construed in accordance with English law. This Loan Supplement has been entered into on the date stated at the beginning.

SCHEDULE 2

FORM OF OFFICERS' CERTIFICATE

To: Gaz Capital S.A.
Deutsche Bank Trust Company Americas

From: Public Joint Stock Company Gazprom

Dated:

Dear Sirs

Public Joint Stock Company Gazprom—U.S.$30,000,000,000 Amended and Restated Facility Agreement dated 7 December 2005 (the "Loan Agreement")

1 We refer to the Loan Agreement. This is an Officers' Certificate for the purposes of Clause 11.2 of the Loan Agreement.

2 We confirm that no Potential Event of Default or Event of Default has occurred since the date of our last certification, or if none, the Closing Date[(1)].

Terms used but not defined herein shall have the meanings given to them in the Loan Agreement.

For and on behalf of Public Joint Stock Company Gazprom

Signed:	Signed:
[principal executive officer/ principal accounting officer/principal financial officer] of Public Joint Stock Company Gazprom	[officer] of Public Joint Stock Company Gazprom

(1) If this statement cannot be made, the certificate should identify any Potential Event of Default or Event of Default that is continuing and the steps, if any, being taken to remedy it.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which (subject to completion and amendment in accordance with the provisions of Part A of the relevant Final Terms) will be attached to the Notes in definitive form, if issued, and (subject to the provisions thereof) apply to the Global Notes representing each Series. Either (i) the full text of these terms and conditions together with Part A of the relevant provisions of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Final Terms. Those definitions will be endorsed on the definitive Notes. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified hereon (the "**Supplemental Trust Deed**") supplemental to an amended and restated principal trust deed (as further amended or supplemented as at the Issue Date, the "**Principal Trust Deed**") dated December 7, 2005, each made between Gaz Capital S.A. (the "**Issuer**") and Deutsche Bank Trust Company Americas (the "**Trustee**," which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee and successors thereof for the holders of the Notes (the "**Noteholders**"). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the "**Trust Deed**."

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan (the "**Loan**") as specified hereon to Public Joint Stock Company Gazprom (the "**Borrower**"). The Issuer and the Borrower have recorded the terms of the Loan in an amended and restated facility agreement (the "**Facility Agreement**") dated December 7, 2005, as supplemented on the Issue Date specified hereon by a loan supplement (the "**Loan Supplement**") each between the Issuer and the Borrower (together, the "**Loan Agreement**").

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement.

The Issuer has charged by way of charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes and under the Trust Deed (a) all principal, interest and other amounts payable by Gazprom to the Issuer as lender under the Loan Agreement, (b) the right to receive all sums which may be or become payable by Gazprom under any claim, award or judgment relating to the Loan Agreement and (c) all the rights, title and interest in and to all sums of money now or in the future deposited in an account with Deutsche Bank AG, London Branch in the name of the Issuer (the "**Account**") and debts represented thereby, including interest from time to time earned on the Account (other than any rights and benefits constituting Reserved Rights and amounts relating to the Reserved Rights (as defined in the Trust Deed)) (the "**Charge**") and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the "**Assignment**" and together with the Charge, the "**Security Interests**"). At any time following the occurrence of an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) and subject as provided in the Trust Deed and Condition 9, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower) pursuant to, an amended and restated paying agency agreement (the "**Agency Agreement**") dated December 7, 2005 and made between the Issuer, Deutsche Bank Luxembourg S.A. as paying agent and Luxembourg registrar, Deutsche Bank Trust Company Americas as paying agent and U.S. registrar (together with Deutsche Bank Luxembourg S.A. in such capacity, each a "**Registrar**," which expressions shall include any successors), Deutsche Bank AG, London Branch as the principal paying agent (the "**Principal Paying Agent**") and calculation agent, Deutsche International Corporate Services (Ireland) Limited as paying agent and Deutsche Bank AG, London Branch and Deutsche Bank Luxembourg S.A. as transfer agents (the "**Transfer Agents**"), which expressions shall include any additional or successor transfer agents), the Borrower and the Trustee.

Copies of the Trust Deed, the Loan Agreement, the Agency Agreement and the Final Terms are available for inspection at the principal office of the Trustee being, at the date hereof, at 60 Wall Street, New York, NY 10005, United States of America, at the specified office of the Principal Paying Agent and at the specified office of the Paying Agent in Ireland.

The statements contained in these Terms and Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Final Terms, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and certain provisions of the Agency Agreement.

All capitalised terms used but not otherwise defined in these Terms and Conditions have the meanings given to them in the Trust Deed.

1 Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and other amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or other amounts (if any) pursuant to the Loan Agreement will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or counterclaim that may arise out of other transactions between the Issuer or the Trustee and the Borrower.

Noteholders have notice of, and have accepted, these Terms and Conditions, the Final Terms and the contents of the Trust Deed and the Loan Agreement, and have hereby accepted that:

1.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph 1.6 below, liability or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any other amounts) due or to become due from the Borrower under the Loan Agreement;

1.2 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Borrower;

1.3 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;

1.4 neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, any of the Paying Agents, the Registrar or the Transfer Agent of their respective obligations under the Agency Agreement;

1.5 the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower; and

1.6 the Issuer and the Trustee shall be entitled to rely on a certificate signed by a duly authorised officer of the Borrower confirming that the Borrower is complying with its obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the assigned property whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security; the Trustee has no responsibility for the value of such security.

1.7 Under the Trust Deed, the obligations of the Issuer in respect of the Notes rank pari passu and rateably without any preference among themselves.

1.8 In the event that the payments under the Loan Agreement are made by the Borrower to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will pro tanto satisfy the obligations of the Issuer in respect of the Notes.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to the Borrower except through action by the Trustee pursuant to the Assigned Rights granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured to its satisfaction.

2 Form, Denomination and Title

The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon or integral multiples thereof, without interest coupons; provided that the Rule 144A Notes shall be held in amounts of not less than U.S.$200,000 and further provided that all Notes will have a minimum Specified Denomination of €100,000 (or its equivalent in any other currency as at the date of issue of those Notes).

So long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided hereon and integral multiples of the Tradeable Amounts in excess thereof provided in the relevant Final Terms.

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

3 Register, Title and Transfers

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the "holder" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "Noteholder" shall be construed accordingly. A Note will be issued to each Noteholder in respect of its registered holding.

The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

A Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of the Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

Subject to the last paragraph of this Condition 3, within five business days of the surrender of a Note in accordance with the immediately preceding paragraph above, the Registrar will register the transfer in question and deliver a new Note to each relevant holder at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "business day" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office.

The transfer of a Note will be effected without charge but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

4 Restrictive Covenants

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee shall not, *inter alia*, incur any other indebtedness for borrowed moneys, engage in any other business (other than acquiring and holding the Charged Property in respect of each Series, issuing Notes, entering into Loans and performing any act incidental to or necessary in connection with the foregoing), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these conditions and the Trust Deed), issue any shares, give any guarantee or assume any other liability, or subject to the laws of Luxembourg, petition for any winding-up or bankruptcy.

5 Interest

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified hereon which shall be equal to the rate per annum at which interest under the Loan accrues. Accordingly, on each Interest Payment Date the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

If a Fixed Coupon Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified hereon.

(b) **Interest on Floating Rate Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that

is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and as set out in the Loan Agreement.

(c) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(d) **Calculations:** The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction as specified hereon and in the Loan Agreement, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

(e) **Publication of Rates of Interest and Interest Amounts:** The Calculation Agent shall, as soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, Gazprom, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed and/or admitted to trading on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Clause 11 of the Facility Agreement, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5 but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(f) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply or shall have applied the foregoing provisions of this Condition 5, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

6 Redemption

Unless previously prepaid or repaid pursuant to Clause 5.2 or 5.3 of the Facility Agreement, the Borrower will be required to repay the Loan one Business day prior to its Repayment Date (as defined in the Loan Agreement) and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will be redeemed or repaid by the Issuer in the relevant Specified Currency on the Maturity Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100% of the principal amount thereof).

If the Loan should become repayable (and be repaid) pursuant to the Loan Agreement prior to its Repayment Date,

all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will endeavour to give not less than eight days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

To the extent that the Issuer receives amounts of principal, interest or other amounts (other than amounts in respect of the Reserved Rights) following acceleration of the Loan pursuant to clause 11 of the Loan Agreement, the Issuer shall pay an amount equal to and in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 7.

The Issuer, subject to the Borrower's written consent (which consent shall not be unreasonably withheld or delayed), may compel any beneficial owner of Notes initially sold pursuant to Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act") to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and also a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940).

If Call Option is specified hereon, then pursuant to Clause 5.5 of the Facility Agreement and the relevant Loan Supplement, the Borrower may, at its option at any time prior to the Repayment Date specified hereon on giving not less than 30 nor more than 60 days' irrevocable notice to the Issuer, in whole or in part, repay the Loan at the Early Redemption Amount specified hereon plus the Make Whole Premium specified hereon (the "**Call Option**"). The notice to be given (the "**Call Option Notice**") shall specify the date for repayment of the Loan and the date for the redemption of the Notes (the "**Call Redemption Date**"), which shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of the Call Option Notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. If the Loan should become repayable following exercise of the Call Option by the Borrower (and be repaid) prior to the Repayment Date, the Notes will thereupon become due and repayable and the Issuer shall, subject to receipt of such amounts from the Borrower under the Loan, redeem the Notes on the Call Redemption Date. In the case of a partial redemption, the Notes shall be redeemed *pro rata* and otherwise in such manner as the Trustee deems appropriate, subject to compliance with any applicable laws and stock exchange or other regulatory requirements. The Issuer's obligations in respect of this Condition 6 to redeem and make payment for the Notes shall constitute an obligation only to account to Noteholders on the Redemption Date for an amount equivalent to the sums received by or for the account of the Issuer pursuant to the Loan Agreement.

If Put Option is specified hereon, the Issuer shall, at the option of any Noteholder redeem such Note on the Put Settlement Date specified hereon (the "**Put Option**") at its principal amount together with accrued interest. To exercise such option a Noteholder must deposit the Note or Notes to be redeemed with any Paying Agent together with a duly completed put redemption notice in the form obtainable from any of the Paying Agents, not more than 60 but not less than 30 days prior to the Put Settlement Date. No Note so deposited may be withdrawn. Provided, however, that if, prior to the Put Settlement Date, a Relevant Event has occurred or, upon due presentation of any Note on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note shall, without prejudice to the exercise of the Put Option, be returned to the Noteholder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Option Notice. The Issuer shall notify the Borrower, not more than three Business Days after receipt of notice thereof from the Paying Agent, of the amount of the Loan to be prepaid as a consequence of the exercise by Noteholders of the option contained in this Condition 6. Subject to timely receipt of the relevant amounts from the Borrower under the Loan Agreement, the Issuer shall redeem the Notes in accordance with this Condition 6 on the Put Settlement Date, subject as provided in Condition 7.

7 Payments and Agents

Payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent or of the Registrar and in the manner provided in the paragraph below.

Interest shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest shall be made in the Specified Currency by cheque drawn on a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access to the TARGET System (a "**Bank**") and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may

be made by transfer to an account in the relevant currency maintained by the payee with a Bank, or by transfer to an account in the Specified Currency maintained by the payee with, a Bank in the principal financial centre of such Specified Currency or in the case of euro, a Bank specified by the payee or at the option of the payee, by a euro-cheque and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of the Transfer Agent.

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

If the due date for payments of interest or principal is not a business day, a Noteholder shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Financial Centres" hereon, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) (in the case of a payment in euro) which is a TARGET Business Day.

The names of the initial Paying Agents and their initial specified offices are set out below. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents provided that (i) so long as the Notes are listed and/or admitted to trading on any stock exchange or market or admitted to listing by any other relevant authority, there will be a paying agent and transfer agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or market or other relevant authority and (ii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to such Directive. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified hereon shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to clause 6 of the Agency Agreement require the Borrower to make all payments of principal and interest to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer (the "Account"). Under the Charge, the Issuer will charge by way of charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of the Noteholders.

8 Taxation

All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Russian Federation or Luxembourg or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In such event, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives an equivalent amount from the Borrower under the Loan Agreement. To the extent that the Issuer receives a lesser additional amount from the Borrower, the Issuer will account to each Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer provided that no such additional amount will be payable in respect of any Note:

8.1 to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with the Russian Federation or Luxembourg other than the mere holding of such Note or the receipt of payments in respect thereof;

8.2 in respect of a Note presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;

8.3 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

8.4 in respect of a Note presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used herein, "**Relevant Date**" (i) means the date on which any payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Borrower has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any other amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9 Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

At any time after an Event of Default (as defined in the Facility Agreement) or of a Relevant Event (as defined in the Trust Deed) has occurred and is continuing, the Trustee may, at its discretion and without notice and shall, if requested to do so by Noteholders owning 25% in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, institute such proceedings as it may think fit to enforce the rights of the Noteholders and the provisions of the Trust Deed, including to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable (in the case of an Event of Default), or enforce the security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

10 Meetings of Noteholders; Modification of Notes, Trust Deed and Loan Agreement; Waiver; Substitution of the Issuer

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement or the Trust Deed. Noteholders will vote *pro rata* according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed or, following the creation of the Security Interests, the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders.

The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Terms and Conditions of the Notes or the Trust Deed or, following the creation of the Security Interests, by the Borrower of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (as a class). Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be promptly notified to the Noteholders.

The Trust Deed contains provisions to the effect that the Issuer may, and at the request of the Borrower shall, having obtained the consent of the Borrower (if such substitution is not to be made at the request of the Borrower) and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such reasonable requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes.

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11 Prescription

Notes will become void unless presented for payment of principal within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12 Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured to its satisfaction. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or the Borrower and any entity related to the Issuer and/or the Borrower without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the Loan Agreement.

The Trustee has no obligation to take any action (or step) which would or might in its opinion result in it incurring liabilities of any nature unless it is indemnified to its satisfaction in respect of the same and in forming any such opinion the Trustee shall be entitled to rely on legal advice or other advice received by it (as provided for by the Trust Deed) as to the existence and extent of such liabilities without liability to Noteholders for so doing regardless of whether and the extent to which the taking of any action or step by the Trustee is thereby delayed.

Nothing contained in these Conditions shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any right, power, authority or discretion hereunder if it has reasonable grounds for believing the repayment of such funds or adequate indemnity against, or security for, such risk or liability is not reasonably assured to it.

13 Replacement of Notes

If any Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of any Registrar or the Paying Agent in Ireland on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be

issued.

14 Notices

All notices to the Noteholders shall be deemed to have been duly given if (i) posted to such holders at their respective addresses as shown on the Register and (ii) so long as the Notes are listed and/or admitted to trading on Euronext Dublin and the rules of that exchange so require, published in a daily newspaper of general circulation in Ireland approved by the Trustee, currently expected to be The Irish Times. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

15 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and the date of the first payment of interest) so as to be consolidated and form a single series with the Notes. Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides. In relation to any further issue which is to be consolidated and form a single series with the Notes, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with the Borrower on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Notes). The Issuer will provide a further fixed charge in favour of the Trustee in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement which will secure both the Notes and such further Notes and which will supplement the Security Interests in relation to the existing Notes of such Series.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

The Notes, the Agency Agreement and the Trust Deed are governed by, and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the exclusive jurisdiction of the courts of England and has appointed an agent for the service of process in England. The provisions of articles 470-1 to 470-19 of the Luxembourg law of August 10, 1915, as amended, on commercial companies are excluded.

There will appear at the foot of the Conditions endorsed on or (as the case may be) attached to each Definitive Note and the Global Notes the names and Specified Offices of the Registrars, the Paying Agents and the Transfer Agents as set out at the end of this Base Prospectus.

GAZ CAPITAL S.A.

Gaz Capital S.A. (the "**Issuer**") was incorporated as a public limited liability company (*société anonyme*) on July 23, 2003 for an unlimited duration under the laws of the Grand Duchy of Luxembourg. Its Articles of Incorporation have been published in the Luxembourg official gazette (*Mémorial, Recueil des Sociétés et Associations*) on August 21, 2003. It is registered with the Luxembourg trade and companies register *(Registre de commerce et des sociétés*, Luxembourg*)*, Luxembourg under number B 95 071.

The Issuer's registered office is located at 14, rue Edward Steichen, L-2540 Luxembourg, and its telephone number is +352 4222291.

The Issuer is a special purpose vehicle whose subscribed share capital amounts to euro 31,000 divided into 31 registered shares with a par value of euro 1,000 each. All of the shares are fully paid up. Thirty shares are owned by Stichting Gaz Capital and one share by Stichting Participatie Vistra.

Prior to 15 July 2018, Deutsche Bank Luxembourg S.A. had been the domiciliation agent of the Issuer. With effect from 15 July 2018 its functions have been transferred to Vistra (Luxembourg) Sàrl. Vistra (Luxembourg) Sàrl's duties include the provision of certain administrative and related services. It may terminate its appointment at any time upon giving not less than two months' prior notice in writing, provided that any such termination shall not be effective until a replacement acceptable to the Issuer and the Trustee has been suggested by Vistra (Luxembourg) S.à r.l.

Principal Activities

The corporate objects of the Issuer, as described in Article 3 of its Articles of Incorporation, are:

- the issue of Notes and other debt securities under the Programme for the purpose of financing Loans to Gazprom;
- the granting of Loans to Gazprom;
- the granting of Security Interests over its assets to the Trustee in relation to the issuance of Notes; and
- the making of deposits at banks or with other depositaries.

The Issuer may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its corporate objectives except for any banking activities.

In general the Issuer may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Board of Directors

The Issuer has a board of directors, currently consisting of three directors. The directors at present are:

- Allard Fontein, employee, having his professional address at 14, rue Edward Steichen, L-2540 Luxembourg;
- Eric-Jan van de Laar, employee, having her professional address at 14, rue Edward Steichen, L-2540 Luxembourg; and
- Beata Barbara Wlodarczak-Mantione, employee, having his professional address at 14, rue Edward Steichen, L-2540 Luxembourg.

Financial Statements

The Issuer's fiscal year ends on December 31 of each year. The Issuer's audited financial statements as of and for the three years ended December 31, 2017, 2016 and 2015 were prepared in accordance with Luxembourg legal and regulatory requirements applicable to the preparation of financial statements.

PricewaterhouseCoopers, Société coopérative, having its registered office at 2, rue Gerhard Mercator, B.P. 1443, L-1014, Luxembourg was appointed to act as approved independent statutory auditor of the Issuer for the years ended December 31, 2017, 2016 and 2015. PricewaterhouseCoopers, Société coopérative is a member of the Luxembourg body of registered auditors ("**Institut des Réviseurs d'Entreprises**").

No financial statements of the Issuer are included in this Base Prospectus. The obligations under the notes issued by the Issuer are fully consolidated into the Group's Financial Statements.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each purchaser of Rule 144A Notes within the United States, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is (a) a qualified institutional buyer within the meaning of Rule 144A (a "**QIB**") that is also a qualified purchaser as defined in Section 2(a)(51) of the Investment Company Act (a "**QP**"), (b) not a broker-dealer that owns and invests on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acting for its own account, or for the account of a QIB that is also a QP, (e) not formed for the purpose of investing in the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

(2) It will, (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories.

(3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State or another jurisdiction of the United States.

(4) It understands that the Issuer has the power under the Trust Deed and Condition 6 to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and also a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honor the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and a QP.

It understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

> THIS NOTE AND THE LOAN IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") THAT IS ALSO A QUALIFIED PURCHASER AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940 (A "**QP**") THAT (A) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (B) IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (C) IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP, IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN U.S.$200,000, (D) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OF THIS NOTE, (E) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (F) WILL PROVIDE NOTICE OF THESE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE, OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. A TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. THE ISSUER, SUBJECT TO THE BORROWER'S (AS DEFINED IN THE TRUST DEED) WRITTEN CONSENT (WHICH CONSENT SHALL NOT BE UNREASONABLY WITHHELD OR DELAYED) HAS THE RIGHT UNDER THE

TRUST DEED TO COMPEL ANY BENEFICIAL OWNER THAT IS A U.S. PERSON AND IS NOT A QIB AND A QP TO SELL ITS INTEREST IN THIS NOTE, OR MAY SELL SUCH INTEREST ON BEHALF OF SUCH BENEFICIAL OWNER. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT BY ITS PURCHASE AND FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, APPLIES OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS FOR PURPOSES OF ERISA OR SECTION 4975 BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE, (2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN SECTION 3(32) OF ERISA OR OTHER PLAN, AND DOES NOT AND WILL NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR ANY OTHER LEGAL AUTHORITY APPLICABLE TO SUCH GOVERNMENTAL PLAN OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE U.S. TAX CODE, AND THE PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT AND WILL NOT RESULT IN THE ASSETS OF THE ISSUER OF THE NOTES BEING CONSIDERED PLAN ASSETS OF SUCH GOVERNMENTAL PLAN OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE U.S. TAX CODE, AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

(5) At the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan to which Section 4975 of the U.S. Tax Code applies, or (iii) an entity whose underlying assets include plan assets by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a governmental plan, as defined in Section 3(32) of ERISA or other plan not subject to Title I of ERISA or Section 4975 of the U.S. Tax Code, the purchase, holding and disposition of the Notes or any interest therein does not and will not violate any statute, regulation, administrative decision, policy or any other legal authority applicable to such governmental plan or other plan not subject to Title I of ERISA or Section 4975 of the U.S. Tax Code, and the purchase, holding and disposition of the Notes or any interest therein does not and will not result in the assets of the Issuer being considered plan assets of such governmental plan or other plan not subject to Title I of ERISA or Section 4975 of the U.S. Tax Code, and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations, warranties and covenants from that person.

(6) It acknowledges that the Issuer, Gazprom, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, Gazprom and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(7) It understands that the Rule 144A Notes will be evidenced by a global Note (the "**Rule 144A Global Note**"). Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (substantially in the form provided in the Agency Agreement) as to compliance with applicable laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States and each subsequent purchaser of Regulation S Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, Gazprom or a person acting on behalf of such an affiliate.

(2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(3) It acknowledges that the Issuer, Gazprom, the Registrar, the Dealers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, Gazprom and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(4) It understands that the Regulation S Notes will be evidenced by a global Note (the "**Regulation S Global Note**"). Before any interest in the Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (substantially in the form provided in the Agency Agreement) as to compliance with applicable laws.

(5) At the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan to which Section 4975 of the U.S. Tax Code applies or (iii) an entity whose underlying assets include plan assets by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a governmental plan, as defined in Section 3(32) of ERISA, or other plan not subject to Title I of ERISA or Section 4975 of the U.S. Tax Code, the purchase, holding and disposition of the Notes or any interest therein does not and will not violate any statute, regulation, administrative decision, policy or any other legal authority applicable to such governmental plan or other plan not subject to Title I of ERISA or Section 4975 of the U.S. Tax Code, and the purchase, holding and disposition of the Notes or any interest therein does not and will not result in the assets of the Issuer being considered plan assets of such governmental plan or other plan not subject to Title I of ERISA or Section 4975 of the U.S. Tax Code, and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations, warranties and covenants from that person.

CLEARING AND SETTLEMENT

The Global Notes

Each Series of Notes will be evidenced on issue by a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and, in the case of Rule 144A Notes, a Rule 144A Global Note deposited with (i) a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg, or (ii) Deutsche Bank Trust Company Americas as custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "—Book-Entry Procedures for the Global Notes." By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, and that, if it determines to transfer such beneficial interest prior to the expiration of the 40-day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes (a) to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to be a person who takes delivery in the form of an interest in a Rule 144A Global Note (if applicable). See "Transfer Restrictions." Beneficial interests in a Rule 144A Global Note may be held through DTC or Euroclear and Clearstream, Luxembourg. See "—Book-Entry Procedures for the Global Notes." By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Trust Deed. See "Transfer Restrictions."

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Trust Deed, and with respect to Rule 144A Notes, as set forth in Rule 144A, and the Notes will bear the legends set forth thereon regarding such restrictions set forth under "Transfer Restrictions." A beneficial interest in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note in denominations greater than or equal to the minimum denominations applicable to interests in a Rule 144A Global Note and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made to a non-U.S. person and in accordance with Regulation S.

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the "**Definitive Notes**"). The Notes are not issuable in bearer form.

So long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and integral multiples of the Tradeable Amount in excess thereof specified in the relevant Final Terms or Series Prospectus, as the case may be.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- Payments. Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to the person who appears at the Record Date on the register of Noteholders. So long as the relevant Global Note is held by or on behalf of a common depositary for Euroclear, Clearstream, Luxembourg, DTC or an Alternative Clearing System, "**Record Date**" shall mean the Clearing System Business Day before the relevant due date for payment,

where "**Clearing System Business Day**" means a day when Euroclear, Clearstream, Luxembourg and DTC are open for business.

- Notices. So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes provided that for so long as the Notes are listed and admitted to trading on Euronext Dublin and the Guidelines for Asset Backed Securities (the "**Guidelines**") so require, notices will also be filed at the Companies Announcements Office of Euronext Dublin.

- Meetings. For the purposes of any meeting of Noteholders, the holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as being entitled to one vote in respect of each integral currency unit of the specified currency of the Notes.

- Trustee Powers. In considering the interests of Noteholders while the Global Notes are held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to each Global Note and may consider such interests as if such accountholders were the holders of any Global Note.

- Cancellation. Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive form if: (i) a Global Note is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in definitive form and a notice to such effect signed by two directors of the Issuer or by any person(s) empowered by the board of directors of the Issuer to sign on behalf of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or the Transfer Agent and the Noteholders of its intention to exchange the relevant Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of a Global Note may surrender such Global Note to or to the order of the Registrar or Transfer Agent. In exchange for such Global Note, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in Part 1 of Schedule 2 of the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the due date for any payment of principal or interest in respect of the Notes; provided that any such transfer shall be made in accordance with the Trust Deed.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Borrower (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of

simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "Transfer Restrictions."

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "Transfer Restrictions," or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Notes

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "—Settlement and Transfer of Notes."

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organizations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a "banking organization" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerized book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organizations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "—Exchange for Definitive Notes," DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing Regulation S Notes or the Rule 144A Global Note representing Rule 144A Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Note representing Rule 144A Notes of any Series will have an ISIN, Common Code and a CUSIP number and will be deposited with a custodian (the "**Custodian**") for and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement ("**SDFS**") system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade

to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisors.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated December 7, 2005 (the "**Dealer Agreement**") between the Issuer, Gazprom, the Permanent Dealers and the Arrangers, the Notes will be offered from time to time by an Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, among other things, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the Relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers.

Each of the Issuer and Gazprom has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes and the corresponding Loans have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States or the securities laws of any other jurisdiction. Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that:

- the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those registration requirements; and

- except as permitted by the Dealer Agreement it will not offer or sell the Notes of any Series (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Series of which such Notes are a part, as determined and certified to the Principal Paying Agent by such Dealer (or, in the case of such Series of Notes sold to or through more than one Dealer on a syndicated basis, by any Dealer acting as lead manager), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Terms used in this section have the meanings given to them by Regulation S.

Notes offered and sold outside the United States to non-U.S. persons may be sold in reliance on Regulation S. The Dealer Agreement provides that the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to persons whom they reasonably believe are QIBs that are also QPs who can represent that (a) they are QPs who are QIBs within the meaning of Rule 144A; (b) they are not broker-dealers who own and invest on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers; (c) they are not a participant-directed employee plan, such as a 401(k) plan; (d) they are acting for their own account, or the account of another QIB who is a QP; (e) they are not formed for the purpose of investing in the Issuer; (f) each account for which they are purchasing will hold and transfer at least U.S.$200,000 in principal amount of Notes at any time; (g) they understand the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories; and (h) they will provide notice of the transfer restrictions set forth in this Base Prospectus to any subsequent transferees.

In addition, until 40 days after commencement of the offering of any identifiable Series of Notes, an offer or sale of such Notes within the United States by a dealer (whether or not participating in the offering of such Series of Notes) may violate the registration requirements of the Securities Act, if such offer or sale is made otherwise than in accordance with Rule 144A.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States, the resale of the Notes in the United States and for the listing of Notes on Euronext Dublin. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base

Prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any QIB who is also a QP (a "**QIB/QP**") and to whom an offer has been made directly by one of the Dealers or its U.S. broker-affiliate. Distribution of this Base Prospectus by any non-U.S. person outside the United States or by any QIB/QP in the United States to any U.S. person or to any other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. person or QIB/QP with respect thereto, is unauthorized and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. person or QIB/QP, is prohibited.

United Kingdom

Each Dealer has represented and agreed that (i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of FSMA by the Issuer, (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of FSMA does not apply to the Issuer, and (iii) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each of the Dealers has agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law; it being understood and agreed that the Dealers may distribute this Base Prospectus and (or) the Final Terms or Series Prospectus to persons in the Russian Federation in a manner that does not constitute advertisement or offering of the Notes in Russia (each as defined in Russian securities laws) and may sell the Notes to Russian persons in a manner that does not constitute "offering," "placement" or "circulation" of the Notes in the Russian Federation (as defined in Russian securities laws) and otherwise not in breach of Russian law.

Canada

Each of the Dealers in relation to any offering of the Notes, has or will have, prior to any such offering, acknowledged, represented and agreed that: (i) the Notes have not been, and will not be, qualified for sale under the securities laws of any province or territory of Canada; (ii) it has not offered, sold, solicited an offer to purchase, or delivered, and that it will not offer, sell, solicit an offer to purchase or deliver, any Notes, directly or indirectly, in Canada or to, or for the benefit of, any Canadian Person; (iii) it has not distributed, and will not distribute, this Base Prospectus or any other offering material relating to the Notes in Canada or to, or for the benefit of Canadian Persons; and (iv) Canadian Persons are restricted from participating in any way, directly or indirectly, in the offering of the Notes (or any dealings related to the offering of the Notes), pursuant to the Special Economic Measures (Russia) Regulations.

Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

General

Each Dealer has agreed that it has, to the best of its knowledge and belief, complied and will comply in all material respects with applicable laws and regulations in each jurisdiction in which they offer, sell or deliver Notes or distribute this Base Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or Gazprom.

The Arrangers, the Dealers and their respective affiliates have engaged and are engaged in transactions with Gazprom and other members of the Group (including, in some cases, credit agreements and credit lines) in the ordinary course of their banking business. The Arrangers and the Dealers performed various investment banking, financial advisory, and other services for Gazprom, for which they received customary fees, and the Arrangers, the Dealers and their respective affiliates may provide such services in the future.

In addition, in the ordinary course of their business activities, the Arrangers, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, Gazprom and/or other members of the Group. Certain of the Arrangers, the Dealers and their respective affiliates that have a lending relationship with Issuer, Gazprom and/or other members of the Group routinely hedge their credit exposure to Issuer, Gazprom and/or other members of the Group consistent with their customary risk management policies. Typically, such Arrangers, Dealers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the securities of the Issuer, Gazprom and/or other members of the Group, including potentially any Notes offered hereby. Any such short positions could adversely affect future trading prices of the notes offered hereby. The Arrangers, the Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

These selling restrictions may be modified by the agreement of the Issuer, Gazprom and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms, or Series Prospectus, as the case may be, issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

TAXATION

Prospective purchasers of the Notes are advised to consult their own tax advisors as to the consequences arising in their particular circumstances under the tax laws of countries of which they are residents of the purchase, ownership, holding and disposition of any series of the Notes, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of the Notes. The following is a general description of certain tax considerations relating to the Notes and the Loans and does not purport to be a comprehensive discussion of the tax treatment of the Notes or the Loans.

The information and analysis contained within this section are limited to tax issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes or the Loans.

Russian Federation

General

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of any Series of the Notes as well as taxation of interest and some other payments on the corresponding Loans. This summary does not seek to address tax implications arising for the Noteholders in connection with the purchase, ownership and disposal of the Notes and/or receipt of interest and other payments on the corresponding Loans in the countries of their tax residency.

The summary is based on the laws of the Russian Federation as in effect on the date of this Base Prospectus (that are subject to changes which could occur frequently, at short notice and could apply retrospectively). The summary does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia or tax implications arising for the Noteholders applying special tax regimes available under Russian tax legislation. Similarly, this summary does not seek to address the availability of double tax treaty relief to, and the eligibility for double tax relief of any Noteholder in respect of income payable to that Noteholder on any Series of the Notes, or practical difficulties connected with claiming and obtaining such double tax treaty relief. The analysis set out herein does not include any comments on tax implications which could arise for the Noteholders in connection with entering into REPO or stock lending transactions with any Series of the Notes or into term deals, derivatives and/or any similar types of transactions with any Series of the Notes.

Many aspects of Russian tax laws and regulations are subject to significant uncertainty and lack of interpretive guidance resulting in differing interpretations and inconsistent application thereof by the various Russian authorities in practice. Further, the substantive provisions of Russian tax laws and regulations applicable to financial instruments may be subject to more rapid and unpredictable changes (possibly with the retroactive effect) and inconsistent application as compared to jurisdictions with more developed capital markets and tax systems. The interpretation and application of these provisions will, in practice, to a large extent rest substantially with local tax inspectorates and such interpretations may often be inconsistent or may often change.

In practice, interpretation and application of tax laws and regulations by different tax inspectorates in Russia and their representatives may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Furthermore, court rulings on tax or other related matters adopted by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

Prospective investors should consult their own tax advisors regarding tax consequences of investing in the Notes that may arise in their own particular circumstances. No representation with respect to Russian tax consequences relevant to any particular Noteholder is made hereby.

Taxation of the Notes

General

For the purposes of this summary, the term "**Resident Noteholder**" means:

- (i) a Russian legal entity which acquires, holds and disposes the Notes, (ii) an organization formed under a non-Russian law, which acquires, holds and disposes the Notes through its permanent establishment in Russia or an organization organized under a non-Russian law and recognized as Russian tax resident in accordance with the requirements set out in the Russian Tax Code which acquires, holds and disposes the Notes (the **"Resident Noteholder-Legal Entity**"). An organization organized under a non-Russian law shall be deemed to be tax resident of the Russian Federation for the purposes of the Russian Tax Code if (1) it is deemed to be tax resident

of the Russian Federation in accordance with an applicable double tax treaty or (2) its place of management is in the Russian Federation unless a different conclusion follows from an applicable double tax treaty;

- a Noteholder who is an individual actually present in Russia for an aggregate period of 183 calendar days or more in any period comprised of 12 consecutive months, who acquires, holds and disposes of the Notes of any Series (the "**Resident Noteholder—Individual**"). Presence in Russia for Russian personal income tax residency purposes is not considered interrupted if an individual departs from Russia for short periods of time (less than six months) for medical treatment, education purposes or completion of employment or other duties related to work (rendering services) at offshore hydrocarbon fields.

For the purposes of this summary, the term "**Non-Resident Noteholder**" means:

- an organization which is a Noteholder and does not qualify as the Resident Noteholder – Legal Entity (the "**Non-Resident Noteholder—Legal Entity**");

- a Noteholder who is an individual and does not qualify as the Resident Noteholder – Individual who acquires, holds and disposes of the Notes (the "**Non-Resident Noteholder—Individual**").

Currently, the Russian Tax Code is generally interpreted by both the Russian tax authorities and taxpayers such that days of arrival as well as days of departure should be taken into account when calculating the total number of days of presence of an individual in Russia. However, we are aware of a court case where the court expressed the opinion that days of arrival should not be taken into account as opposed to days of departure.

For the purposes of this summary, the definitions of "**Resident Noteholder**" and "**Non-Resident Noteholder**" in respect of individuals are taken at face value based on the wording of Russian tax law as currently written. In practice, however, the application of the above formal residency definition by the Russian tax authorities may differ depending on their position in each case. The law is currently worded in a way that implies the potential for individuals to be tax resident in Russia for tax purposes for a part of a calendar year. However, both the Ministry of Finance of the Russian Federation and the Russian tax authorities have expressed the view that an individual should be either tax resident or non-resident in Russia for the full calendar year. Consequently, if the travel pattern dictates a differing tax residency status for a part of the tax year, the application of the Russian personal income resident tax rate may in practice be disallowed.

Tax residency rules and Russia's rights with regard to taxation may be affected by the applicable double tax treaty.

Resident Noteholders

The Resident Noteholders will be subject to all applicable Russian taxes in respect of income derived by them in connection with the acquisition, ownership and/or disposal of the Notes (including interest received on the Notes) or in connection with payments under the respective Loan Agreement made by Gazprom to the Issuer (or to the Trustee, as the case may be) if Resident Noteholders qualify for persons that have actual right to the income concerned for Russian tax purposes. See Section "Taxation of Interest Payments on the Loans" below.

The Resident Noteholders should consult their own tax advisors with respect to the effect that the acquisition, holding and/or disposal of the Notes may have on their tax position.

Non-Resident Noteholders

Taxation of the Non-Resident Noteholders—Legal Entities

Acquisition of the Notes

Acquisition of the Notes by the Non-Resident Noteholders—Legal Entities (whether upon their issue or in the secondary market) should not trigger any Russian tax implications for the Non-Resident Noteholders—Legal Entities.

Interest on the Notes

The Non-Resident Noteholders—Legal Entities generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer. Taxation of interest on the Notes of any Series may however be affected by the taxation treatment of interest on any Loan in Russia (see "Taxation of Interest Payments on the Loans" below).

Sale or other Disposal of the Notes

Generally, there should be no Russian tax on gains from sale or other disposal of the Notes imposed on Non-Resident Noteholder—Legal Entity. There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the Notes where proceeds from sale or other disposal of the Notes are received from a source within Russia by a Non-Resident Noteholder–Legal Entity. It is caused by isolated instances in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the Eurobonds. Although the Ministry of Finance of the Russian Federation in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest on the Eurobonds paid to a non-Russian organization should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having registered tax presence in Russia which purchases the Notes from a Non-Resident Noteholder-Legal Entity or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20 per cent. (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds of the Notes.

Redemption of the Notes

The Non-Resident Noteholders—Legal Entities generally should not be subject to any Russian taxes in respect of repayment of principal on the Notes received from the Issuer.

Taxation of the Non-Resident Noteholders—Individuals

Acquisition of the Notes

Acquisition of the Notes by the Non-Resident Noteholders—Individuals may constitute a taxable event for Russian personal income tax purposes pursuant to provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of the acquisition of securities. In particular, if the acquisition price of the Notes is below the lower margin of the fair market value of the Notes calculated based on specific procedure for the determination of market prices of securities for Russian personal income tax purposes, the difference may become subject to Russian personal income tax at the rate of 30% (or such other tax rate as may be effective at the time of acquisition), which is, arguably, subject to reduction or elimination under the applicable double tax treaty.

Under the Russian tax legislation, taxation of income of the Non-Resident Noteholders—Individuals will depend on whether this income is qualified as received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit receivable by individuals should be sourced, in practice the Russian tax authorities may infer that such income should be considered as Russian source income if the Notes are purchased "in Russia." In the absence of any additional guidance as to what should be considered as a purchase of securities "in Russia," in practice the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the location of the issuer, or other similar criteria. There is no assurance therefore that as a result any material benefit received by the Non-Resident Noteholders—Individuals in connection with the acquisition of the Notes will not become taxable in Russia.

Interest on the Notes

The Non-Resident Noteholders—Individuals generally should not be subject to Russian personal income tax in respect of payment of interest on the Notes received from the Issuer. Taxation of interest on the Notes may however be affected by the taxation treatment of income from sale of the Notes and interest on any Loan (see "Taxation of Interest Payments on the Loans" below).

Sale, Redemption or other Disposal of the Notes

A Non-Resident Noteholder-Individual should not be subject to any Russian taxes in respect of gain or other income realized on a redemption, sale or other disposal of the Notes outside of Russia, provided that the proceeds of such sale, redemption, or disposal are not received from a source within Russia.

Subject to any available tax treaty relief, if receipt of any proceeds from the sale or other disposal of the Notes by a Non-Resident Noteholder—Individual is classified as income from Russian sources for Russian personal income tax purposes, these proceeds will become subject to Russian personal income tax at the rate of 30% (or such other tax rate as may be effective at the time of disposal). Since the Russian Tax Code does not contain any additional guidance as to when the sales or disposal proceeds should be deemed to be received from Russian sources by an individual not qualifying as a tax resident for Russian personal income tax purposes, in practice the Russian tax authorities may infer that such income should be

considered as Russian source income, if the Notes are sold or disposed of "in Russia." In absence of any guidance as to what should be considered as a sale or other disposal of securities "in Russia," the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the Issuer, or other similar criteria. There is no assurance therefore that as a result sales or disposal proceeds received by the Non-Resident Noteholders—Individuals will not become taxable in Russia.

If the disposal proceeds are considered as being derived from Russian sources, Russian personal income tax will apply to the gross amount of sales or disposal proceeds received upon the disposal of the Notes (including accrued and paid interest on any Series of the Notes) decreased by the amount of any duly documented cost deductions (including the original acquisition costs and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes) provided that such documentation is duly executed. There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities the deduction will be disallowed and the tax will apply to the gross amount of the sales or disposal proceeds.

Under certain circumstances, if sales and/ or disposal proceeds (including accrued and paid interest on any Series of the Notes) are paid to a Non-Resident Noteholder—Individual by a licensed broker or an asset manager that is a Russian legal entity or organization carrying out operations for the benefit of the Non-Resident Noteholder—Individual under an asset management agreement, a brokerage agreement, an agency agreement, a commission agreement or a commercial mandate agreement, the applicable Russian personal income tax at the rate of 30% (or such other tax rate as may be effective at the time of payment) should be withheld at source by that person considered as the tax agent. The amount of tax withheld will be calculated after taking into account available documented deductions for the original acquisition cost and related expenses on the acquisition, holding and sale or other disposal of the Notes to the extent such deductions and expenses can be determined by the entity making the payment of income to the Non-Resident Noteholder-Individual. The tax agent would be required to report to the Russian tax authorities in respect of its inability to withhold personal income tax in full within one month upon termination of the agreement (see above) or by March 1 of the year following the calendar year in which the income was received. Failure or inability of the tax agent to timely withhold the applicable Russian personal income tax in full will place the onus of reporting and payment of such tax on the Non-Resident Noteholder-Individual.

If the duly documented acquisition costs and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes were born within the relationship with a party other than the tax agent obligated to calculate and withhold Russian personal income tax in relation to the sales proceeds, then these original duly documented costs and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes may be taken into account by the tax agent upon written application of the Non-Resident Noteholder-Individual and presentation of the documents confirming the costs and expenses.

When the Notes are sold to other legal entities, organizations (other than licensed brokers or asset managers acting under the agreements mentioned in preceding paragraphs) or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder—Individual will be required to file a personal income tax return individually, report the amount of income realized to the Russian tax authorities and apply for a deduction in the amount of the acquisition and other expenses related to the acquisition, holding and the sale or other disposal of the Notes confirmed by the supporting documentation. The applicable personal income tax will then have to be paid by the Non-Resident Noteholder—Individual on the basis of the personal income tax return.

Under certain circumstances gains received and losses incurred by a Non-Resident Noteholder—Individual as a result of the sale or other disposal of the Notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes which would affect the total amount of personal income tax payable by a Non-Resident Noteholder—Individual in Russia.

Any taxable gains derived by a Non-Resident Noteholder—Individual from the sale or other disposal of the Notes are affected by changes in the exchange rate between the currency of the acquisition of the Notes, the currency of the sale or other disposal of the Notes and rubles.

Non-Resident Noteholders—Individuals should consult their own tax advisors with respect to tax consequences of the purchase of the Notes, sale or other disposal of the Notes, including the receipt of sales proceeds from a source within Russia.

Tax Treaty Relief

The Russian Federation has entered into double tax treaties with a number of countries and honors some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions allowing

the reduction or elimination of Russian income taxes applicable to income received by a Non-Resident Noteholder from Russian sources in connection with the acquisition, holding, sale or other disposal of the Notes.

In order to obtain the benefits available under the respective double tax treaty, a Non-Resident Noteholder must comply with the certification, information and reporting requirements which are in force in the Russian Federation (relating, in particular, to the confirmation of the entitlement and eligibility for treaty benefits).

In order to enjoy double tax treaty benefits, a Non-Resident Noteholder–Legal Entity which has the actual right to receive income (i.e., which qualifies as the "beneficial owner of income") and is eligible for the benefits of the applicable double tax treaty should provide the tax agent with the satisfactory documentary evidence to these facts as well as the duly executed tax residency certificate before the date of the income payment. The tax residency of Non-Resident Noteholders – Legal Entities which are banks in jurisdictions which have concluded double tax treaties with the Russian Federation and which have the actual right to receive income can be confirmed by public information guides (e.g. Bankers Almanac) in lieu of the tax residency certificate.

In order to apply for tax exemption or payment of tax at a reduced tax rate under the respective double tax treaty a Non-Resident Noteholder-Individual has to provide to the tax agent a passport of a foreign citizen in order to prove his/ her tax residency status in the foreign jurisdiction. If this document is not sufficient to prove the tax residency status, the tax agent will request the Non-Resident Noteholder-Individual to provide a tax residency certificate issued by the competent authorities in his/ her country of residence for tax purposes. If the documents proving residency in the respective state are submitted to the tax agent after the personal income tax is withheld, the tax agent will be required to reimburse to the Non-Resident Noteholder—Individual the amount of tax withheld.

The law does not clearly establish how the tax agent shall determine whether a passport is sufficient to confirm the individual's eligibility for double tax treaty benefits.

It is not explicit whether under tax legislation Russian citizens who are Non-Resident Noteholders-Individuals would be able to enjoy exemption from taxation at source under an applicable double tax treaty in practice.

The procedure of elimination of double taxation by means of exemption under an applicable double tax treaty of the Non-Resident Noteholders-Individuals in case of absence of a tax agent is not explicitly indicated in the Russian Tax Code.

The Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of interest income on the Notes or any income received in connection with the acquisition and the sale or other disposal of the Notes of any Series.

On June 7, 2017, 68 jurisdictions, including Russia, signed the MLI. Several additional jurisdictions have signed the MLI since then. A number of jurisdictions have expressed their intention to sign the MLI. It is possible that the changes made as a result of Russia being a party to the MLI may have additional adverse impact on the availability of double taxation treaty benefits to the Non-Resident Noteholders.

Refund of Tax Withheld

If Russian withholding tax on income derived from Russian sources by a Non-Resident Noteholder—Legal Entity was withheld at source, a claim for a refund of the tax that was withheld at source can be filed by that Non-Resident Noteholder—Legal Entity with the Russian tax authorities either based on general tax reclaim procedures within three years following the date of withholding, or provided that such Non-Resident Noteholder—Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income within three years following the year in which the tax was withheld. There is no guarantee that such refund will be available in practice to the Non-Resident Noteholder—Legal Entity.

If Russian personal income tax on income derived from Russian sources by a Non-Resident Noteholder—Individual was withheld at source despite the right of this Non-Resident Noteholder—Individual to rely on benefits of the applicable double tax treaty allowing such individual not to pay the tax in Russia or allowing to pay the tax at a reduced tax rate in relation to such income, a claim for a refund of Russian personal tax which was excessively withheld at source together with a passport of a foreign individual/tax residency certificate issued by the competent authorities in his/ her country of residence may be filed by that Non-Resident Noteholder-Individual with the tax agent within three years following the tax year when the corresponding income was received. In the absence of a tax agent who withheld the Russian personal income tax under consideration (e.g. in case of a liquidation of the tax agent), an application for a refund may be filed with the Russian tax authorities within the same period (three years following the tax year when the corresponding income was

received) with the Russian tax return, a tax residency certificate and documents proving tax withholding to the Russian tax authorities. There can be no assurance that the tax agent and/ or the Russian tax authorities will refund this tax in practice.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which have to be provided by the foreign person to the Russian tax authorities for the tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming, for instance, a right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

Obtaining a refund of Russian income taxes which were excessively withheld at source is likely to be a time consuming and lengthy process requiring many efforts and no assurance can be given that such refund will be granted to the Non-Resident Noteholders in practice.

The Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain refund of Russian income taxes, which were excessively withheld at source.

Taxation of Interest Payments on the Loans

In general, payments of interest on borrowed funds made by a Russian legal entity to a non-resident legal entity or organization having no registered presence and/or no permanent establishment or no tax residency in Russia are subject to Russian withholding tax at the rate of 20% (or such other tax rate as may be effective at the time of payment), which could be potentially reduced or eliminated under the terms of an applicable double tax treaty.

Generally, no withholding tax should arise in Eurobond structures by virtue of the special exemption envisaged by the Russian Tax Code. The Russian Tax Code provides that Russian borrowers should be fully released from the obligation to withhold tax from interest and other payments made to foreign entities provided that the following conditions are all met:

(1) interest is paid on debt obligations of Russian entities that arose in connection with the placement by foreign entities of "issued bonds," which are defined as bonds or other debt obligations (a) listed and/or admitted to trading on one of the qualifying foreign exchanges and/or (b) that have been registered with one of the qualifying foreign depository/clearing organizations;

The lists of qualifying foreign exchanges and foreign depositary/clearing organizations were approved by the Central Bank of the Russian Federation in its Order № 4393-U of May 30, 2017 (the "**Lists**"). The Irish Stock Exchange plc (currently operating under the trading name Euronext Dublin), Euroclear and Clearstream, Luxembourg are included in the Lists. DTC is not expressly mentioned in the Lists, but to the extent the Notes are admitted to trading and/or have been listed on the Irish Stock Exchange plc (being the legal name specified in the Lists), the aforementioned conditions should be considered satisfied. When the Irish Stock Exchange plc changes its legal name, it would technically cease appearing in the Lists. If the Notes are held through Clearstream, Luxembourg and/or Euroclear, the referenced condition for the tax exemption should be satisfied regardless of the particular stock exchange on which the Notes will be listed and/or admitted to trading.

There exists some uncertainty with respect to those Series of the Notes which, if issued, would be cleared through DTC and would be admitted to trading on the Irish Stock Exchange plc, in each case after the change of its legal name. Such Series of the Notes may not necessarily qualify for the "issued bonds" tax exemption, unless the Lists are amended to replace the Irish Stock Exchange plc with the new legal name thereof or there is specific guidance from the Russian regulatory or tax authorities acknowledging that the reference to the Irish Stock Exchange plc should be read as the reference to the new legal name of it.

The connection between the loan and the issued bonds should be evident and supported with certain documents, which are set forth in the Russian Tax Code, including the relevant prospectus and/or the loan agreement.

(2) the recipient of interest on the relevant Loan is a foreign entity which is the issuer of issued bonds (i.e., the Issuer), or a foreign entity authorized to receive interest income payable on the issued bonds, or a foreign entity to which rights and obligations under bonds issued by another foreign entity have been assigned;

(3) there is a double tax treaty between Russia and the jurisdiction of tax residence of the recipient of payments on any Loan which can be confirmed by a duly executed tax residency certificate.

We believe that it should be possible to satisfy conditions established by the Russian Tax Code and obtain a release from the obligation to withhold Russian income tax from payments of interest and certain other amounts, as the case may be, on

each Loan to the Issuer as long as the conditions set forth above are met throughout the term of each Loan and the Notes of any Series subject to the qualifications set out above.

Importantly, the Russian Tax Code does not provide for the exemption of the foreign interest income recipients from Russian withholding tax and/or Russian personal income tax, as the case may be, in addition to the release of the Russian borrower from withholding tax obligations in respect of interest payable on the relevant loans. Currently there is no requirement and mechanism in the Russian tax legislation for the foreign legal entities to self-assess and pay the tax to the Russian tax authorities, in case the tax was not withheld at source. Moreover, the Ministry of Finance of the Russian Federation acknowledged in its information letter published on its website that the release of Russian companies from withholding tax agent obligations arising in Eurobonds structures should effectively mean that no Russian withholding tax should arise, since there is neither a mechanism nor obligation for a non-resident to calculate and pay independently the tax to the Russian budget under such circumstances. There can be no assurance, however, that such requirements and mechanism will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients, including the Issuer or the Noteholders.

If interest and/or any other amounts due under any Loan become payable to the Trustee pursuant to the Trust Deed, there is some residual uncertainty whether the release from the obligation to withhold tax under the Russian Tax Code would be available to Gazprom.

Specifically, there is some uncertainty whether following the enforcement of the Security, the Trustee will qualify for the "entity authorized to receive interest income payable on the issued bonds" containing in the Russian Tax Code. It is not expected that the Trustee will, or will be able to, claim a Russian withholding tax exemption or reduction under any applicable double tax treaty under such circumstances. It creates a potential risk that in case payments under any Loan are made to the Trustee for the benefit of the Non-Resident Noteholders, the Russian withholding tax at the rate of 20% (or such other tax rate as may be effective at the time of payment) or Russian personal income tax at the rate of 30% (or such other tax rate as may be effective at the time of payment), should be deducted from the amount of interest and some other payments under the relevant Loan Agreement. While some Non-Resident Noteholders may seek a reduction or elimination of Russian withholding tax or personal income tax, as applicable, or a refund of the respective taxes under applicable double tax treaties entered into between their countries of tax residence and the Russian Federation, where such treaties exist and to the extent they are applicable, there is no assurance that any treaty relief will be available to them in practice under such circumstances. Resident Noteholders that have actual right to interest and other income on any Loan will be subject to Russian personal income tax (for Resident Noteholders - Individuals) or profit tax (for Resident Noteholders – Legal Entities) at applicable Russian tax rates, which may be withheld at source or payable on a self-assessed basis.

If any payments under any Loan become subject to Russian withholding tax (as a result of which the Issuer or the Trustee will be required to reduce payments made by it under the corresponding Series of the Notes by the amount of such withholding tax) we will be obliged (subject to certain conditions) under the terms of the relevant Loan Agreement to increase payments made under the relevant Loan, as may be necessary, so that the net payments received by the Issuer or the Trustee will be equal to the amounts it would have received in the absence of such withholding tax. There is a risk that gross-up for Russian withholding tax will not take place and that payments under the respective Loans will be reduced by the amount of Russian income tax or Russian personal income tax withheld by us at source.

If we are obligated to increase any payments under any Loan or to make additional payments on any or all Loans as described above, we may (without premium or penalty), subject to certain conditions, prepay the relevant Loan in full. In such case, all outstanding Notes of the corresponding Series will each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of repayment.

No VAT will be payable in Russia in respect of interest and principal payments under each Loan.

Luxembourg

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*) as well as personal income tax (*impôt sur le revenu*) generally. Investors may further be subject to net wealth tax (*impôt sur la fortune*) as well

as other duties, levies or taxes. Corporate income taxes, municipal business tax, as well as the solidarity surcharge invariably apply to most corporate taxpayers resident in Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax as well as the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Taxation of the Noteholders

Withholding Tax

(i) Non-resident Noteholders

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident Noteholders, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident Noteholders.

(ii) Resident Noteholders

Under Luxembourg general tax laws currently in force and subject to the law of December 23, 2005, as amended (the "**Relibi Law**"), there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident Noteholders, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident Noteholders.

Under the Relibi Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of currently 20%. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payment of interest under the Notes coming within the scope of the Relibi Law will be subject to a withholding tax at a rate of currently 20%.

Income Taxation

(i) Non-resident Noteholders

A non-resident Noteholder, not having a permanent establishment or permanent representative in Luxembourg to which/whom such Notes are attributable, is not subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes. A gain realised by such non-resident Noteholder on the sale or disposal, in any form whatsoever, of the Notes is further not subject to Luxembourg income tax.

A non-resident corporate Noteholder or an individual Noteholder acting in the course of the management of a professional or business undertaking, who has a permanent establishment or permanent representative in Luxembourg to which or to whom such Notes are attributable, is subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes and on any gains realised upon the sale or disposal, in any form whatsoever, of the Notes.

(ii) Resident Noteholders

Noteholders who are residents of Luxembourg will not be liable for any Luxembourg income tax on repayment of principal.

(a) Luxembourg resident corporate Noteholders

A corporate Noteholder must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realised on the sale or disposal, in any form whatsoever, of the Notes, in its taxable income for Luxembourg income tax assessment purposes.

A corporate Noteholder that is governed by the law of May 11, 2007 on family estate management companies, as amended, or by the law of December 17, 2010 on undertakings for collective investment, as amended, by the law of February 13, 2007 on specialised investment funds, as amended, or by the law of July 23, 2016 on reserved alternative investment funds and which does not fall under the special tax regime set out in article 48 thereof is neither subject to Luxembourg income tax in respect of interest accrued or received, any redemption premium or issue discount, nor on gains realised on the sale or disposal, in any form whatsoever, of the Notes.

(b) Luxembourg resident individual Noteholders

An individual Noteholder, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax at progressive rates in respect of interest received, redemption premiums or issue discounts, under the Notes, except if (i) withholding tax has been levied on such payments in accordance with the Relibi Law, or (ii) the individual Noteholder has opted for the application of a 20% tax in full discharge of income tax in accordance with the Relibi Law, which applies if a payment of interest has been made or ascribed by a paying agent established in a EU Member State (other than Luxembourg), or in a Member State of the European Economic Area (other than a EU Member State). A gain realised by an individual Noteholder, acting in the course of the management of his/her private wealth, upon the sale or disposal, in any form whatsoever, of Notes is not subject to Luxembourg income tax, provided this sale or disposal took place more than six months after the Notes were acquired. However, any portion of such gain corresponding to accrued but unpaid interest income is subject to Luxembourg income tax, except if tax has been levied on such interest in accordance with the Relibi Law.

An individual Noteholder acting in the course of the management of a professional or business undertaking must include this interest in its taxable basis. If applicable, the tax levied in accordance with the Relibi Law will be credited against his/her final tax liability.

Net Wealth Taxation

A corporate Noteholder, whether it is a resident of Luxembourg for tax purposes or, if not, it maintains a permanent establishment or a permanent representative in Luxembourg to which/whom such Notes are attributable, is subject to Luxembourg wealth tax on such Notes, except if the Noteholder is governed by the law of May 11, 2007 on family estate management companies, as amended, by the law of December 17, 2010 on undertakings for collective investment, as amended, by the law of February 13, 2007 on specialised investment funds, as amended, by the law of July 23, 2016 on reserved alternative investment funds, or is a securitisation company governed by the law of March 22, 2004 on securitisation, as amended, or is a capital company governed by the law of June 15, 2004 on venture capital vehicles, as amended[1].

An individual Noteholder, whether he/she is a resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Notes.

Other Taxes

In principle, neither the issuance nor the transfer, repurchase or redemption of Notes will give rise to any Luxembourg registration tax or similar taxes.

However, a fixed or ad valorem registration duty may be due upon the registration of the Notes in Luxembourg in the case where the Notes are physically attached to a public deed or to any other document subject to mandatory registration, as well as in the case of a registration of the Notes on a voluntary basis.

Where a Noteholder is a resident of Luxembourg for tax purposes at the time of his/her death, the Notes are included in his/her taxable estate for inheritance tax assessment purposes.

Gift tax may be due on a gift or donation of Notes if embodied in a Luxembourg deed passed in front of a Luxembourg notary or recorded in Luxembourg.

United States

The following is a summary of certain U.S. federal income tax consequences of the purchase, ownership and disposition of Notes by a U.S. Holder (as defined below) and, to the extent discussed below under "Foreign Account Tax Compliance," a non-U.S. Holder (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Final Terms or Series Prospectus, as the case may be, will contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note, as appropriate. This summary deals only with purchasers of Notes that beneficially own the Notes as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "**U.S. Tax Code**") and that purchase the Notes upon their initial issuances at their issue price. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described

[1] Please however note that securitisation companies governed by the law of March 22, 2004 on securitisation, as amended, or capital companies governed by the law of June 15, 2004 on venture capital vehicles, as amended, or reserved alternative investment funds governed by the law of July 23, 2016 and which fall under the special tax regime set out under article 48 thereof may, under certain conditions, be subject to minimum net wealth tax.

herein will have on, the purchase, ownership or disposition of Notes by particular investors or to investors subject to special tax treatment under U.S. federal income tax laws (such as financial institutions, insurance companies, banks, regulated investment companies, U.S. expatriates, investors liable for the alternative minimum tax, individual retirement accounts and other tax deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, investors holding the Notes in connection with a trade or business conducted outside of the United States or investors whose functional currency is not the U.S. dollar) and does not address the tax consequences of the purchase, ownership or disposition of Notes with respect to any state, local, foreign tax laws, any income tax treaties, or other tax laws, including U.S. federal estate and gift tax laws. Prospective U.S. Holders should consult their own tax advisor with regard to the application of any non-U.S. or U.S. federal, state, and local tax and tax treaties, including income, gift and estate tax laws.

As used herein, the term "**U.S. Holder**" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other business entity treated as a corporation) created or organized under the laws of the United States, any state or political subdivision thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes and partners in such partnership should consult their tax advisors concerning the U.S. federal income tax consequences to them and their partners of the purchase, ownership and disposition of Notes by the partnership.

As used in this discussion, a "**non-U.S. Holder**" means a beneficial owner of a Note that is not a U.S. Holder and is not an entity or arrangement treated as a partnership for US federal income tax purposes.

The summary is based on the tax laws of the United States including the U.S. Tax Code, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Characterization of the Notes

No authority directly addresses the U.S. federal income tax characterization of securities like the Notes and the Issuer has not and will not seek a ruling from the U.S. Internal Revenue Service ("**IRS**") as to their characterization for such purposes. The Issuer intends to treat the Notes as indebtedness for such purposes and this discussion assumes that treatment is correct, but no assurance can be given that the IRS will not assert, or that a court would not sustain, a position regarding the characterization of the Notes that is contrary to this intended treatment. One possible alternative characterization is treatment of the Notes as beneficial ownership of the Loans, the U.S. federal income tax consequences of which should be no less favorable than holding Notes of the Issuer. Another alternative characterization may be as equity in the Issuer. In that event, because the Issuer is a passive foreign investment company ("**PFIC**"), such characterization would generally result in adverse U.S. federal income tax consequences to the U.S. Holders and may require additional filings by U.S. Holders with the IRS. Prospective investors should seek advice from their own tax advisors as to the consequences to them of alternative characterizations of the Notes for U.S. federal income tax purposes.

The following discussion assumes that the Notes will be treated as indebtedness for U.S. federal income tax purposes.

Payments of Interest

Interest on a Note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a "**foreign currency**"), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for U.S. federal income tax purposes. Cash basis U.S. Holders, including most individuals, will generally include interest with respect to a Note in income in the year in which they actually or constructively receive an interest payment. Accrual basis U.S. Holders will generally include interest with respect to a Note in income during the year in which it is earned or accrued, without regard to when an actual interest payment is received.

Interest paid by the Issuer on the Notes will generally constitute income from sources outside the United States. Prospective purchasers should consult their tax advisors concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Under recently enacted legislation, U.S. Holders that maintain certain types of financial statements and use the accrual method of accounting for U.S. federal income tax purposes generally will be required to include certain amounts in income no later than the time such amounts are reflected on their financial statements. The application of this rule may require U.S. Holders that maintain such financial statements to include certain amounts realized in respect of the Notes in income earlier than would otherwise be the case under the rules described in this Base Prospectus, the Series Prospectus or a supplemental prospectus, as applicable, although the precise application of this rule is unclear at this time. This rule generally will be effective for tax years beginning after December 31, 2017 or, for debt securities issued with original issue discount, for tax years beginning after December 31, 2018. U.S. Holders that use the accrual method of accounting should consult with their tax advisors regarding the potential applicability of this rule to their particular situation.

Original Issue Discount

This summary assumes that the Notes will not be issued with original issue discount ("**OID**"). Generally, a Note will be treated as issued with OID if the excess of the Note's "stated redemption price at maturity" over its issue price is greater than or equal to a *de minimis* amount (0.25% of the Note's stated redemption price at maturity multiplied by the number of complete years to maturity).

Substitution of the Issuer

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. Holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. Holder could be required to recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes), and the U.S. Holder's tax basis in the Notes. U.S. Holders should consult their tax advisors concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Notes.

Purchase, Sale and Retirement of Notes

A U.S. Holder will generally recognize gain or loss on the sale or retirement of a Note equal to the difference between the amount realized on the sale or retirement and such U.S. Holder's tax basis in the Note. A U.S. Holder's tax basis in a Note will generally be its U.S. dollar cost. The amount realized does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent attributable to changes in exchange rates (as discussed below), gain or loss recognized on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the Notes exceeds one year. The ability of U.S. Holders to offset capital losses against ordinary income is limited. Gain or loss realized by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source income.

Additional Tax on Net Investment Income

U.S. Holders that are individuals or estates and certain trusts are generally subject to an additional 3.8% tax on all or a portion of their "net investment income," or "undistributed net investment income" (in the case of an estate or trust), to the extent such income exceeds certain thresholds. Among other items, net investment income generally includes gross income from interest and net gain attributable to the disposition of certain property, less certain deductions. U.S. Holders should consult their own tax advisors regarding the possible implications of this legislation in their particular circumstances.

Foreign Currency Notes

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognized by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt of payment, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognized with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

In the case of an accrual basis U.S. Holder, upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) for each accrual period equal to the difference between the amount received with respect to such accrual period (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued during such accrual period (as determined above), regardless of whether the payment is in fact converted into U.S. dollars.

Sale or Retirement

As discussed above under "—Purchase, Sale and Retirement of Notes," a U.S. Holder will generally recognize gain or loss on the sale or retirement of a Note equal to the difference between the amount realized on the sale or retirement and its tax basis in the Note. A U.S. Holder's tax basis in a Note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase, or, in the case of Notes traded on an established securities market (within the meaning of the applicable Treasury Regulations) purchased by a cash basis U.S. Holder (or an electing accrual basis U.S. Holder), on the settlement date for the purchase. The amount realized on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement, or, in the case of Notes traded on an established securities market (within the meaning of the applicable Treasury Regulations) sold by a cash basis U.S. Holder (or an electing accrual basis U.S. Holder), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. A U.S. Holder will recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (i) on the date of sale or retirement and (ii) on the date on which the U.S. Holder acquired the Note. Any such exchange gain or loss will be realized only to the extent of total gain or loss realized on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest).

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognized on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Backup Withholding and Information Reporting

In general, payments of principal and interest on, and the proceeds of a sale, redemption or other disposition of, the Notes, by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or otherwise fails to comply with applicable certification requirements, or establish an exemption from, the backup withholding requirements. Backup withholding is not an additional tax and may be refunded or credited against the holder's federal income tax liability if certain required information is timely furnished to the IRS. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

"Specified Foreign Financial Asset" Reporting

Individuals and certain domestic entities who own "specified foreign financial assets" with an aggregate value exceeding certain U.S. dollar thresholds are generally required to file an information report with respect to such assets with their tax returns. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (1) stocks and securities issued by non-U.S. persons, (2) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties, and (3) interests in foreign entities. The Notes are expected to constitute specified foreign financial assets

subject to these requirements unless the Notes are held in an account at a financial institution (in which case the account may be reportable if maintained by a foreign financial institution).

Penalties apply to any failure to file a required information report. Additionally, in the event a U.S. Holder does not file the information report relating to disclosure of specified foreign financial assets, the statute of limitations on the assessment and collection of U.S. federal income taxes of such U.S. Holder for the related tax year may not close before such information is filed. U.S. Holders should consult their own tax advisor as to the possible application of this information reporting requirement and the related statute of limitations tolling provision.

Reportable Transactions

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds U.S.$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders. In the event the acquisition, ownership or disposition of Notes constitutes participation in a reportable transaction for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS. Various monetary penalties and adverse consequences can result from a failure to file. In addition, the Issuer and its advisors may also be required to disclose the transaction to the IRS, and to maintain a list of U.S. Holders, and to furnish this list and certain other information to the IRS upon written request. U.S. Holders should consult their tax advisors regarding the application of these rules to the acquisition, ownership or disposition of Notes.

Foreign Account Tax Compliance

Pursuant to certain provisions of the U.S. Tax Code, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including Luxembourg) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of these rules to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date of publication in the U.S. Federal Register of final regulations defining "foreign passthru payments" (the "**FPP Publication Date**"). Notes issued on or prior to the date that is six months after the FPP Publication Date would generally be "grandfathered" for purposes of FATCA withholding (assuming the Notes are not treated as equity for U.S. federal income tax purposes) and payments on such Notes would generally not be subject to FATCA withholding unless such Notes were materially modified after such date (including by reason of a substitution of the Issuer). However, if additional notes (as described under "Terms and Conditions—Further Issues") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

The U.S. Treasury recently issued proposed regulations that, if finalized in current form, would delay withholding with respect to foreign passthru payments until two years after the FPP Publication Date. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

CERTAIN U.S. EMPLOYEE BENEFIT PLAN CONSIDERATIONS

Notes are not permitted to be acquired or held by (a) employee benefit plans as described in Section 3(3) of ERISA that are subject to Title I of ERISA (collectively, "**ERISA Plans**"), (b) plans not subject to ERISA but subject to Section 4975 of the U.S. Tax Code, including IRAs, Keogh Plans which cover only self-employed persons and their spouses and other employee benefit plans which cover only the owners of a business (collectively, "**Section 4975 Plans**"), or (c) by entities whose underlying assets include plan assets by reason of an investment in the entity by ERISA Plans or Section 4975 Plans or otherwise (collectively, "**Plan Asset Entities**"). ERISA Plans, Section 4975 Plans and Plan Asset Entities are collectively referred to as "Benefit Plan Investors." Subject to certain restrictions described below, Notes are permitted to be acquired and held by governmental plans and non-electing church plans that are not subject to ERISA or Section 4975 of the U.S. Tax Code (collectively, "**Non-ERISA Plans**").

ERISA imposes fiduciary standards and certain other requirements on ERISA Plans and on those persons who are fiduciaries with respect to ERISA Plans. Section 4975 Plans are subject to certain restrictions similar to ERISA's prohibited transaction rules. Non-ERISA Plans are subject to applicable state, local or federal law, as well as the restrictions of duties of common law, and may also be subject to prohibited transaction provisions that operate similarly to those under ERISA.

Under the regulations issued by the U.S. Department of Labor ("**DOL**"), as modified by Section 3(42) of ERISA (the "**Plan Assets Regulations**"), unless certain exceptions apply, if a Benefit Plan Investor invests in an "equity interest" of an entity, the Benefit Plan Investor's assets include both the equity interest and an undivided interest in each of the entity's underlying assets. This "look through" rule will only apply where Benefit Plan Investors own 25% or more of the value of any class of equity interest in the entity. For purposes of this 25% determination, the value of equity interests held by persons (other than Benefit Plan Investors) that have discretionary authority or control with respect to the assets of the entity or that provide investment advice for a fee (direct or indirect) with respect to such assets (or any affiliate of such person) is disregarded. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features.

If the underlying assets of an entity are deemed to be plan assets, those with discretionary authority or control over the entity would be fiduciaries with respect to the entity's assets. The assets of the entity would also be subject to the prohibited transaction rules of ERISA and Section 4975 of the U.S. Tax Code, as well as other rules applicable to plan assets.

The Issuer believes that the Notes should be treated as debt rather than equity for purposes of the Plan Assets Regulations. The DOL, however, may take a contrary view or may view the Notes as having substantial equity features. Further, the Issuer will not be able to monitor the Noteholders' status as Benefit Plan Investors. Accordingly, the Notes are not permitted to be acquired or held by any Benefit Plan Investor.

Non-ERISA Plans and entities that include the assets of Non-ERISA Plans are permitted to acquire and hold the Notes subject to certain restrictions described below. Each Non-ERISA Plan acquiring and holding the Notes will be deemed to have represented and warranted that the acquisition, holding and disposition of the Notes do not and will not violate any statute, regulation, administrative decision, policy or other legal authority applicable to the Non-ERISA Plan and the purchase, holding and disposition of the Notes or any interest therein do not and will not result in the assets of the Issuer being considered plan assets of such Non-ERISA Plan. Non-ERISA Plans are generally not subject to ERISA nor do the prohibited transaction provisions of ERISA or Section 4975 of the U.S. Tax Code apply to these types of plans. However, governmental plans (as described in Section 3(32) of ERISA), are subject to prohibitions on related-party transactions under Section 503 of the U.S. Tax Code, which prohibitions operate similarly to the prohibited transaction rules under ERISA or Section 4975 of the U.S. Tax Code, and other Non-ERISA Plans may be subject to similar prohibitions. Accordingly, the fiduciary of a Non-ERISA Plan must consider applicable state or local laws, if any, imposed upon such plan before purchasing and holding a Note or any interest therein.

BY ITS PURCHASE AND HOLDING OF A NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, THAT (1) IT IS NOT AND WILL NOT BE (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF ERISA THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE U.S. TAX CODE APPLIES OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS FOR PURPOSES OF ERISA OR SECTION 4975 BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE, (2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN SECTION 3(32) OF ERISA, OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE U.S. TAX CODE, THE PURCHASE, HOLDING AND DISPOSITION OF THE NOTES OR ANY INTEREST THEREIN DO NOT AND WILL NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR OTHER LEGAL AUTHORITY

APPLICABLE TO SUCH GOVERNMENTAL PLAN OR OTHER PLAN, AND THE PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE OR ANY INTEREST HEREIN DO NOT AND WILL NOT RESULT IN THE ASSETS OF THE ISSUER OF THE NOTES BEING CONSIDERED PLAN ASSETS OF SUCH GOVERNMENTAL PLAN OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE U.S. TAX CODE, AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY SUCH NOTE OR INTEREST TO ANY PERSON WITHOUT FIRST OBTAINING THIS SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

The foregoing is not intended to be exhaustive and the law governing investments by Benefit Plan Investors and Non-ERISA Plans is subject to extensive administrative and judicial interpretations. The foregoing discussion should not be construed as legal advice. Any potential purchaser or holder of Notes should consult counsel with respect to issues arising under ERISA, the U.S. Tax Code and other applicable laws and make their own independent decisions.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Series, subject only to the deletion of non-applicable provisions, is set out below:

Final Terms dated ●

Public Joint Stock Company Gazprom
Issue of [Aggregate Principal Amount of Series][Title of Loan Participation Notes]
by Gaz Capital S.A. for the purpose of financing a Loan to Public Joint Stock Company Gazprom
under a U.S.$40,000,000,000 Programme for the Issuance of Loan Participation Notes

Part A—Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated [●] [and the supplemental Base Prospectus dated ●] which [together] constitute[s] a base prospectus for the purposes of the Directive 2003/71/EC (the Prospectus Directive). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented][2]. Full information on Gazprom, the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the supplemental Base Prospectus][is][are] available for viewing at www.centralbank.ie and copies may be obtained from [address].]

[**MIFID II PRODUCT GOVERNANCE** – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**")][MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.]

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**", where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

1	(i)	Issuer:	Gaz Capital S.A.
	(ii)	Borrower:	Public Joint Stock Company Gazprom
2	Series Number:		●
3	Specified Currency:		●
4	Aggregate Principal Amount of Notes admitted to trading:		●
5	Issue Price:		●per cent. of the Aggregate Principal Amount
6	Specified Denominations:		● ●
7	(i)	Issue Date:	●
	(ii)	Interest Commencement Date:	●

[2] *Delete where the Notes are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive*

8	Maturity Date:	[*specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]
9	Interest Basis:	[● per cent. Fixed Rate] [Floating Rate]
10	Redemption/Payment Basis:	Redemption at par
11	Change of Interest or Redemption/Payment Basis:	[Applicable] [Not Applicable]
12	(i) Status and Form of the Notes:	Senior, Registered
	(ii) [Date Board approval for issuance of Notes and borrowing of Loan obtained:	[ ][and [ ], respectively]]*(N.B. Only relevant where Board (or similar) authorization is required for the particular Series of Notes or related Loan)*]
13	Method of distribution:	[Syndicated/Non-syndicated]
14	Financial Centres:	●
15	Loan Amount:	●
16	Put/Call Options:	[Put Option/Call Option/Not Applicable]

PROVISIONS RELATING TO INTEREST PAYABLE UNDER THE LOAN

17	Fixed Rate Note Provisions:	[Applicable/Not Applicable]*(if not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Rate [(s)] of Interest:	● per cent. Per annum payable [annually/semi-annually] in arrear
	(ii) Interest Payment Date(s):	● in each year
	(iii) Fixed Coupon Amount [(s)]:	● per ● in principal amount of Notes in each case payable [annually/semi-annually] in arrear [in equal instalments]
	(iv) Broken Amount:	[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount*[*(s)*]
	(v) Day Count Fraction:	[30/360/Actual/Actual(ICMA/ISDA)]
	(vi) Determination Date(s):	● in each year. [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*]
18	Floating Rate Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Interest Period(s):	●
	(ii) Specified Interest Payment Dates:	●
	(iii) Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iv) Business Centre(s):	●
	(v) Manner in which the Rate(s) of Interest is/ are to be determined:	[Screen Rate Determination/ISDA Determination]
	(vi) Interest Period Date(s):	[Not Applicable/*specify dates*] (*will be not applicable unless different from Interest Payment Date*)
	(vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	●
	(viii) Screen Rate Determination:	[Yes][No]
	(ix) ISDA Determination:	[Yes][No]
	(x) Margin(s):	[+/●] per cent. per annum
	(xi) Minimum Rate of Interest:	● per cent. per annum
	(xii) Maximum Rate of Interest:	● per cent. per annum
	(xiii) Reference Rate:	[LIBOR] or [EURIBOR]
	(xiv) Day Count Fraction:	[Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [Actual/Actual-ICMA]

PROVISIONS RELATING TO REDEMPTION

19	Final Redemption Amount of each Note:	[● per Note of ● specified denomination in principal amount of Notes]
20	Early Redemption Amount(s) of each Note payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date:	[● per Note of ● specified denomination in principal amount of Notes, plus accrued interest, if any, to the Redemption Date]
21	Call Option:	[Applicable/Not Applicable]/(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Early Redemption Amount:	●

	(ii) Make Whole Amount:	●
22	Put Option:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Put Settlement Date(s):	●
DISTRIBUTION		
23	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
24	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading on the Main Securities Market of Euronext Dublin the issue of Notes described herein pursuant to the U.S.$40,000,000,000 Programme for the Issuance of Loan Participation Notes of Gazprom.]

RESPONSIBILITY

The Issuer and Gazprom accept responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:	Signed on behalf of Gazprom:
By:	By:
Duly authorized	Duly authorized
By:	By:
Duly authorized	Duly authorized

Part B—Other Information

1 LISTING

(i)	Listing:	[Euronext Dublin/None]
(ii)	Admission to trading:	[Application has been made to Euronext Dublin for the Notes to be admitted to the Official List (the "Official List") and trading on its regulated market (the "Main Securities Market") with effect from ●][Not Applicable.]
(iii)	Estimate of total expenses related to admission to trading:	●

2 RATINGS

Ratings:	The Notes to be issued have been rated: ● [[*Insert credit rating agency*] is established in the European Community and has applied for registration under Regulation (EC) No 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.][[*Insert credit rating agency*] is established in the European Community and registered under Regulation (EC) No 1060/2009.][[*Insert credit rating agency*] is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009.][[*Insert credit rating agency*] is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009 but is endorsed by [*insert credit rating agency*] which is established in the European Union and registered under Regulation (EC) No 1060/2009.][[*Insert credit rating agency*] is not established in the European Community and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.] A rating must be issued by a credit rating agency established in the European Community and registered under the Regulation (EC) No 1060/2009 (the "CRA Regulation") unless the rating is provided by a credit rating agency that operated in the European Community before 7 June 2010 and which has submitted an application for registration in accordance with the CRA Regulation and such application for registration has not been refused. (*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3 [NOTIFICATION

The Central Bank has provided the competent authority(ies) of [insert details of relevant Host Member State(s)] with a certificate of approval attesting that the [Base Prospectus—insert details of relevant Base Prospectus] has been drawn up in accordance with the Prospectus Directive 2003/71/EC and Commission Regulation (EC) No809/2004.]

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE[ISSUE/OFFER]

If applicable a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest is to be included. This may be satisfied by the inclusion of the following statement:

"Save as discussed in "Subscription and Sale", so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

5 [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i)	Reasons for the offer	[ ] (See "Use of Proceeds" section in the Base Prospectus-*if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)*] ●
[(ii)]	Estimated net proceeds of the Notes and the Loan:	(*If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.*)

6	[Fixed Rate Notes only-YIELD Indication of yield:	The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7	**OPERATIONAL INFORMATION**	
	ISIN Code (Reg S Notes):	●
	ISIN Code (Rule 144A Notes):	●
	Common Code (Reg S Notes):	●
	Common Code (Rule 144A Notes):	●
	Rule 144A CUSIP number:	●
	FISN Code (Reg S Notes):	●
	FISN Code (Rule 144A Notes):	●
	CFI Code (Reg S Notes):	●
	CFI Code (Rule 144A Notes):	●
	Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme [or DTC] and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s*[*and addresses*])]
	Delivery:	Delivery [against/free of] payment
	Names and addresses of additional Paying Agent(s) (if any):	
8	**GENERAL**	
	Tradeable Amount:	● So long as the Notes are represented by a Global Note, the Notes will be tradeable only in principal amounts of at least the Specified Denomination and integral multiples of the Tradeable Amount in excess thereof.

9 THE LOAN

The following terms used in the Facility Agreement shall have the following meanings:

Terms of the Loan

(i)	Drawdown:	● [*Closing Date*]
(ii)	Closing Date:	●
(iii)	Early Redemption:	● per ● amount of the Loan, plus accrued interest, if any, to the Redemption Date
(iv)	Make Whole Premium:	the excess, if any (as reported in writing to the Issuer and the Trustee by a reputable financial institution operating in ● market in ● selected by the Issuer and approved in writing by the Trustee (the "Financial Adviser") (and rounded, if necessary, to the third decimal place (0.0005 being rounded upwards)), of (a) the value at the Redemption Date of the principal amount of the Loan, plus all required interest payments that would otherwise be due to be paid on the Loan during the period between the Redemption Date and the Repayment Date, excluding accrued but unpaid interest at the Redemption Date, calculated using a discount rate equal to ● basis points above the Treasury Rate over (b) the outstanding principal amount of the Loan
(v)	Put Settlement Date:	●
(vi)	Repayment Date:	●
(vii)	Specified Currency:	●
(viii)	Treasury Rate:	a rate equal to the yield, as published by the ●, on actively traded ● with a maturity comparable to the remaining life of the Loan, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary ● dealers in ● selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in ● preceding the Redemption Date
(ix)	Governing Law:	the Loan shall be governed by and construed in accordance with English law
(x)	Put/Call Options:	[Put Option/Call Option/Not Applicable]

Interest

The Loan is a [Fixed Rate][Floating Rate] Loan [and the Notes comprise a Rule 144A Series]. Interest shall be calculated as set out below:

Fixed Rate Loan Provisions		[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
(i)	Interest Commencement Date:	●
(ii)	Rate[(s)] of Interest:	● per cent. per annum payable [annually/semi-annually] in arrears
(iii)	Interest Payment Date(s):	● in each year
(iv)	Fixed Amount[(s)]:	● per ● in principal amount
(v)	Broken Amount:	[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount[(s)]]
(vi)	Day Count Fraction (Clause 4.9):	[30/360/Actual/Actual (ICMA/ISDA)]
(vii)	Determination Date(s) (Clause 4.9):	● in each year. [Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/ Actual (ICMA)]
Floating Rate Loan Provisions		[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
(i)	Interest Commencement Date:	●
(ii)	Interest Period(s):	●
(iii)	Specified Interest Payment Dates:	●
(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention]
(v)	Business Centre(s) (Clause 4.9):	●
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii)	Interest Period Date(s):	[Not Applicable/specify dates] (will be not applicable unless different from Interest Payment Date)
(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	
(ix)	Screen Rate Determination (Clause 4.3.3): —Reference Rate: —Interest Determination Date(s): —Relevant Screen Page:	
(x)	ISDA Determination (Clause 4.3.3): —Floating Rate Option: —Designated Maturity: —Reset Date:	●
(xi)	Margin(s):	● per cent. per annum
(xii)	Minimum Rate of Interest:	● per cent. per annum
(xiii)	Maximum Rate of Interest:	● per cent. per annum
(xiv)	Day Count Fraction (Clause 4.9):	●

OVERVIEW OF THE RUSSIAN GAS INDUSTRY, CLASSIFICATION OF RESERVES AND CERTAIN APPLICABLE REGULATORY MATTERS

The information set forth in this section is based on publicly available information, including Russian legislation and regulatory acts. Each of the Issuer and Gazprom accepts responsibility for accurately reproducing such information and as far as Gazprom or the Issuer is aware no facts have been omitted which would render such information misleading, but neither Gazprom, nor the Issuer accepts any further responsibility in respect of such information. Such information may include approximations or use rounded numbers.

General

We currently account for the majority of natural gas production in Russia. In 2017 and 2016, we produced 472.1 bcm and 420.1 bcm of natural gas, accounting for approximately 68% and 66% of total natural gas production in Russia for the periods indicated, respectively (based on CDU TEC (source: www.cdu.ru) and Gazprom figures). The current Russian gas market is also characterized by declining demand, rising competition and a significant level of government regulation.

Independent suppliers increased their combined share in Russian gas production from 27% in 2013 to 34% in 2015 and 2016 and decreased to 32% in 2017. In the short term, their share may continue to increase as well as their share of sales to consumers in Russia. In the medium and long term, the share of independent suppliers in gas production and sales in Russia will largely depend on their financial and technological ability to implement new gas production, transportation and marketing projects.

Classification of Reserves

DeGolyer and MacNaughton have evaluated our reserves of natural gas, gas condensate and crude oil according to PRMS Standards. In addition, certain evaluations were prepared in accordance with the Russian reserves system, which differs in certain material respects from PRMS Standards and standards applied by the SEC.

Russian Reserves System

From January 2016, calculation of reserves in Russia is carried out in accordance with the Classification under categories A, B_1, B_2, C_1 and C_2 for reserves and under categories D_0, D_L, D_1 and D_2 for resources.

In our corporate reporting we will take into account the total amount of reserves falling under categories $A + B_1 + C_1$ (which corresponds to the former categories $A + B + C_1$) and, if necessary, specify the total amount of reserves falling under categories $B_2 + C_2$ (which corresponds to the former category C_2).

The Classification has introduced a new concept of extractable gas reserves, which previously were taken equal to the geological gas reserves. In accordance with the Classification, we intend to include extractable gas reserves in our corporate reports instead of geological gas reserves. As a RER is nearly always less than 1, the volumes of gas reserves reported in prior periods may be adjusted down in our future reports. This adjustment of gas reserves will occur gradually over several years as we calculate RERs and approve new field development projects with respect to the new extractable gas reserves. The adjustments will have no effect on our reserves amounts reported for preceding periods and our reserves reported under the PRMS standards.

As of early 2018, we had evaluated RERs at our fields containing 19% of our A + B1 + C1 reserves, with an average RER amounting to approximately 0.89 for such fields. In 2018, we continued the assessment of the RER for our fields. However, the fields that were subject to such assessment in 2018 account for a small portion of our AB_1C_1 natural gas reserves, and thus the results of the assessment in 2018 would not significantly alter the applicable RER determined as of early 2018.

In relation to the liquid hydrocarbon reserves, our corporate reports contain information on extractable reserves calculated both in accordance with the prior classification and the Classification.

The Russian reserves system is based on an analysis of the geological attributes of reserves and takes into account the actual presence of, and the probability of the presence of, hydrocarbons in the applicable geological formations.

Russian methods for calculating and classifying reserves differ from generally accepted practices in the United States and other countries. Reserves that are calculated using different methods cannot accurately be reconciled.

The estimation of reserves of natural gas, gas condensate and crude oil can be broken down into two components:

- *geological reserves* – or the quantities of crude oil, natural gas, gas condensate and other components contained in the subsoil in the drilled deposits, proved by trial or commercial exploitation or wells probation, or by geological and technological studies;

- *extractable reserves* – part of geological reserves that can be extracted from a deposit (field) throughout the entire period of development using optimal project solutions and by using available technology and taking in to account compliance with the requirements of subsoil and environmental protection.

Under the Classification, the reserves of crude oil and natural gas are divided into categories based on the degree of commercial development and exploration: A – productive, drilled, B_1 – productive, undrilled, developed, B_2 – productive, undrilled, estimated, C_1 – developed and C_2 – estimated.

Category A reserves are calculated on the part of a deposit (or a portion thereof) drilled with producing wells and being developed in accordance with either a technological development project or an approved technological development scheme (drilled reserves).

Category B_1 represents the reserves of undrilled deposits (or portion thereof) which are to be developed in accordance with an approved project documentation, the results of a seismic survey, drilling of prospecting, appraisal, development, transit or deepened production wells containing commercial flows of crude oil or gas (some wells may be not probed, however, their productivity is expected basing on the results of geophysical, geological and technological studies, as well as the results of core examination) (productive, undrilled, developed).

Category B_2 represents the reserves of undrilled deposits (or portion thereof) development of which is being designed in accordance with an approved project documentation (trial industrial development project or an approved technological development scheme), the results of a seismic survey or other high-precision survey, such reserved being proved by the results of geophysical, geological and technological studies and by well drilling data (productive, undrilled, estimated).

Category C_1 represents the reserves of undrilled deposits (or portion thereof) of the fields that have not been brought into commercial development, in respect of which the trial exploitation of all or some of the wells can be carried out (developed), where in respect of such deposits a seismic survey or other high-precision survey has been carried out and the prospecting, appraisal, development wells containing commercial flows of crude oil or gas (some wells may be not probed, however, their productivity is expected basing on the results of geophysical, geological and technological studies, as well as the results of core examination) have been drilled.

In respect of discovered fields in the sea waters, including the continental shelf of the Russian Federation in the territorial sea waters, inland sea waters, as well as in the Caspian and Azov Seas, the category C_1 reserves include deposits (or portion thereof) drilled with the first exploration well in which the qualitative results of hydrodynamic logging (HDL) permitting assessment of the reservoir saturation have been obtained.

Category C_2 represents the reserves of undrilled deposits (or portion thereof) of the fields that have not been brought into commercial development, which are being developed in accordance with a pilot operation project, pilot operation project in respect of particular wells, where in respect of such deposits a seismic survey or other high-precision survey has been carried out, such reserved being proved by the results of geophysical, geological and technological studies and by well drilling data (estimated).

The resources of oil, gas, and gas condensate on the basis of the level of geological study are divided into categories: D_0 – developed, D_L – localized, D_1 – prospective, D_2 – anticipated.

Category D_0 represents the resources of oil, gas, and gas condensate containing in potentially productive reservoirs in the prepared for drilling traps located in the proved commercial oil-and-gas bearing areas or in the undrilled productive reservoirs (developed). The form, size and stratification conditions of the assumed deposit are estimated from the results of geological and geophysical research. The thickness, the reservoir characteristics of the formations, the composition and the characteristics of hydrocarbons are assumed to be analogous to those for explored fields.

Category D_L represents the resources of oil, gas, and gas condensate containing in potentially productive reservoirs in traps identified on the basis of the results of geophysical and geological studies carried out within the areas with proved commercial oil-and-gas bearing areas (localized).

Category D_1 resources are reserves in lithological and stratigraphic series that are evaluated within the boundaries of large regional structures confirmed to contain commercial reserves of oil and gas (prospective). Prospective reserves are calculated based on the results of regional geological, geophysical and geochemical research.

Category D_2 resources are reserves in lithological and stratigraphic series that are evaluated within the boundaries of large

regional structures not yet confirmed to contain commercial reserves of oil and gas. (anticipated). The prospects for these series to prove to be oil- and gas-bearing are evaluated based on geological, geophysical and geochemical research.

PRMS Standards

While the Russian reserves system focuses on the actual physical presence of hydrocarbons in geological formations, and reserves are estimated based on the probability of such physical presence, PRMS Standards take into account not only the probability that hydrocarbons are physically present in a given geological formation but also the economic viability of recovering the reserves (including such factors as exploration and drilling costs, ongoing production costs, transportation costs, taxes, prevailing prices for the products, and other factors that influence the economic viability of a given deposit).

Under PRMS Standards, reserves are classified as "proved," "probable" and "possible."

Proved reserves include reserves that are confirmed with a high degree of certainty through an analysis of the development history and/or volume method analysis of the relevant geological and engineering data. Proved reserves are those that, based on the available evidence and taking into account technical and economic factors, have a better than 90% chance of being produced.

Probable reserves are those reserves in which hydrocarbons have been located within the geological structure with a lesser degree of certainty because fewer wells have been drilled and/or certain operational tests have not been conducted. Probable reserves are those reserves that, on the available evidence and taking into account technical and economic factors, have a better than 50% chance of being produced.

Possible reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the Proved plus Probable plus Possible reserves estimate.

An evaluation of proved, probable and possible natural gas reserves naturally involves multiple uncertainties. The accuracy of any reserves evaluation depends on the quality of available information and engineering and geological interpretation. Based on the results of drilling, testing and production after the audit date, reserves may be significantly restated upwards or downwards. Changes in the price of natural gas, gas condensate or crude oil may also affect our proved and probable reserves estimates, as well as estimates of our future net revenues and present worth, because the reserves are evaluated, and the future net revenues and present worth are estimated, based on prices and costs as of the audit date.

Differences between PRMS Standards and SEC Standards

PRMS Standards differ in certain material respects from SEC Standards. The SEC has recently adopted revisions to the SEC Standards that make such regulations more consistent with PRMS Standards in certain respects. These revisions became effective on January 1, 2010. The principal differences between PRMS Standards and the current SEC Standards include the following:

Certainty of existence. Under PRMS Standards, reserves in undeveloped drilling sites that are located more than one well location from a commercial producing well may be classified as proved reserves if there is "reasonable certainty" that they exist. Under current SEC Standards, it must be "demonstrated with certainty" that reserves exist before they may be classified as proved reserves. The revisions to the SEC Standards establish a uniform standard of "reasonable certainty" that applies to all proved reserves, regardless of location or distance from producing wells.

Duration of license. Under PRMS Standards, proved reserves are projected for the period of the efficient development of the evaluated fields. Under SEC Standards, crude oil and gas deposits may not be classified as proved reserves if they will be recovered after the expiration of a current license period unless the license holder has the right to renew the license and there is a demonstrated history of license renewal. The absence of an absolute legal right to an extension and lack of historical support prevents us from concluding that the extractable reserves in our fields for periods past the expiration of the primary terms of these licenses could be considered proved under SEC Standards. We have not reviewed our fact pattern with the SEC and therefore do not have definitive guidance on whether in our circumstances such extractable reserves could be considered proved under SEC Standards.

Accordingly, information relating to our estimated proved natural gas, gas condensate and crude oil reserves under PRMS Standards is not necessarily indicative of information that would be reported under SEC Standards. In addition, although the revised SEC Standards allow for voluntary disclosure of "probable" and "possible" reserves after January 1, 2010, current SEC Standards do not permit the presentation of reserves other than proved reserves.

If we applied SEC Standards, these differences could potentially cause the amount of estimated proved natural gas, gas condensate and crude oil reserves reported by us under SEC Standards to be lower than would otherwise be reported under PRMS Standards. An eventual decrease in the amount of natural gas, gas condensate and crude oil reserves reported by us could, if material, affect certain financial data reported by us in the Group's Financial Statements in future periods.

Russian Regulation

The regulation of legal and economic relations in the Russian natural gas industry is generally based on the Constitution, the Civil Code, the Subsoil Resources Law, the Natural Monopoly Law, the Gas Supply Law, the Gas Export Law, the Continental Shelf Law, Federal Law No. 191-FZ of December 17, 1998 "On the Exclusive Economic Zone of the Russian Federation," as amended (the "**EEZ Law**"), and Federal Law No. 155-FZ "On the Internal Sea Waters, the Territorial Sea and the Contiguous Zone of the Russian Federation," as amended (the "**Internal Sea Waters Law**"). The most important piece of legislation is the Gas Supply Law, which establishes a legal, economic and organizational framework for natural gas supply in the Russian Federation and is directed at meeting state needs for strategic energy resources.

Under the Gas Supply Law, Russian federal authorities have jurisdiction over natural gas supplies, including, among other things, the development and implementation of Government policy on natural gas supply, the regulation of strategic natural gas reserves, federal state monitoring and control over the industrial and environmental safety of the industrial sites of the natural gas supply systems, federal state control (compliance monitoring) over setting and (or) application of the state-controlled prices (tariffs) in the gas supply sector, standardization, unification of measurement, mandatory confirmation of compliance with respect to natural gas supply and setting procedures for the development and approval of the industrial safety standards.

With respect to gas supply, the Government has the authority to: (i) set the procedure for forming and approving the projected natural gas production and sales balance in Russia based on available gas resources, technical capacity of the gas transportation system and anticipated demand for energy supplies, (ii) determine the level of natural gas prices and natural gas transportation tariffs for gas transportation through pipelines and gas distribution networks, (iii) approve procedures for compensation of losses incurred by gas distribution companies that supply gas to subsidized households, (iv) regulate natural gas deliveries, (v) approve gas utilization and gas supply regulations; (vi) set procedures for providing independent organizations with access to the natural gas transportation and distribution networks, (vii) set procedures for utilization of gas as fuel, (viii) set procedures for limitation of supply and consumption of gas, (ix) determine the categories of customers, including those that have the preemptive right for gas utilization as engine fuel, to whom natural gas deliveries cannot be restricted or suspended, (x) approve rules regarding protection of gas supply facilities, (xi) approve regulations as regards determination of reliability and quality of transportation services through gas distribution networks, (xii) approves regulations for determining the boundaries of the gas facilities protective zones and minimum distances from trunk and industrial pipelines, (xiii) approve standard forms of documents required for the connection (technological connection) of capital construction to the gas distribution network, and (xiv) set forth requirements for persons engaged in maintenance, repair and technical diagnostics of the domestic gas equipment or designate the federal authority authorized to determine such requirements.

The Ministry of Industry and Trade of the Russian Federation is a federal executive body responsible for, among other things, the development of governmental civil and military industrial policy, regulation of certain sectors of industry, including the improvement of energy efficiency of markets, supporting exports of industrial products and the state regulation of foreign trade (except for tariff and customs regulation).

The Ministry of Energy of the Russian Federation is responsible, in particular, for the development of governmental fuel and energy sector policy, regulation of the energy sector, provision of state services, management of state property in the energy sector and use of energy resources.

The Ministry of Natural Resources and Ecology of the Russian Federation is a federal executive body responsible, in particular, for the development of governmental policy and regulation of the use, study, reproduction and protection of natural resources and water objects and environmental monitoring and protection.

The Federal Service for Environmental, Technological and Nuclear Supervision ("**Rostekhnadzor**") is a federal executive body responsible for the development of governmental policy and regulation in the area of subsoil use and industrial safety. Rostekhnadzor is also a state authority responsible for mining, federal energy and construction supervision.

The Constitution of the Russian Federation stipulates that subsoil legislation is under the joint jurisdiction of the federal and regional authorities.

The Subsoil Resources Law provides that the authority of the federal governing bodies concerning the regulation of subsoil use may by resolutions of the Government be delegated to regional executive bodies.

Subsoil licensing

In 1992, the Subsoil Resources Law introduced a licensing system governing the geological survey, exploration and production of natural resources from the subsoil in Russia. Under the Subsoil Resources Law, licenses for fields and subsoil plots were awarded through auctions or tenders conducted by the Committee on Geology and the Use of Mineral Resources of the Government ("**Geokom of Russia**"), together with the legislative branch of the relevant constituent entity of the Russian Federation. Currently, licenses are generally awarded by the federal authority responsible for management of state property in the area of subsoil use, which in accordance with Governmental Resolution No. 293 of June 17, 2004, as amended, is Rosnedra.

The Subsoil Resources Law provides criteria for determining subsoil plots of federal importance and defines legal grounds for establishment and termination of rights to use subsoil plots of federal importance. Under the Subsoil Resources Law, subsoil plots of federal importance are awarded through auctions or without an auction procedure with respect to the subsoil plots of federal importance included in the list approved by the Government. The most important criterion for determining an auction winner is the amount of the proposed payment for the right to use the subsoil.

The Gas Supply Law and the Subsoil Resources Law set forth special requirements in relation to granting the right of subsoil use for gas fields to the owner of the UGSS. In particular, to maintain reliability of gas supplies in Russia, the Government may grant the right of subsoil use (combined licenses) for fields of federal importance to the owner of the UGSS without an auction.

There are several categories of licenses applicable to the geological survey, exploration and production of natural resources, including: (i) licenses for geological survey; (ii) licenses for exploration and production of natural resources; and (iii) licenses for geological survey, exploration and production of natural resources (combined licenses). Under the Subsoil Resources Law, licenses are granted either for the term stipulated in the license or for an indefinite term. Geological survey licenses may have a maximum term of 5 years (10 years for geological survey of subsoil areas of internal sea waters, territorial seas and the continental shelf and 7 years for geological survey of subsoil areas located in Russian regions with severe environmental and weather conditions); exploration and production licenses may have a term of the expected operational life of the field based on a feasibility study that provides for rational use and protection of subsoil; production licenses for underground waters may have a maximum term of 25 years; licenses for the production of natural resources based on the short-term right to use subsoil plots may have a maximum term of one year. The Subsoil Resources Law allows the subsoil user to request an extension of the existing license in order to complete either the development of the field or the procedures necessary to vacate the land once the exploration, assessment and exploitation of the subsoil is complete, subject to compliance with the terms and conditions of the license. Indefinite term licenses (not related to production of natural resources) are provided, in particular, for the construction and operation of waste burial facilities and underground oil and gas storage facilities.

Licenses for subsoil use may be transferred only under certain limited circumstances that are identified in the Subsoil Resources Law, including the reorganization or merger of the license holder, transfer of a license as part of the property of a bankrupt license holder, or in the event that an initial license holder transfers its license to a legal entity in which it has at least a 50% ownership interest as well as any transfer of a license within a consolidated group of companies, provided that the transferee possesses the equipment and authorizations necessary to conduct the exploration or production activity that is covered by the transferred license. A license shall be reissued when the right for subsoil use is transferred or if the legal name of a license holder has changed. In this case the terms and conditions of subsoil use set forth in the previous license are not subject to revision. A transfer of the right to use a subsoil plot and the re-issuance of the license, which has been granted on the basis of a production sharing agreement, is regulated by Federal Law "On Production Sharing Agreements" No. 225-FZ of December 30, 1995, as amended (the "**PSA Law**").

Unless otherwise provided by law, the transfer of a subsoil area of federal importance is prohibited to any entity established in accordance with the Russian legislation that has participation of a foreign investor, or a group of entities that include a foreign investor, in which a foreign investor has the ability to (i) directly or indirectly control more than 10% of the entity's voting shares, (ii) control the entity's management by contract or otherwise, or (iii) appoint the entity's chief executive officer or more than 10% of its executive officers or members of the entity's board of directors or other management committee. In exceptional circumstances and in accordance with the Government's resolutions, the transfer of rights to use subsoil plots of federal importance to such entities may be permitted.

Under a licensing agreement, the licensee assumes certain undertakings, including obligations with respect to the period and volume of exploration, provision of pre-project and project documentation, payments for subsoil use, projected

extraction volume of natural resources, compliance with environmental safety requirements, elimination of environmental pollution, and, in certain instances, assurance of employment and development of infrastructure. When a license expires, the licensee, at its own cost, shall restore the relevant subsoil plot to a condition which is adequate for future use. The licensee can incur administrative liability, including fines, or the license can be revoked, suspended or limited if the licensee breaches material terms of a license, including timing and scope of works at a subsoil plot, submission of required reports, as well as in cases of direct threat to the lives or health of the people working or residing in the area where licensed activities are carried on, in case of emergency or other circumstances.

Most of the conditions provided by licensing agreements are based on mandatory provisions of Russian law; however, other provisions may be negotiated by the parties subject to mandatory provisions of the Subsoil Resources Law.

A holder of a license for subsoil use, including geological survey of natural resources, assessment and exploration of fields, must make one-off payments for subsoil use under certain conditions as may be provided in the license including one-off payments in the event of the change of subsoil area borders, and regular payments for subsoil use. The regular payments for subsoil use based on economic and geographic conditions, size of the subsoil area, type of natural resources, period of exploration, geological profile of the subsoil plot and degree of risk. Such payments are charged separately on each type of subsoil use works and with the account for the stage of geological process and pursuant to specific rates set by Rosnedra within the range established by law.

Payments for subsoil are in addition to relevant tax obligations applicable to the license holder in accordance with general tax legislation.

Federal Law No.161-FZ dated June 29, 2015 “On Pecularities of Legal Regulation of Subsoil Use Relations in Connection with the Accession to the Russian Federation of the Republic of Crimea and the City of Federal Significance Sevastopol” , among other things, (i) provides that granting the rights of subsoil use with respect to the subsoil areas located in the Black Sea and Azov Sea within the sovereign territory of the Russian Federation is permitted pursuant to a resolution of the Government based on the results of a bidding process, however, certain restrictions may be introduced on participation in such auctions; (ii) determines the procedures for subsoil use in the Republic of Crimea and the City of Sevastopol on the basis of special licenses granted before the enactment of Federal Law No.6-FKZ dated March 21, 2014 “On Accession to the Russian Federation of the Republic of Crimea and Formation of the Republic of Crimea and the City of Federal Significance Sevastopol as New Constituent Regions of the Russian Federation”; (iii) determines the procedures for (a) forming and maintaining the national cadaster of fields and mineral resources and the national balance of mineral reserves and (b) the extraction of mineral resources and subsoil uses for other purposes.

Regulation of the natural monopoly activities

The Natural Monopoly Law defines “natural monopoly” as a condition of the commodities market in which the demand for products is satisfied more effectively in the absence of competition due to technological characteristics of the manufacturing process and in which another product cannot readily be substituted for the monopoly product, which makes demand for the monopoly product less responsive to the price movements than demand for other products. The Natural Monopoly Law sets out, among other things, a regime for the regulation of entities which have a natural monopoly over natural gas transportation. It also establishes an authority which supervises:

- transactions involving the acquisition by a natural monopoly entity (whose revenues derived from the activities regulated by the Natural Monopoly Law exceed 1% of its total revenues) of title to (or the rights to use) assets unrelated to the industry in which the natural monopoly entity operates (“durable means of production and distribution”), where the value of such assets exceeds 10% of the natural monopoly entity’s own capital (as calculated in accordance with its latest audited balance sheet);
- investments by a natural monopoly entity (whose revenues derived from the activities regulated by the Natural Monopoly Law exceed 1% of its total revenues) in production or distribution of goods, not related to the industry of the natural monopoly entity, whose value exceeds 10% of the natural monopoly entity’s own capital (as calculated in accordance with its latest audited balance sheet);
- sales, leases or other transactions whereby an entity purchases title to (or the rights to use) assets of a natural monopoly entity used in the industry in which a natural monopoly entity operates where the value of such assets exceeds 10% of the value of the natural monopoly entity’s own capital (as calculated in accordance with its latest audited balance sheet) and provided that as a result of such acquisition the acquiring entity’s revenues related to its operations in the natural monopoly industries exceed 1% of its total revenues;
- setting and (or) application of prices (tariffs), in particular, for gas transportation through pipelines; and
- compliance with disclosure requirements by natural monopoly entities.

The FAS supervises the activities of natural monopolies and is responsible for setting tariffs.

The FAS can adopt binding decisions in the case of a breach of the Natural Monopoly Law and issue binding instructions to a natural monopoly to prevent a breach of the Natural Monopoly Law, including instructions on eliminating the consequences of a breach.

The principal methods of regulating the activities of natural monopolies by relevant supervising authorities are:

- price regulation by setting prices (tariffs) or price limits; and
- identifying consumers entitled to receive mandatory services and (or) setting natural monopoly minimum supply levels for such consumers (with a view to protecting the rights and legal interests of citizens, state security, the environmental and cultural values).

As a natural monopoly entity, we must submit ongoing reports on our activities and drafts of capital investment plans to the relevant supervisory authority pursuant to the Natural Monopoly Law.

In order to promote transparency in activity and regulation, natural monopolies, including Gazprom, are required to grant free access to the information on their activity in accordance with the standards of disclosure approved by the Government. The information on the regulated activity of the natural monopolies include the following: (i) information on prices (tariffs) for regulated goods and services; (ii) information on principal operational and financial activity, which is regulated; (iii) information on basic consumer characteristics of the regulated goods and services and their compliance with statutory requirements; (iv) information on technical access to the regulated goods and services, or the lack thereof and on the status of applications relating to technical connection to natural monopoly infrastructure; (v) information on the terms and conditions of supply of the regulated goods and services or on terms and conditions of contracts for connection to the infrastructure facilities of natural monopolies; (vi) information on investment plans and performance reports, etc.

The supervisory authority has the authority to: (i) regulate natural monopoly entities and to apply regulatory measures contemplated by the Natural Monopoly Law including price regulation; (ii) instruct natural monopoly entities to cease violations and mitigate its consequences, enter into contracts with the consumers entitled to the mandatory provision of services, instruct natural monopoly entities to make amendments to existing contracts or to transfer to federal budget profits from activities violating the Natural Monopoly Law; and (iii) perform other acts contemplated by federal laws.

The UGSS

The Gas Supply Law defines the UGSS as a centrally managed, technologically and economically regulated system of gas production, processing, transportation, storage and supply.

Gazprom is currently the owner of the UGSS. Under the Gas Supply Law, the owner of the UGSS has a number of responsibilities. To ensure reliable gas supply and compliance with international treaties of the Russian Federation and gas delivery contracts, Gazprom maintains and develops a network of UGSS facilities, monitors and manages the function of its facilities, procures the use of equipment and processes for power-saving and environmental safety at its industrial sites, takes action to ensure industrial and environmental safety within the UGSS and operates emergency management systems.

The Gas Supply Law does not permit the division of the UGSS. The liquidation of its owner can only be carried out if a federal law is passed permitting such liquidation. As amended, the Gas Supply Law requires that at least 50% plus one ordinary share of the company owning the UGSS must be owned by the Russian Federation or joint stock companies in which the Russian Federation owns at least a 50% plus one share interest, and may be disposed of by federal law. Currently, the Russian Federation controls more than 50% of Gazprom's ordinary shares.

Production sharing agreements

Production sharing agreements are commercial arrangements between the Russian Federation and investors relating to exploration and development and the sharing of production of mineral resources between parties. Under a production sharing agreement, an investor is exempted from a number of taxes and other mandatory payments in exchange for giving the Russian Federation a portion of its production, generally, after the investor has recovered its development costs.

The PSA Law came into force in January 1996. It established the principal legal framework for state regulation of production sharing agreements relating to oil and gas field exploration, development and production. The PSA Law contains rules purporting to protect investors against adverse changes in federal, regional and local laws and regulations.

The PSA Law provides that operations conducted under a production sharing agreement pursuant to the PSA Law will be governed by the production sharing agreement itself and will not be affected by contrary provisions of any other legislation, subject to several exceptions. Furthermore, production sharing agreements entered into by the Russian Federation prior to the enactment of the PSA Law (e.g., Sakhalin I, Sakhalin II and Kharyaga) are "grandfathered" so that their provisions will be effective even if they are inconsistent with the PSA Law.

In accordance with Order of the Government No. 1539-r dated September 6, 2011 we have been assigned the right of the Russian Federation to receive consideration in kind as a payment for production of natural resources (royalty) and a share in sales under the Sakhalin II production sharing agreement.

Transportation and supply of gas

The relationship between natural gas suppliers and off-takers is governed by the Gas Supply Law, the Regulation on Natural Gas Supplies in the Russian Federation approved by Government Resolution No. 162 dated February 5, 1998 ("**Resolution No. 162**"), as amended, and other regulations.

In order to enter into a gas supply contract, a customer shall send to a gas supplier a gas purchase request, which shall specify, among other things, required gas volumes, anticipated period of supply and the initial supply date. The gas supplier shall process the gas supply request within 30 days and send to the customer an offer, or a written motivated refusal, to enter into a contract.

Customers that purchase natural gas for the Government, utility consumers and households, and other customer seeking to extend their existing natural gas supply agreements have a priority when entering into natural gas supply agreements.

In accordance with the Gas Supply Law, consumers are required to pay for natural gas supplies and transportation services. The Gas Supply Law and related gas supply rules contain provisions aiming at securing payments for supplied gas and transportation services. In particular, customers having overdue debt for gas supplies exceeding twice their average monthly gas invoice are required to provide a payment guarantee to suppliers. If the customers fail to pay for gas, suppliers have the right to impose penalties and to limit or suspend natural gas supplies to such consumers in accordance with specific procedures provided for by a number of Government resolutions. Government Resolution No. 364 dated May 29, 2002 provides for special terms and conditions of gas delivery to institutions responsible for national security. The supplier may not suspend or limit gas supplies below the limits provided by the state-related customer for its affiliated institutions.

Pursuant to Government Resolution No. 858 dated July 14, 1997, we grant to independent suppliers access to the GTS subject to the following requirements:

- availability of spare transport capacity from an access point to an off-take point for the time period proposed by the independent supplier;
- quality and technical parameters of the natural gas supplies;
- availability of input connections from suppliers and output connections to customers and natural gas recovery and quality control stations.

The Saint Petersburg International Mercantile Exchange has arranged gas trading in the double-sided auction mode. Exchange trading is governed by Federal Law No. 325-FZ dated November 21, 2011 "On Organized Trading", Resolution No. 162 and other pieces of legislation.

In accordance with the Government Resolution No. 294 dated April 4, 2000, as amended, payments for natural gas acquired in trading systems are to be made pursuant to gas supply agreements the terms of which are consistent with the rules for conducting trading activities and enactments of the Government. Resolution No. 162, as amended, provides that the requirements as to minimum and maximum daily gas supply volumes do not apply to trading system transactions.

Gas exports

Pursuant to the Gas Export Law, as the owner of the UGSS, Gazprom and its wholly owned subsidiaries have the exclusive right to export natural gas in its natural state produced in any hydrocarbon field within Russia, except for gas produced under production sharing agreements that were entered into before the Gas Export Law came into effect. Federal Law No. 318-FZ dated November 30, 2013 introduced amendments to the Gas Export Law granting the right to export LNG produced in Russia also to other companies that meet specified requirements.

Transportation of crude oil and petroleum products

The trunk pipelines transmitting crude oil and petroleum products in Russia are owned by Transneft which is a state-controlled monopoly. Pursuant to the Natural Monopolies Law, pipeline terminal access rights for the purpose of crude oil export are allocated among oil producers and their parent companies in proportion to the volumes of oil produced and delivered to the Transneft pipeline system (and not in proportion only to oil production volumes).

The Ministry of Energy of the Russian Federation approves quarterly plans that detail the precise volumes of oil that each oil producer can pump through the Transneft system for export. Once the access rights are allocated, oil producers generally cannot increase their allotted capacity in the export pipeline system, although they have limited flexibility in altering delivery routes. Oil producers are generally allowed to transfer their access rights within one group of companies.

Prices and tariffs

Pricing of gas produced by Gazprom and its affiliates, as well as rates for gas transportation services through trunk gas pipelines operated by Gazprom, are regulated and supervised by the Russian Federation pursuant to the Gas Supply Law and the Natural Monopoly Law, as well as certain governmental regulations, such as Government Resolution No. 239 "On Measures to Stabilize State Regulation of Prices (Tariffs)" dated March 7, 1995, as amended, and Government Resolution No. 1021 "On State Regulation of Gas Prices and Tariffs for Gas Transportation in the Territory of the Russian Federation" dated December 29, 2000, as amended. In accordance with the Gas Supply Law, the Government is authorized, and has implemented such right, to substitute service tariffs for gas transportation through pipelines, which is a natural monopoly activity, with the regulation of natural gas prices for end users as well as tariffs on gas transportation services for independent organizations.

Currently, the Government regulates wholesale natural gas prices (excluding wholesale natural gas prices sold through trading systems and wholesale prices for natural gas produced by Gazprom and its affiliated parties and supplied to legal entities for subsequent liquefaction and export sales), tariffs for gas transportation services through trunk pipelines for independent organizations, tariffs for gas transportation through pipelines owned by independent organizations, tariffs for gas transportation through supply networks, tariffs for connecting gas utilization equipment to gas distribution networks and payments for the supply and marketing services rendered by gas distribution companies to the population and retail natural gas prices, special markups to gas transportation tariff charged for gas transmission through distribution networks to finance various gasification programs. Consequently, state agencies regulate prices (tariffs) throughout the entire gas supply system with regard to Russian users.

Tariffs charged to unaffiliated third parties for the transportation of natural gas through our trunk pipelines are established by the FAS. See "Gazprom—Transport." A tariff system consists of (i) a payment for the use of natural gas pipelines, which depends on the regions of input to and output from the GTS and (ii) a payment for transportation of mcm per 100 km.

Recent Changes in Russian Tax Regulation

On October 1, 2011, the first stage of a new tax regime for the Russian oil industry took effect (the "60-66 tax regime"). The 60-66 tax regime reduced the marginal export duty rate on crude oil from 65% to 60% and unified export duties for light and dark petroleum products at 66% of the export duty on crude oil, except for gasoline and naphtha export duty which was set at 90% of the export duty on crude oil. More specifically, the 60-66 tax regime increased the export duty on fuel oil from 46.7% to 66%, while decreasing the export duty on diesel and jet oil from 67% to 66%.

In 2013 and 2014 further amendments to Russia's customs regime were introduced which resulted in a gradual decrease in the marginal rate of general export duty on crude oil to 59% in 2014, 42% in 2015, 42% in 2016 and 30% in 2017 and changes in export duty rates for oil products. There are no changes to the marginal rate for 2018 compared to 2017.

In the period from 2019 to 2024, the export duty rate on crude oil and gas condensate will gradually decrease by 5% every year. As a result of such planned decreases, the rate of the export duty on crude oil, gas condensate and oil products is expected to fall to zero at the beginning of 2024.

Export duty rate for oil products (percentage of the export duty on crude oil)	2013	2014	2015	2016	2017 onwards
Light and medium distillates, benzol, toluene, xylenes	66	65	48	40	30
Lubricants	66	66	48	40	30
Gasoline	90	90	78	61	30

Naphtha	90	90	85	71	55
Fuel oil, bitumen and some other dark products	66	66	76	82	100

The current export duty rates for natural gas and for LNG equal to 30% and 0%, respectively. Marginal rate of general export duty on crude oil and gas condensate was 42% in 2016 and 30% in 2017 and remains unchanged in 2018. Export duty for dark petroleum products was equal to 82% of a general export duty rate on crude oil in 2016 and equals to the export duty for crude oil for 2017-2018. Export duty rates for light oil products for 2016 was 61% of a general export duty rate on crude oil for gasoline and 40% for light and medium distillates, benzol, toluene, xylenes, lubricants; and were decreased to 30% starting 2017 and onwards. Export duty rate for naphtha was 71% of a general export duty rate in 2016 and was decreased to 55% for 2017 and onwards.

Starting January 1, 2019 the Government would be able to apply increased export duty rates on crude oil (up to 45%) and certain oil products (up to 60% of the current export duty rate on crude oil) in extraordinary circumstances, that is, in event of a significant increase of world oil prices by 15% or more.

MET Changes

Gas and Gas Condensate

Federal law No. 263-FZ, dated September 30, 2013 effective July 1, 2014 introduced a formula for calculating the MET rate for natural gas and gas condensate instead of fixed MET rates.

Beginning January 1, 2015, generally the MET rates for natural gas and gas condensate have been determined as a product of:

1) the base rate of RR35 per mcm for natural gas and RR42 per ton for gas condensate,

2) the base value of a unit of fuel equivalent, calculated taking into account various macroeconomic indicators including oil and gas prices, and

3) (A) with respect to natural gas, the coefficient representing the degree of difficulty of extraction of natural gas or (B) with respect to gas condensate, the coefficient representing the degree of difficulty of extraction of gas condensate and a special multiplying coefficient of 4.4 from January 1 to December 31, 2015, 5.5 from January 1 to December 31, 2016. From January 1, 2017 the coefficient is determined by dividing 6.5 by the coefficient reflecting the export return on a unit of standard fuel for the Group. Federal law No. 254-FZ, dated July 29, 2017, increased this coefficient for the Group for the 4th quarter 2017 and extended the application of the coefficient reflecting the export return on a unit of standard fuel for the Group till January 1, 2021. Federal law No. 199-FZ, dated July 19, 2018 also increased the coefficient reflecting the export return on a unit of standard fuel for the Group for the period from September to December 2018. The values of the coefficient for the periods starting from 2019 remained unchanged. Federal law No. 424-FZ, dated November 27, 2018 extended the period of application of the coefficient reflecting the export return on a unit of standard fuel for the Group until January 1, 2022.

In order to determine the MET rates for natural gas, the product of items (1)-(3) above is added to a coefficient reflecting the transportation costs for natural gas, which has not been applicable for calculating the MET rates for 2015, 2016, 2017 and 2018.

Starting from January 1, 2015, the Russian Tax Code provides for a tax relief with respect to gas and helium production, transportation and storage projects implemented in various regions in Eastern Siberia and Far East. In particular, a zero MET rate is set for gas production in the Republic of Sakha (Yakutia) and/or the Irkutsk Region for 15 years following the start of commercial production, with a subsequent gradual increase in the MET rate from 10% to 100% of the standard MET rate over the following 10 years.

Starting January 1, 2016, the calculation of the base value of a unit of fuel equivalent with respect to both natural gas and gas condensate was changed. These amendments affected Gazprom and its affiliated companies by increasing MET rate with respect to natural gas by 36.7%. These changes were effective for 2016.

Federal law No. 401-FZ, dated November 30, 2016, introduced amendments to the formula for calculating MET for natural gas and gas condensate for the period from 2017 to 2021 (taking into account further amendments set by the Federal law No. 254-FZ, dated July 29, 2017, the Federal law No. 199-FZ, dated July 19, 2018, the Federal law No. 424-FZ, dated

November 27, 2018). Depending on certain variables, such as oil and gas prices and other components of the MET formula, the amendments could result in an increase in our MET burden with respect to natural gas in 2017, 2018, 2019, 2020 and 2021 as compared to 2016.

In particular, as a result of the foregoing amendments, the standard MET rate (i.e., the rate without regard to reducing coefficients, the actual level of depletion, the actual volume of extracted minerals and other factors reflected in the MET formula) for gas condensate decreased by 13.6% starting from January 1, 2017 and onwards. The base value of a unit of fuel equivalent and, consequently, the standard MET rate on natural gas produced by Gazprom and its affiliates has been changing as follows:

- increased by 31.4% for the first, second and third quarters of 2017 as compared to 2016,
- further increased by 26.5% in the fourth quarter 2017 as compared to the period covering the first, second and third quarters of 2017,
- decreased by 38.3% starting January 1, 2018 as compared to the fourth quarter of 2017,
- increased by 46.6% starting September 1, 2018 as compared to the period from January to August 2018,
- will decrease by 29.7% in 2019 as compared to the period from September to December 2018,
- will be on the same level in 2020-2021 as in 2019,
- will decrease by 30.8% starting from 2022 as compared to 2021.

However, our actual MET burden in respect of natural gas and gas condensate production will also depend on other factors reflected in the MET formula, in particular, various macroeconomic indicators including oil and gas prices.

From January 1, 2018 certain amendments to calculation of the MET rate related to extraction of natural gas and gas condensate entered into force. These amendments are related to natural gas extracted from deep-occurrence hydrocarbon reservoirs and to extraction of gas condensate under certain conditions. These amendments could allow the Group to reduce the standard MET rate (i.e., the rate without regard to (1) reducing coefficients, e.g. those depending on the actual level of depletion, (2) the actual volume of extracted minerals and (3) other factors reflected in the MET formula).

Furthermore, the Federal law No. 301-FZ, dated August 3, 2018 introduced certain amendments to the MET rate on gas condensate from January 1, 2019 that are implemented to compensate for future losses of budget revenues from the reduction of export duties on crude oil and gas condensate. To that effect, new coefficients have been added to the MET formula for gas condensate to address such tax policy aims.

Crude Oil

Starting 2015 the MET rate for crude oil was also amended and is calculated pursuant to the following formula:

$MET = Basic\ rate\ x\ C_p - C_e$, where

Basic rate equals RR857 per ton for 2016 and RR919 per ton set from 2017;

C_p is a coefficient reflecting fluctuations of crude oil prices; and

C_e is a coefficient reflecting the characteristics of oil extraction and parameters of the “Tax Maneuver” completion.

C_e is calculated using the same coefficients and indicators that are used for determining the MET rate for crude oil under the 2014 legislation except for a new coefficient C_k effective starting 2017. Effective from 2019 product of new coefficients C_{man} and C_{vo} plus C_{ptds} are also added to C_e by the Federal law No. 301-FZ, dated August 3, 2018, and by the Federal law No. 424-FZ, dated November 27, 2018.

The coefficient C_k reduces the amount of C_e and equals to:

- 306 for 2017
- 357 for 2018
- 428 for 2019-2021
- 0 for 2022 and onwards.

The MET incentives established prior to 2015 have not been abolished but currently the minimum MET rate, instead of a zero rate applied in accordance with prior to 2015 tax regime, is determined as a difference between the MET rate on crude oil established by the current regime and the MET rate on crude oil under the MET regime effective before 2015.

New coefficient C_{man} is calculated as follows:

$Cman = ED \times R \times C_{adj}, - F_m$ where

"ED" is equivalent to the export duty rate for oil in 2018

"R" is the average RR/USD exchange rate

"C_{adj}" is the number having the value indicated in the table below for the relevant year:

	Year	2019	2020	2021	2022	2023	2024 onwards
C_{adj} value for	MET on crude oil and gas condensate	0.167	0.333	0.5	0.667	0.833	1

"Fm" is the number reflecting an increase by the Russian Government of export duty rates on crude oil in the event of a significant increase in world oil prices by 15% or more.

As a result, future MET obligations relating to crude oil production will increase in 2017-2024. At the same time, starting from 2019 an option to apply zero C_p and C_k coefficients is available for superviscous oil and oil extracted from reservoirs within the Bazhenov, Abalak, Khadum and Domanik productive formations, subject to additional conditions being met.

New coefficient C_{vo} equals 0.1 for superviscous oil extraction, subject to certain conditions, or 1 in other cases.

New coefficient C_{ptds} represents an MET increase within the framework of completing the "Tax maneuver" and defines an additional subsidy for the oil refinery industry for petrol and diesel fuel. At the same time, such amendments to the MET obligations only apply in case a similar amount of subsidy is provided to the oil refinery industry.

AIT regime

In order to create conditions for development of new fields and ensure rational use of subsoil resources, Federal law No. 199-FZ, dated July 19, 2018 ("**Federal law No. 199-FZ**"), effected a number of changes to the Russian Tax Code, establishing the tax regime that takes into account the economic life of, and the investment period leading to production in hard-to-recover hydrocarbon fields (the "**AIT regime**"). The AIT regime categorizes all eligible fields into four groups:

Group 1. New fields situated wholly or partially on the Russian section of the seabed of the Caspian Sea and in the Republic of Sakha (Yakutia), the Irkutsk Province, the Krasnoyarsk Region, the Yamal-Nenets Autonomous District north of the 65th degree of northern latitude and the Nenets Autonomous District with an oil reserve depletion level of less than or equal to 0.05 as at January 1, 2017 (excluding the fields comprising Group 2). This group also includes the fields situated in those regions for which the reserves were first registered with the state balance sheet of mineral reserves after January 1, 2017.

Group 2. Fields for which the reduced export duty rate is applicable as of January 1, 2018, i.e. fields specified in Note 8 to the unified Goods Nomenclature for Foreign Economic Activities of the Eurasian Economic Union as at January 1, 2018.

Group 3. Fields under development which are situated wholly or partially in the Khanty-Mansiisk and Yamal-Nenets Autonomous Districts, the Republic of Komi and the Tyumen Province with an oil reserve depletion level:

- greater than or equal to 0.2, but less than or equal to 0.8 as at January 1, 2017;
- greater than or equal to 0.1 but less than or equal to 0.8 as at January 1, 2017 if the depletion level of the field as at January 1, 2011 was greater than 0.01.

Group 4. New fields situated wholly or partially in the Khanty-Mansiisk and Yamal-Nenets Autonomous Districts, the Republic of Komi and the Tyumen Province with an oil reserve depletion level of less than or equal to 0.05 and initial recoverable oil reserves of less than 10 million tons as at January 1, 2017.

Federal law No. 199-FZ also contains an exhaustive list of fields included in Groups 3 and 4 that are subject to the AIT regime. The tax rate of 50% applies to the income earned from extracting hydrocarbon from the fields included in one of four groups, less operational and capital development costs in respect of the development of the field, the amount of charged MET, export duties and transportation costs.

Operational and capital costs are deductible by the companies in the amount of up to RR9,520 (RR7,140 for 2019-2020), taking into account annual average inflation rates from January 1, 2021.

MET remains due and payable under the AIT regime, although at a lower tax rate. Additionally, the taxpayers that develop the fields that are categorized as Group 1, Group 2 and Group 4 have the right to apply a reducing coefficient during first several years tied to the year of commercial oil production.

Excise Tax

Following the recent tax changes jet fuel, paraxylene and benzol, subject to certain conditions, became subject to excise tax starting in 2015, and medium distillates – starting in 2016. The Federal law 301-FZ, dated August 3, 2018 introduced certain amendments to the list of excisable goods. Excise tax rates are set forth below:

Oil Product	**Rate, RR per ton**						
	April 1, 2016-December 31, 2016	**January 1, 2017-December 31, 2017**	**January 1, 2018- June 30, 2018**	**June 1, 2018-December 31, 2018**	**January 1, 2019-December 31, 2019**	**January 1, 2020-December 31, 2020**	**January 1, 2021-December 31, 2021**
Petrol:							
– Inconsistent with Class 5	13,100.0	13,100.0	13,100.0	13,100.0	13,100.0	13,100.0	13,624.0
– Class 5	10,130.0	10,130.0	11,213.0	8,213.0	12,314.0	12,752.0	13,262.0
Diesel fuel	5,293.0	6,800.0	7,665.0	5,665.0	8,541.0	8,835.0	9,188.0
Motor oil	6,000.0	5,400.0	5,400.0	5,400.0	5,400.0	5,616.0	5,841.0
Naphtha*	13,100.0	13,100.0	13,100.0	13,100.0	13,912.0	14,720.0	15,533.0
Medium distillates**	5,293.0	7,800.0	8,662.0	6,665.0	9,241.0	9,535.0	9,916.0
Jet fuel**	-5,520.0	-5,824.0	-5,824.0	-5,824.0	-5,824.0	-5,824.0	-5,824.0
Paraxylene, benzol***	-8,520.0	-9,520.0	-9,520.0	-9,520.0	-9,959.0	-10,396.0	-10,836.0

Notes:

* The company may receive a deduction in the amount of excise tax increased by a coefficient equal to 1.7, if naphtha is used for the production of petrochemical products (subject to certain requirements) or for the production of benzol, paraxylene or orthoxylene. Beginning January 1, 2019 the excise tax rates are determined pursuant to a new formula.

** The company may receive a deduction in the amount of excise tax increased by a coefficient equal to 2, if middle distillates are processed at the production facilities required for processing. In addition, starting from 2022 the deduction amount may be increased for entities included in the register of bunker fuel suppliers to foreign companies.

*** A negative value of excise tax for jet fuel, paraxylene and benzol means that the amount of such excise tax is to be offset if certain conditions are met. Beginning January 1, 2019 the excise tax rates are determined pursuant to a new formula.

In addition, starting 2015 natural gas became subject to excise tax if it is provided by the terms of international agreements of the Russian Federation. The excise tax rate is set at 30% of the cost of natural gas sold net of customs duties and expenses for transportation outside Russia unless otherwise provided by international agreements.

Effective from January 1, 2019 a so-called petroleum feedstock (i.e. crude oil and some other components) is added to the list of excisable goods. Subject to satisfaction of certain requirements, oil refineries are permitted to apply certain tax deductions. This measure is aimed at supporting Russian oil refineries upon the abolishment of the export duty on crude oil.

Tax Incentives for Offshore Projects

From January 1, 2014, oil and gas development on the Russian continental shelf has been incentivized through introduction of ad valorem MET rates, export duty relief, transport tax and property tax exemptions, as well as VAT, profit tax and transfer pricing incentives for new offshore projects. In particular, the law provides for lower MET rates for natural gas (depending on the complexity of recovery) with respect to fields that enter the stage of industrial production of hydrocarbons after 2016. The law also extends application of a zero MET rate for a specified period of time for crude oil extracted from fields meeting certain criteria. The law also provides an exemption for a specified period of time from export duties on crude oil, natural gas, stable gas condensate and on LNG processed from hydrocarbon feedstock produced fields meeting certain criteria. In addition, the law introduced property tax breaks for properties located on the continental shelf used for exploring, preparing and developing offshore fields and transport tax breaks relating to offshore floating and stationary platforms, offshore mobile drilling rigs and drill ships.

Property Tax

In 2012 amendments to tax legislation also provide for an increase in property tax rate imposed on infrastructure property, including power lines and trunk pipelines, over a six-year transition period starting 2013. The corporate property tax rate for the aforementioned types of property is set at 1.9% in 2018 and is expected to rise by 0.3 percentage point to the generally established corporate property tax rate of 2.2% in 2019. Starting in 2017 special reduced rates are set for public railway tracks and for facilities that are integral technological parts of such tracks. In addition, from 2014 the property tax imposed on certain immovable property is calculated on the basis of its cadastral value instead of its average annual net book value. However, starting 2015 a zero property tax rate effective until January 1, 2035 was introduced in relation to trunk pipelines, installations which form an integral technological part of them, gas extraction facilities, facilities for the production and storage of helium located in the Republic of Sakha (Yakutia), the Irkutsk Region or the Amur Region, subject to certain conditions, and starting in 2017 – to objects specified in the technical projects of fields exploitation.

Effective from January 1, 2018, certain property tax exemptions and incentives in relation to the property tax may only be provided by regional authorities of the Russian Federation as set out in their regional laws. This applies to tax exemptions for fixed assets that are classified as highly energy-efficient facilities, assets located in the Russian part of the Caspian Sea and movable properties qualified as the third and/or a subsequent depreciation class with a useful life of more than 3 years. If the regional law does not provide for such tax exemption, such movable properties cannot be taxed at a rate greater than 1.1% in 2018 compared to the generally applicable property tax rate of 2.2%.

Beginning January 1, 2019, movable property will no longer be subject to property tax.

Procurement Law

In accordance with the Procurement Law, certain categories of legal entities, including natural monopoly entities, their subsidiaries in which a natural monopoly entity holds more than 50% of the share capital (the "**Direct Subsidiaries**") and the subsidiaries of the Direct Subsidiaries in which any Direct Subsidiary holds more than 50% of the share capital (the "**Indirect Subsidiaries**"), are generally required to purchase goods, services and works on a competitive basis (through a competitive tender, public auction, invitation for proposals, request for quotation or other mechanisms set forth in a company's procurement regulations), although non-competitive procurement means may also be used provided that they are set out in a company's procurement regulations and are compliant with the Procurement Law. Gazprom is a natural monopoly entity pursuant to Articles 3 and 4 of the Natural Monopoly Law. In accordance with the Procurement Law we enacted the Procurement Regulation setting out rules and procedures for purchase of goods, services and works by us, our Direct Subsidiaries and Indirect Subsidiaries and published them on our internet website. Gazprom and its Direct Subsidiaries and Indirect Subsidiaries carry out procurement of goods, services and works pursuant to the Procurement Law, regulations adopted thereunder and the Procurement Regulation. We publish information with respect to our procurement and related contracts on our internet website.

Environmental requirements

Russian environmental legislation establishes a "pay-to-pollute" regime. The Federal Service for the Supervision of the Use of Natural Resources, which is subordinate to the Ministry of Natural Resources and Ecology of the Russian Federation, exercises supervision over use of natural resources, environmental protection (including technological and environmental impact restrictions and the handling of hazardous wastes but excluding nuclear waste), controls geological exploration, the rational use and protection of subsoil (including compliance with the relevant terms and conditions of subsoil licenses) and exercises land control.

Fees are assessed for both pollution within the limits agreed on emissions and effluents and for pollution in excess of these limits. Payments for negative impact on environment are reduced by expenses incurred in connection with measures taken to mitigate such negative impact including any payments made to introduce best available technologies (technologies implementing latest scientific and technical achievements and allowing for optimal combination of various criteria for environmental protection).

Fines may be imposed for certain breaches of environmental regulations. Environmental protection laws require compensation to be paid to the budget for any environmental loss caused by pollution. In the event of a dispute concerning losses caused by breaches of environmental laws and regulations, the prosecutor's office or other authorized governmental bodies may bring suit. Courts may also impose clean-up obligations.

Subsoil licenses generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low.

Health and Safety

The principal law regulating industrial safety is Federal Law No. 116-FZ dated July 21, 1997 "On Industrial Safety of Hazardous Industrial Facilities," as amended (the "**Safety Law**"). The Safety Law applies, in particular, to industrial facilities where certain activities related to exploration and production of gas, among other things, are carried out. The Safety Law also contains a comprehensive list of hazardous substances and their permitted concentrations, and extends to facilities where these substances are or can be used.

Our activities include operation of certain hazardous industrial sites regulated by Rostekhnadzor. Project documentation relating to laying up or liquidation of a dangerous industrial site is subject to state industrial safety review. Project documentation in relation to reequipment of a dangerous industrial site has to be reviewed by a licensed expert with the results of the review to be submitted to the Rostekhnadzor unless the documentation is subject to state review in accordance with the urban planning legislation. Any amendment of project documentation in the process of construction or reconstruction of regulated industrial sites needs to be reviewed by a licensed state expert in accordance with the Russian urban-planning legislation. Any amendment of project documentation in the process of laying up or liquidation of regulated industrial sites is subject to state industrial safety review and needs to be approved by the Rostekhnadzor or its territorial body. Any amendment of project documentation in the process of reequipment of a dangerous industrial site has to be agreed with the Rostekhnadzor or its territorial body unless the change has been agreed with the urban planning authorities.

Companies that operate hazardous industrial sites have a wide range of obligations under the Safety Law and the labor legislation of the Russian Federation. In particular, they must limit access to such sites to certified specialists without any medical contra-indications, maintain industrial safety controls, carry insurance for third-party liability for injuries caused in the course of operating hazardous industrial sites and form financial and material reserves that could be used to contain or liquidate consequences of an accident on a hazardous industrial site. The Safety Law also requires these companies to enter into contracts with professional emergency-rescue companies or create their own emergency-rescue services and conduct personnel training programs, create systems to cope with and inform respective state authorities and local residents of accidents and maintain these systems in good working order.

In case of an accident, a special commission led by a representative of the Rostekhnadzor conducts a technical investigation of the cause. The company operating the industrial facility where the accident took place must bear all costs of the investigation and provide the special commission with all necessary information required to conduct an investigation. The Rostekhnadzor may suspend a company's operations or impose other administrative liability on a company or its officials.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability and individuals may also incur criminal liability. A company that violates safety rules in a way that adversely impacts the health or causes death of an individual may also be liable to compensate the individual for lost earnings, as well as health-related damages.

The Safety Law classifies all industrially hazardous assets into four groups: 1st hazard class or extremely dangerous assets, 2nd hazard class or highly dangerous assets, 3rd hazard class or moderately dangerous assets, and 4th hazard class or lowly dangerous assets. Depending on potential consequences of an accident for individuals and society and in accordance with a set of criteria established by the Safety Law, operational facilities are assigned relevant hazard classes upon registration of such facilities in the state register. For instance, industrially hazardous assets in gas transportation are deemed 2nd hazard class if they are designed to transport natural gas under pressure in excess of 1.2 MPa or liquefied natural gas to the extent the pressure is greater than 1.6 MPa. Gas distribution and gas utilization networks operating under pressure from 0.005 MPa to 1.2 MPa and LNG facilities operating under pressure from 0.005 Mpa to 1.6 MPa are deemed 3rd hazard class. Gas distribution and gas utilization networks, including LNG facilities, operating under pressure below 0.005 MPa are not considered to be industrially hazardous assets. Safety measures to be observed in operating industrial facilities are

prescribed by the hazard class applied to a particular asset. In certain cases, companies operating hazardous industrial sites must prepare declarations of industrial safety which would summarize the risks associated with operating a particular regulated industrial site and measures the company has taken and will take to mitigate such risks and use such site in accordance with applicable industrial safety requirements. Declaration of industrial safety must be prepared in relation to 1st and 2nd hazard class assets. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein, and is subject to the state industrial safety review and registration with the Rostekhnadzor.

Employment and Labor Regulation

Labor matters in Russia are governed by the Labor Code and various federal laws. In respect to certain territories with harsh climatic conditions, Russian legislation establishes additional regulations to protect the interest of employees. Under Law of the Russian Federation No. 4520-1 "On State Guarantees and Compensations for Persons Working and Residing in the Far North Regions and Areas of Equal Status" dated February 19, 1993, as amended, the employees working in certain territories with harsh climatic conditions are entitled to certain additional benefits, including the regional coefficients pursuant to which the salary and other benefits of such employees are increased (the amount of coefficient differs for each territory) and additional vacation days.

Inland sea waters, territorial sea, continental shelf and the exclusive economic zone

Offshore hydrocarbon operations in the internal sea waters, territorial sea, continental shelf and the exclusive economic zone of the Russian Federation are governed by the Commercial Maritime Code of the Russian Federation No. 81-FZ, dated April 30, 1999, as amended, EEZ Law, the Subsoil Resources Law, the Continental Shelf Law, Internal Sea Waters Law, the PSA Law and international treaties to which the Russian Federation is a party.

The territorial sea of the Russian Federation is a belt of sea adjacent to its land territory or its internal waters, which the breadth of twelve nautical miles, measured from the baselines has determined in accordance with the Russian Internal Sea Waters Law. The internal sea waters of the Russian Federation are waters on the landward side of the baseline of the territorial sea, which form part of the Russian territory. The continental shelf of the Russian Federation comprises the seabed and subsoil of the submarine areas that extend beyond its territorial sea throughout the natural prolongation of its land territory to the outer edge of the continental margin. Inner and outer limits of the continental shelf are determined in accordance with the Continental Shelf Law and international treaties. The "exclusive economic zone" of the Russian Federation is the marine area located outside Russia's territorial sea and limited by the 200 nautical miles from the baselines from which the width of the territorial sea of the Russian Federation is measured (or as otherwise provided by international law or treaty), including all islands located within this area except for mountain rocks ineligible for living and self-sustained economic activities.

The EEZ Law focuses on protecting and monitoring the natural resources of the exclusive economic zone, including mineral resources. The EEZ Law establishes a framework of protective measures with respect to dumping, accidents at sea, and protection and conservation of ice-bound and other specially designated areas. Users of resources in the exclusive economic zone make certain payments in accordance with Russian legislation.

Foreign Investments

On April 29, 2008, Federal Law No. 57-FZ "On the Procedure for Making Foreign Investments in the Companies Of Strategic Importance for the Defense and State Security," as amended (the "**Foreign Investment Law**"), was adopted. The Foreign Investment Law sets forth certain restrictions relating to foreign investments in Russian companies of strategic importance for national defense and security. Among others, companies engaged in the geological exploration and/or extraction of minerals at the subsoil sites of federal significance are considered to be strategically important and foreign investments in such companies are subject to restrictions set out by the Foreign Investment Law.

Under the Foreign Investments Law, an acquisition by a foreign investor of direct or indirect control over a Russian company of strategic importance requires a permit of the special Governmental commission. In addition, an acquisition by a foreign investor or its group of companies of the shares (participation interests) in a company of strategic importance (directly or indirectly) exceeding certain thresholds (which vary from over 5% to over 50% of total voting rights in charter capital of a company of strategic importance, depending on type of the foreign investor and type of the company of strategic importance) requires obtaining a prior permit of the special Governmental commission. If the acquisition of interest over the relevant threshold happens without the requisite prior permit, the acquisition transaction is void under Russian law and the foreign investor and/or its group of companies may be held deprived from voting rights regarding the charter capital of a company of strategic importance.

For purposes of the Foreign Investment Law, Gazprom is a company of strategic importance for national defense and security, but we are generally exempted from the approval procedures contained therein because the Russian Federation directly or indirectly holds more than 50% of our voting shares.

Decree No. 1285 requires that companies listed as "strategic" by the President, as well as their subsidiaries (including Gazprom and its subsidiaries), obtain permission from an authorized governmental agency before engaging in certain activities with foreign governments (including their regulatory and controlling bodies), international organizations and unions of foreign states.

Specifically, when requested "by the bodies of foreign states or by international organizations, unions of foreign states, or bodies (institutions) of these organizations and unions," such companies and their subsidiaries must not, without prior consent of the authorized governmental agency:

- provide to such "bodies, organizations or unions" information relating to their business activities;
- amend contracts entered into with foreign parties, or amend any other documents related to their business policies, including pricing policies, in foreign countries; or
- dispose of their (i) shares in foreign companies; (ii) rights to conduct business in foreign countries; or (iii) immovable property in foreign states.

Prior permission for aforementioned activities is not required if the information is provided pursuant to Russian legislation and in the course of the issuance, circulation and acquisition of securities.

Permission for such activities shall be refused if they could harm the economic interests of the Russian Federation.

The Ministry of Energy of the Russian Federation has been authorized to issue permissions to Gazprom and its subsidiaries pursuant to Decree No. 1285.

Regulation Abroad

Gas Directives

In July 2009, the European Council adopted the Third Energy Package which included, in particular, the Third Gas Directive and Directive 2009/72/EC (electricity) providing for further liberalization of the EU gas and electricity markets and repealing Directive 2003/55/EC (gas) and Directive 2003/54/EC (electricity), respectively. The directives envisaged three alternatives for the vertical disintegration of existing energy producers and suppliers from operators of relevant transportation networks. These alternatives establish various degrees of restriction on the participation of energy producers in ownership and management of the transportation networks, from certain restrictions in managing the networks imposed by a national regulator up to a mandatory disposition of assets or requirement to transfer control over assets to an independent operator. Despite the fact that not all of the EU states have incorporated provisions of the Third Gas Directive into their respective legislation, the directive has been directly applied within the EU from March 2011. Provisions of the Gas directive apply to all undertakings and transportation networks within the EU.

If, pursuant to the Third Gas Directive, an EU state chooses to implement the most restrictive measures on participation of energy producers in ownership and management of the transportation networks, we may be required to dispose of our gas transportation assets in Europe. In light of the requirements of the Third Gas Directive and related national rules and regulations, we have restructured our assets in Europe and disposed of our holdings in gas transportation companies in a number of European countries, including the Baltic States. See "Risk Factors—We encounter competition in our largest business, natural gas sales, from alternative fuel sources and other natural gas producers and suppliers and actions of antitrust regulators, structural changes in our markets or regulation can intensify this competition or otherwise adversely affect our operations or financial position." It is also possible, however, that vertical disintegration would provide us an opportunity for additional access to consumers in the EU market.

As a result of the liberalization of the EU natural gas market, short-term contracts and spot transactions involving natural gas have become more popular. Continued development of short-term contracts and spot transactions has had in the past and may continue to have a significant effect on the state of the market. The long-term "take-or-pay" contracts under which most of Europe's natural gas is supplied by the Group, however, provide for balancing interests of both exporters and importers. Such contracts constitute the main element of major natural gas export financing projects, which provide producers with capital needed for investment in gas production and transportation infrastructure. At the same time, these long-term contracts also ensure that gas importers have access to the required quantities of natural gas over long periods of time. In light of anticipated growth of import demand for natural gas in the European countries, in the face of depletion

of natural gas reserves in the region, and the liberalization of the gas market, long-term contracts are likely to be of a continuing importance.

GENERAL INFORMATION

(1) The Base Prospectus has been approved on January 30, 2019. Transactions will normally be effected for delivery on the third working day after the day of the transaction. However, Notes may be issued pursuant to the Programme which will not be listed on any stock exchange. The Listing Agent is not seeking admission to listing of the Notes on Euronext Dublin for the purposes of the Prospectus Directive on its own behalf, but as agent on behalf of Gazprom and the Issuer. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List or trading on its regulated market for the purposes of the Prospectus Directive.

(2) The establishment of the Programme was approved by a resolution of the Management Committee of Gazprom on July 31, 2003 and by a resolution of the Board of Directors of the Issuer on September 8, 2003; the update of the Programme was approved by a resolution of the Board of Directors of the Issuer on January 28, 2019. Gazprom and the Issuer will obtain all necessary consents, approvals and authorizations in Russia and Luxembourg in connection with any Loan and the issue and performance of the corresponding Series of Notes.

(3) Except as disclosed under "Overview," "Risk Factors," "Summary Consolidated Financial Information," "Summary Production Information," "Summary Sales and Operating Information," "Capitalization," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Gazprom," "Certain Transactions," "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters," "Index to Financial Information," "Appendix A" or "Appendix B" in this Base Prospectus, there has been no significant change in the financial or trading position of Gazprom or the Group since September 30, 2018 and there has been and no material adverse change in the prospects of Gazprom or the Group since December 31, 2017.

(4) There has been no significant change in the financial or trading position and no material adverse change in the prospects of the Issuer since December 31, 2017.

(5) Except as disclosed under "Risk Factors" and "Gazprom" in this Base Prospectus, neither Gazprom nor any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Gazprom is aware) during the 12 months preceding the date of this Base Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of Gazprom or the Group.

(6) The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Issuer is aware) during the 12 months preceding the date of this Base Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer.

(7) The consolidated financial statements of the Group for the years ended December 31, 2016 and 2017 included in this Base Prospectus have been audited by FBK, independent auditors, as stated in their audit report appearing herein. With respect to the Unaudited consolidated interim condensed financial information included in this Base Prospectus, FBK reported that they have applied limited procedures in accordance with professional standards for review of such information. However, their report dated November 29, 2018, appearing herein, states that they did not audit and they do not express an opinion on the Unaudited consolidated interim condensed financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Gazprom publishes unaudited consolidated interim condensed financial information prepared in accordance with IAS 34, for the three-month period ended March 31, the six-month period ended June 30 and for the nine-month period ended September 30 in each year. Gazprom does not publish audited or unaudited interim or year-end consolidated or non-consolidated financial statements prepared in accordance with U.S. GAAP.

(8) Certain information with respect to Gazprom's and Gazprom Neft's natural gas, gas condensate and crude oil reserves associated with their respective natural gas, gas condensate and crude oil properties is derived from the report of DeGolyer and MacNaughton, an internationally recognized firm of independent reservoir engineers, as of December 31, 2017, and has been included herein upon the authority of said firm as an expert with respect to the matters covered by such report and in giving such report. DeGolyer and MacNaughton annually evaluates hydrocarbon reserves of the Group in accordance with PMRS and delivers respective reports to Gazprom's and Gazprom Neft's management. DeGolyer and MacNaughton's headquarter is at 5001 Spring Valley Road, Suite 800 East, Dallas, Texas 75244 with a number of international offices located in Houston, Texas, Moscow, Calgary and Algiers. The D&M Letter has been prepared at the request of Gazprom. DeGolyer and MacNaughton holds no interest in the Issuer.

(9) The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number ("**ISIN**") and (where applicable) the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms or Series Prospectus, as the case may be.

(10) The issue price and the amount of the relevant Notes will be determined before filing of the relevant Final Terms or Series Prospectus of each Series, based on then prevailing market conditions. Gazprom and the Issuer do not intend to provide any post-issuance information in relation to any issues of Notes.

(11) For so long as the Programme remains in effect or any Notes remain outstanding, the following documents in physical form will be available from the date hereof, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Principal Paying Agent and Deutsche International Corporate Services (Ireland) Limited:

- the articles of association of the Issuer and the Charter of Gazprom;
- the Trust Deed (which includes the form of the Global Notes and the Definitive Notes);
- the Agency Agreement;
- the Dealer Agreement;
- the Facility Agreement and the Deed of Amendment dated October 28, 2014;
- the audited consolidated financial statements of Gazprom as of and for the years ended December 31, 2017 and 2016, in each case together with the audit reports thereon;
- the unaudited consolidated interim condensed financial statements of Gazprom as of and for the nine months ended September 30, 2018 and 2017;
- each Final Terms or Series Prospectus, as the case may be, for Notes which are listed on Euronext Dublin or any other stock exchange (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, Gazprom and the Principal Paying Agent as to its holding of Notes and identity); and
- a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus.

(12) Any website referred to in this document does not form part of this Base Prospectus.

(13) Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

GLOSSARY OF SELECTED TERMS

"bbls"	Billions of barrels
"bboe"	Billon barrels of oil equivalent
"bcf"	Billion cubic feet
"bcm"	Billion cubic meters, as measured under one atmosphere of pressure at 20C°
"Board of Directors"	Gazprom's board of directors, consisting of 11 members and appointed pursuant to the Joint Stock Companies Law and the Charter
"boe"	Barrel of oil equivalent
"CBR"	Central Bank of the Russian Federation
"Central and Eastern Europe"	For the purposes of this Base Prospectus: Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Former Yugoslav Republic of Macedonia, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia
"Charter"	Gazprom's Charter of May 31, 1996, as amended or replaced
"CIS"	The Commonwealth of Independent States. For the purposes of this Base Prospectus the CIS includes Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, Uzbekistan and excludes Russia
"Constitution"	The constitution of the Russian Federation adopted on December 12, 1993
"Customs Union"	A customs union of the Russian Federation, the Republic of Belarus and the Republic of Kazakhstan established in accordance with the Treaty on the Establishment of the Common Customs Territory and Formation of the Customs Union of October 6, 2007
"Energy Charter Treaty"	Treaty between European states, the main objective of which is to assist in the development of the European energy market
"EU"	European Union
"Europe"	For the purposes of this Base Prospectus, Central and Eastern Europe and Western Europe
"Europe and Other Countries"	For the purposes of this Base Prospectus, refers to countries other than Russia and the FSU countries
"FEED"	Front-end engineering and design
"FAS"	Federal Antimonopoly Service of the Russian Federation, established pursuant to Government Resolution No.331 dated June 30, 2004
"FSU"	Excluding Russia, the countries which formerly comprised the Soviet Union: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan
"Gas Directives"	Directive 2009/73/EC, Directive 2003/55/EC and Directive 98/30/EC adopted by the European Parliament and the Council in 2009, 2003 and 1998, respectively, and came into force in March 2011, July 2004 and August 1998, respectively, with the purpose of establishing common rules for the organization and functioning of the European natural gas market
"Gcal"	Giggacalories
"Gcal/h"	Giggacalories per hour
"General Meeting of Shareholders"	Gazprom's highest authority in accordance with its Charter, with exclusive power over various aspects of Gazprom's management
"GPP"	Gas processing plant
"GTS"	Gas Transportation System, a system of gas transportation and storage facilities including pipelines, compressor stations and UGSFs designed to deliver gas to points of delivery to gas distribution companies.
"GW"	Giggawatt
"IFRS"	International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board
"International Energy Agency"	A forum with 28 member countries that serves as a forum in which to share energy information, coordinate energy policies and cooperate in the development of energy programs, and is an authoritative source for energy statistics worldwide
"km"	Kilometer
"kW"	Kilowatt
"kWh"	Kilowatt hour
"Management Committee"	An executive body of Gazprom, which, along with the Management Committee Chairman, manages Gazprom's day-to-day affairs and implements the strategic plans of the Board of Directors

"mcf"	Thousand cubic feet
"mcm"	Thousand cubic meters, as measured under one atmosphere of pressure at 20C°
"mmbls"	Millions of barrels
"mmboe"	Million barrels of oil equivalent
"mmcm"	Million cubic meters, as measured under one atmosphere of pressure at 20C°
"mtoe"	Million metric tons of oil equivalent
"MW"	Megawatt
"NGV"	Natural gas vehicle
"OFAC"	The Office of Foreign Assets Control of the US Department of the Treasury
"OGKs"	Wholesale market generation companies
"Russia"	Russian Federation
"Russian Tax Code"	Federal Law No.146-FZ "Tax Code of the Russian Federation (part one)" dated June 31, 1998, as amended, and Federal Law No.117-FZ "Tax Code of the Russian Federation (part two)" dated August 5, 2000, as amended
"State Duma"	Lower chamber of the Russian parliament
"subject to any sanctions"	solely for the purposes of the "Use of Proceeds" section of this Base Prospectus, with respect to any person, activity, business or transaction means that engaging in such activity, business or transaction or dealing with such person would be prohibited by sanctions for any U.S., EU, U.K., Swiss person or other person to whom the relevant sanctions restrictions apply in accordance with their terms, and, for the purposes of this definition only, such activity, business or transaction shall be deemed to include the activity, business or transaction that is the basis for the imposition of the sanctions pursuant to (x) Section 232 of the United States Countering America's Adversaries Through Sanctions Act of 2017 and (y) Section 4(b)(1) of the United States Ukraine Freedom Support Act of 2014, in the case of each of (x) and (y) as in effect on the Closing Date of the respective Series
"tcf"	Trillion cubic feet
"tcm"	Trillion cubic meters, as measured under one atmosphere of pressure at 20C°
"TGKs"	Territorial generation companies
"toe"	Metric ton of oil equivalent
"tce"	Metric ton of standard coal equivalent
"ton"	One metric ton
"UGSF"	Underground natural gas storage facility
"UGSS"	Unified Gas Supply System
"U.K."	United Kingdom
"U.S."	United States of America
"Western Europe"	For the purposes of this Base Prospectus: Andorra, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Greenland, Iceland, Republic of Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, The Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, Turkey and the United Kingdom
"WFLH"	Wide fraction of light hydrocarbons

CONVERSION TABLE

metric measure	U.S. measure
1 bcm.....	35,316,000,000 cubic feet
1 tcm.....	35,316,000,000,000 cubic feet
1 ton.....	1,000 kilos, 2,204.6 pounds, 7.33 barrels of crude oil, 8.18 barrels of gas condensate
1 kilometer	Approximately 0.62 miles
1 metric ton of oil equivalent	25.2 quadrillion btus (British Thermal Units), approximately 1,125 mcm of natural gas
1 barrel of gas condensate ..	1 barrel of oil equivalent (boe)
1 metric ton of gas condensate	8.18 barrels of gas condensate
1 mcm of natural gas	6.49 barrels of oil equivalent (boe)

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PJSC GAZPROM

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

30 September 2018

Moscow | 2018

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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 and its subsidiaries as of 30 September 2018 and the related consolidated interim condensed statement of comprehensive income for the three and nine months ended 30 September 2018, the consolidated interim condensed statements of cash flows and changes in equity for the nine months ended 30 September 2018 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.

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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)

Engagement partner

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

Date of the Report on Review:

29 November 2018

Audited entity	Auditor
Name:	Name:
Public Joint Stock Company Gazprom (PJSC Gazprom).	FBK, LLC.
Address of the legal entity within its location:	Address of the legal entity within its location:
16, Nametkina St., Moscow, 117420, Russian Federation.	44/1, 2AB, Myasnitskaya St., Moscow, 101990, Russian Federation.
Official registration:	Official registration:
State Registration Certificate No. 002.726, issued by Moscow Registration Chamber on 25 February 1993. The registration entry was made in the Unified State Register of Legal Entities on 2 August 2002 under principal state registration number 1027700070518.	State Registration Certificate No. 484.583 issued by Moscow Registration Chamber on 15 November 1993. The registration entry was made in the Unified State Register of Legal Entities on 24 July 2002 under principal state registration number 1027700058286.
	Membership in self-regulatory organization of auditors:
	Member of Self-regulatory organization of auditors Association "Sodruzhestvo". Principal number of registration entry in the register of auditors and audit organizations of the self-regulatory organization of auditors 11506030481.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED BALANCE SHEET (UNAUDITED)
AS OF 30 SEPTEMBER 2018
(in millions of Russian Rubles)

Notes		30 September 2018	31 December 2017
	Assets		
	Current assets		
6	Cash and cash equivalents	885,721	869,007
	Short-term financial assets	62,600	31,057
7	Accounts receivable and prepayments	1,085,447	1,122,724
8	Inventories	938,999	772,314
	VAT recoverable	125,977	119,881
12	Other current assets	728,325	554,283
		3,827,069	**3,469,266**
	Non-current assets		
9	Property, plant and equipment	13,377,197	12,545,079
	Goodwill	107,497	105,469
10	Investments in associates and joint ventures	1,016,734	867,445
11	Long-term accounts receivable and prepayments	670,553	669,286
21	Long-term financial assets	422,103	268,432
12	Other non-current assets	514,009	313,793
		16,108,093	**14,769,504**
	Total assets	**19,935,162**	**18,238,770**
	Liabilities and equity		
	Current liabilities		
	Accounts payable and provisions	1,364,943	1,378,182
	Current profit tax payable	32,623	59,922
	Taxes and fees payable	312,621	276,607
	Short-term borrowings, promissory notes and current portion of long-term borrowings	782,760	874,805
		2,492,947	**2,589,516**
	Non-current liabilities		
13	Long-term borrowings, promissory notes	2,729,567	2,391,713
20	Provisions	483,002	469,453
14	Deferred tax liabilities	774,709	699,413
	Other non-current liabilities	129,177	73,194
		4,116,455	**3,633,773**
	Total liabilities	**6,609,402**	**6,223,289**
	Equity		
15	Share capital	325,194	325,194
15	Treasury shares	(235,919)	(235,919)
	Retained earnings and other reserves	12,786,824	11,539,811
		12,876,099	**11,629,086**
	Non-controlling interest	449,661	386,395
	Total equity	**13,325,760**	**12,015,481**
	Total liabilities and equity	**19,935,162**	**18,238,770**

A.B. Miller
Chairman of the Management Committee
29 November 2018

E.A. Vasilieva
Chief Accountant
29 November 2018

The accompanying notes on pages 9 to 42 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 NINE MONTHS ENDED 30 SEPTEMBER 2018
(in millions of Russian Rubles)

Notes		Three months ended 30 September 2018	Three months ended 30 September 2017	Nine months ended 30 September 2018	Nine months ended 30 September 2017
16	Sales	1,930,036	1,431,662	5,901,591	4,641,596
	Net gain (loss) from trading activity	9,342	5,918	7,048	(14,409)
17	Operating expenses	(1,414,385)	(1,214,231)	(4,450,034)	(3,876,133)
	Impairment loss on financial assets	(19,315)	(11,666)	(73,654)	(55,020)
	Operating profit	**505,678**	**211,683**	**1,384,951**	**696,034**
18	Finance income	156,954	102,305	416,893	338,349
18	Finance expense	(240,290)	(78,710)	(635,122)	(318,337)
10	Share of profit of associates and joint ventures	57,597	27,861	149,180	83,830
	Profit before profit tax	**479,939**	**263,139**	**1,315,902**	**799,876**
	Current profit tax expense	(78,169)	(47,657)	(181,390)	(130,819)
	Deferred profit tax expense	(1,235)	(7,911)	(70,426)	(53,432)
	Profit tax	(79,404)	(55,568)	(251,816)	(184,251)
	Profit for the period	**400,535**	**207,571**	**1,064,086**	**615,625**
	Other comprehensive income (loss):				
	Items that will not be reclassified to profit or loss:				
	Gain (loss) arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	83,309	7,138	154,315	(33,089)
20	Remeasurement of provision for post-employment benefits	68,973	(44,515)	84,316	(58,751)
	Total other comprehensive income (loss) that will not be reclassified to profit or loss	**152,282**	**(37,377)**	**238,631**	**(91,840)**
	Items that may be reclassified subsequently to profit or loss:				
	Share of other comprehensive income of associates and joint ventures	1,657	356	3,315	2,481
	Translation differences	57,733	(1,372)	148,670	21,741
	Gain (loss) from hedging operations, net of tax	8,341	799	35,292	(3,624)
	Total other comprehensive income (loss) that may be reclassified subsequently to profit or loss	**67,731**	**(217)**	**187,277**	**20,598**
	Total other comprehensive income (loss) for the period, net of tax	**220,013**	**(37,594)**	**425,908**	**(71,242)**
	Comprehensive income for the period	**620,548**	**169,977**	**1,489,994**	**544,383**
	Profit for the period attributable to:				
	Owners of PJSC Gazprom	386,446	200,488	1,017,250	581,834
	Non-controlling interest	14,089	7,083	46,836	33,791
		400,535	**207,571**	**1,064,086**	**615,625**
	Comprehensive income for the period attributable to:				
	Owners of PJSC Gazprom	603,019	161,156	1,434,403	504,183
	Non-controlling interest	17,529	8,821	55,591	40,200
		620,548	**169,977**	**1,489,994**	**544,383**
19	**Basic and diluted earnings per share attributable to the owners of PJSC Gazprom (in Russian Rubles)**	**17.49**	**9.07**	**46.03**	**26.33**

A.B. Miller
Chairman of the Management Committee
19 November 2018

E.A. Vasilieva
Chief Accountant
19 November 2018

The accompanying notes on pages 9 to 42 are an integral part of this consolidated interim condensed financial information.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018
(in millions of Russian Rubles)

Notes		Nine months ended 30 September 2018	2017
	Cash flows from operating activities		
	Profit before profit tax	1,315,902	799,876
	Adjustments to profit before profit tax for		
17	Depreciation	476,136	448,579
18	Net finance expense (income)	218,229	(20,012)
10	Share of profit of associates and joint ventures	(149,180)	(83,830)
	Impairment loss on assets and change in provision for post-employment benefits	113,599	97,679
17	Derivatives gain	(6,072)	(11,699)
	Other	9,001	(15,105)
	Total effect of adjustments	661,713	415,612
	Cash flows from operating activities before working capital changes	1,977,615	1,215,488
	Increase in non-current assets	(5,569)	(1,936)
	Increase in non-current liabilities	5,251	7,479
	Changes in working capital	(337,673)	(417,746)
	Profit tax paid	(213,276)	(190,468)
	Net cash from operating activities	**1,426,348**	**612,817**
	Cash flows from investing activities		
	Capital expenditures	(1,191,595)	(987,823)
18	Interest capitalised and paid	(99,771)	(95,263)
	Net change in loans issued	13,513	9,950
	Acquisition of subsidiaries, net of cash acquired	(922)	(16)
	Investments in associates and joint ventures	(26,542)	(92,464)
	Interest received	70,376	42,254
	Change in long-term financial assets measured at fair value through other comprehensive income	7,423	473
	Proceeds from associates and joint ventures	61,514	40,048
	Proceeds from the sale of associates	-	487
	Proceeds from the sale of subsidiaries	577	-
	Placement of long-term bank deposits	(6,321)	(2,596)
	Repayment of long-term bank deposits	42,788	-
	Other	(55,488)	1,013
	Net cash used in investing activities	**(1,184,448)**	**(1,083,937)**
	Cash flows from financing activities		
	Proceeds from long-term borrowings	708,190	643,107
	Repayment of long-term borrowings (including current portion of long-term borrowings)	(779,447)	(425,909)
	Proceeds from short-term borrowings	32,774	112,127
	Repayment of short-term borrowings	(60,050)	(51,587)
	Dividends paid	(187,659)	(191,730)
18	Interest paid	(22,164)	(24,086)
	Acquisition of non-controlling interest in subsidiaries	(139)	(124)
	Proceeds from the sale of non-controlling interest in subsidiaries	20,728	-
	Other	2,943	774
	Net cash (used in) from financing activities	**(284,824)**	**62,572**
	Effect of foreign exchange rate changes on cash and cash equivalents	59,638	11,492
	Increase (decrease) in cash and cash equivalents	**16,714**	**(397,056)**
6	Cash and cash equivalents at the beginning of the period	869,007	896,728
6	**Cash and cash equivalents at the end of the period**	**885,721**	**499,672**

A.B. Miller
Chairman of the Management Committee
29 November 2018

E.A. Vasilieva
Chief Accountant
29 November 2018

The accompanying notes on pages 9 to 42 are an integral part of this consolidated interim condensed financial information.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018
(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
	Nine months ended 30 September 2017							
	Balance as of 31 December 2016	**22.1**	**325,194**	**(235,919)**	**11,005,256**	**11,094,531**	**347,308**	**11,441,839**
	Profit for the period	-	-	-	581,834	581,834	33,791	615,625
	Other comprehensive income (loss):							
	Loss arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	-	-	-	(33,089)	(33,089)	-	(33,089)
20	Remeasurement of provision for post-employment benefits	-	-	-	(58,734)	(58,734)	(17)	(58,751)
	Share of other comprehensive income of associates and joint ventures	-	-	-	2,481	2,481	-	2,481
	Translation differences	-	-	-	15,718	15,718	6,023	21,741
	(Loss) gain from hedging operations, net of tax	-	-	-	(4,027)	(4,027)	403	(3,624)
	Comprehensive income for the nine months ended 30 September 2017	**-**	**-**	**-**	**504,183**	**504,183**	**40,200**	**544,383**
	Change in non-controlling interest in subsidiaries	-	-	-	592	592	(683)	(91)
	Return of social assets to the balance of governmental authorities	-	-	-	(15)	(15)	-	(15)
	Dividends declared	-	-	-	(177,680)	(177,680)	(13,608)	(191,288)
	Balance as of 30 September 2017	**22.1**	**325,194**	**(235,919)**	**11,332,336**	**11,421,611**	**373,217**	**11,794,828**
	Nine months ended 30 September 2018							
	Balance as of 31 December 2017	**22.1**	**325,194**	**(235,919)**	**11,539,811**	**11,629,086**	**386,395**	**12,015,481**
4	Effect of changes in accounting policies	-	-	-	(13,086)	(13,086)	(140)	(13,226)
	Balance as of 1 January 2018 (restated)	**22.1**	**325,194**	**(235,919)**	**11,526,725**	**11,616,000**	**386,255**	**12,002,255**
	Profit for the period	-	-	-	1,017,250	1,017,250	46,836	1,064,086
	Other comprehensive income (loss):							
	Gain (loss) arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	-	-	-	155,086	155,086	(771)	154,315
20	Remeasurement of provision for post-employment benefits	-	-	-	84,318	84,318	(2)	84,316
	Share of other comprehensive income of associates and joint ventures	-	-	-	3,315	3,315	-	3,315
	Translation differences	-	-	-	139,770	139,770	8,900	148,670
	Gain from hedging operations, net of tax	-	-	-	34,664	34,664	628	35,292
	Comprehensive income for the nine months ended 30 September 2018	**-**	**-**	**-**	**1,434,403**	**1,434,403**	**55,591**	**1,489,994**
	Change in non-controlling interest in subsidiaries	-	-	-	3,425	3,425	19,095	22,520
	Return of social assets to the balance of governmental authorities	-	-	-	(42)	(42)	-	(42)
	Dividends declared	-	-	-	(177,687)	(177,687)	(11,280)	(188,967)
	Balance as of 30 September 2018	**22.1**	**325,194**	**(235,919)**	**12,786,824**	**12,876,099**	**449,661**	**13,325,760**

A.B. Miller
Chairman of the Management Committee
29 November 2018

E.A. Vasilieva
Chief Accountant
29 November 2018

The accompanying notes on pages 9 to 42 are an integral part of this consolidated interim condensed financial information.

1 GENERAL INFORMATION

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

The Group is involved in the following activities:

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

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

The Group's activity is subject to seasonal fluctuations with peak demand in the first and fourth quarters of a year. Typically approximately 20 % and 70 % of annual gas volume are shipped in the three and nine months ended 30 September, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

The political and economic instability, 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 rate as determined by the Central Bank of the Russian Federation was as follows:

- as of 30 September 2018 – 65.5906 (as of 30 September 2017 – 58.0169);
- as of 31 December 2017 – 57.6002 (as of 31 December 2016 – 60.6569).

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

- as of 30 September 2018 – 76.2294 (as of 30 September 2017 – 68.4483);
- as of 31 December 2017 – 68.8668 (as of 31 December 2016 – 63.8111).

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government of the Russian Federation to sustain growth and to change the tax, legal and regulatory frameworks. 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 requirements of IAS 34 Interim Financial Reporting. The consolidated interim condensed financial information should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards ("IFRS").

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES IN THEIR APPLICATION

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 2017, except for the application of new standards that became effective on 1 January 2018.

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

Application of New Standards

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

a) Classification and measurement of financial assets

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

Financial assets measured subsequently at amortised cost

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

There were no changes in classification of financial assets that previously were also measured at amortised cost.

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

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

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

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

These instruments were previously recognised by the Group in available-for-sale financial assets with changes in fair value recognised in other comprehensive income.

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

Financial assets that do not meet the criteria of recognition as financial assets measured at amortised cost or measured at fair value through other comprehensive income are measured at fair value through profit or loss. Such financial assets of the Group mainly include derivative financial instruments and financial instruments held for trading, as well as some equity instruments for which the Group has not made a decision to recognise changes in their fair value in other comprehensive income.

These instruments previously met the fair value with changes recognised through profit or loss criteria.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES IN THEIR APPICATION (continued)

b) Impairment of financial assets

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

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

If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the allowance for expected credit losses for that financial asset is measured at an amount equal to 12-month expected credit losses.

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

The applying of the new model resulted in insignificant increase in the amount of the allowance for expected credit losses.

c) Classification and measurement of financial liabilities

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

- financial liabilities measured at fair value through profit or loss. Such liabilities, including derivative financial instruments, are measured subsequently at fair value;
- financial guarantee contracts. After initial recognition financial guarantee contracts are measured at the higher of the amount of loss allowance and the amount initially recognised less cumulative revenue recognised in accordance with IFRS 15 Revenue from Contracts with Customers;
- contingent consideration recognised in a business combination for which IFRS 3 Business Combinations is applied. Such contingent consideration is measured subsequently at fair value with changes recognised in profit or loss.

The Group does not choose to classify any financial liabilities as measured at fair value through profit or loss.

The Group previously applied similar classification and measurement of financial liabilities.

d) Hedge accounting

The Group's management has made a decision to apply the hedge accounting requirements of IFRS 9 Financial Instruments.

The Group applies hedge accounting to derivative financial instruments designated as hedging instruments. The Group applies the cash flow hedge to manage variability in cash flows that results from fluctuations in foreign exchange rates attributable to highly probable forecast transactions.

A qualifying hedging instrument must be designated in its entirety as a hedging instrument.

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES IN THEIR APPICATION (continued)

Previously the Group applied hedge accounting to the same derivatives designated as hedging instruments.

Thus, application of IFRS 9 Financial Instruments has not had a significant effect on the consolidated interim condensed financial information of the Group. The Group applied IFRS 9 Financial Instruments retrospectively and used an option not to restate prior periods in respect of new requirements. The effect of applying IFRS 9 Financial Instruments was recognised in the opening balance of retained earnings and other reserves and non-controlling interest in the consolidated interim condensed statement of changes in equity of the Group as of 1 January 2018.

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

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

Revenue is recognised as the obligation to perform is fulfilled by transferring a promised good or service to a customer. An asset is transferred when the control over such asset is passed to the customer.

Except for the requirement for more detailed disclosure of revenue by geographic segments (see Note 16), application of IFRS 15 Revenue from Contracts with Customers has not had a significant effect on the consolidated interim condensed financial information of the Group. Therefore, comparative data and opening balance of retained earnings and other reserves and non-controlling interest as of 1 January 2018 have not been restated.

Application of Interpretations and Amendments to Standards

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

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

The Group has reviewed these interpretations and amendments to standards while preparing the consolidated interim condensed financial information. The interpretations and amendments to 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 to standards have been issued that are mandatory for the annual periods beginning on or after 1 January 2019. In particular, the Group has not early adopted the standards, interpretations and amendments to standards:

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The standard replaces the IAS 17 Leases and establishes a general accounting model for all types of lease agreements in the statement of financial position which is consistent to applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES IN THEIR APPICATION (continued)

- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.
- The amendments to IAS 28 Investments in Associates and Joint Ventures (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify that long-term interests in an associate or joint venture that form a part of the net investments in the associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments.
- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify which borrowing costs are eligible for capitalisation in particular circumstances.
- The amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify how obtaining control (or joint control) of a business that is a joint operation should be accounted if the entity already holds an interest in that business.
- The amendments to IAS 19 Employee Benefits (issued in February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs.
- The amendments to IFRS 3 Business Combinations (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020). These amendments clarify the definition of a business and simplify assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Group is currently assessing the impact of the new standard, the interpretation and 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".

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

- Production of gas – sales of gas to the Distribution of gas and Refining segments;
- Transportation – rendering transportation services to the Distribution of gas segment;
- Distribution of gas – sales of gas to the Transportation segment for own needs and to the Electric and heat energy generation and sales segment;
- Gas storage – sales of gas storage services to the Distribution of gas segment;

5 SEGMENT INFORMATION (continued)

- Production of crude oil and gas condensate – sales of oil and gas condensate to the Refining segment for further processing;
- Refining – sales of refined hydrocarbon products to other segments.

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

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

	Production of gas	Transpor-tation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Nine months ended 30 September 2018									
Sales of segments	**695,578**	**866,694**	**3,233,341**	**44,895**	**1,137,855**	**1,591,629**	**361,769**	**269,073**	**8,200,834**
Inter-segment sales	676,021	698,402	202,206	41,612	587,144	5,404	-	-	2,210,789
External sales	19,557	168,292	3,031,135	3,283	550,711	1,586,225	361,769	269,073	5,990,045
Financial result of segments	**6,638**	**41,532**	**617,785**	**7,717**	**317,317**	**155,818**	**32,317**	**33,515**	**1,212,639**
Depreciation	138,882	368,113	12,787	19,434	86,022	41,933	39,168	35,807	742,146
Share of profit of associates and joint ventures	6,129	18,227	205	-	107,558	3,852	59	13,150	149,180
Nine months ended 30 September 2017									
Sales of segments	**712,531**	**842,221**	**2,500,209**	**41,549**	**840,719**	**1,232,907**	**349,599**	**260,581**	**6,780,316**
Inter-segment sales	695,548	667,693	184,961	38,752	452,766	6,097	-	-	2,045,817
External sales	16,983	174,528	2,315,248	2,797	387,953	1,226,810	349,599	260,581	4,734,499
Financial result of segments	**74,592**	**42,790**	**130,976**	**4,668**	**186,249**	**40,509**	**38,490**	**2,069**	**520,343**
Depreciation	139,255	387,360	13,630	21,181	86,376	34,172	35,432	25,690	743,096
Share of profit of associates and joint ventures	5,076	14,384	2,815	59	50,422	2,206	104	8,764	83,830

5 SEGMENT INFORMATION (continued)

	Production of gas	Transpor-tation	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 September 2018									
Sales of segments	**219,761**	**311,497**	**971,318**	**14,253**	**466,502**	**596,243**	**87,596**	**95,298**	**2,762,468**
Inter-segment sales	213,706	256,959	51,570	12,995	261,447	1,591	-	-	798,268
External sales	6,055	54,538	919,748	1,258	205,055	594,652	87,596	95,298	1,964,200
Financial result of segments	**(22,425)**	**27,783**	**234,826**	**606**	**162,513**	**35,979**	**(8,282)**	**9,408**	**440,408**
Depreciation	45,308	120,405	4,299	6,365	29,499	13,981	13,037	11,420	244,314
Share of profit (loss) of associates and joint ventures	2,493	5,902	393	-	39,237	1,549	(23)	8,046	57,597
Three months ended 30 September 2017									
Sales of segments	**245,775**	**316,625**	**710,087**	**12,436**	**269,744**	**447,520**	**86,444**	**89,232**	**2,177,863**
Inter-segment sales	240,181	259,579	47,728	11,163	155,089	1,522	-	-	715,262
External sales	5,594	57,046	662,359	1,273	114,655	445,998	86,444	89,232	1,462,601
Financial result of segments	**36,186**	**45,144**	**(28,342)**	**(467)**	**67,065**	**27,477**	**(3,160)**	**(973)**	**142,930**
Depreciation	45,192	125,233	5,098	6,887	28,397	6,371	10,949	4,845	232,972
Share of profit (loss) of associates and joint ventures	1,839	5,141	2,348	4	17,654	943	(77)	9	27,861

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

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

Notes		Three months ended 30 September 2018	Three months ended 30 September 2017	Nine months ended 30 September 2018	Nine months ended 30 September 2017
	Financial result of reportable segments	431,000	143,903	1,179,124	518,274
	Financial result of other segments	9,408	(973)	33,515	2,069
	Total financial result of segments	**440,408**	**142,930**	**1,212,639**	**520,343**
	Difference in depreciation[1]	86,725	87,697	266,010	294,518
	Expenses associated with post-employment benefit obligations	(4,410)	(5,993)	(12,226)	(12,888)
18	Net finance (expense) income	(83,336)	23,595	(218,229)	20,012
10	Share of profit of associates and joint ventures	57,597	27,861	149,180	83,830
17	Derivatives gain	22,227	4,348	6,072	11,699
	Other	(39,272)	(17,299)	(87,544)	(117,638)
	Total profit before profit tax in the consolidated interim condensed statement of comprehensive income	**479,939**	**263,139**	**1,315,902**	**799,876**

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

5 SEGMENT INFORMATION (continued)

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

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
External sales of reportable segments	1,868,902	1,373,369	5,720,972	4,473,918
External sales of other segments	95,298	89,232	269,073	260,581
Total external sales of segments	**1,964,200**	**1,462,601**	**5,990,045**	**4,734,499**
Differences in external sales[1]	(34,164)	(30,939)	(88,454)	(92,903)
Total sales in the consolidated interim condensed statement of comprehensive income	**1,930,036**	**1,431,662**	**5,901,591**	**4,641,596**

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

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

	Production of gas	Transpor-tation	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 September 2018									
Assets of segments	2,665,236	6,840,375	1,844,097	335,953	2,830,455	1,960,685	857,700	1,290,298	18,624,799
Investments in associates and joint ventures	24,874	176,065	20,839	2	568,776	20,614	1,598	203,966	1,016,734
Capital expenditures[1]	168,426	405,293	27,582	6,396	172,259	208,141	35,950	84,449	1,108,496
As of 31 December 2017									
Assets of segments	2,677,231	6,721,549	1,669,202	347,929	2,516,019	1,715,485	868,933	1,131,509	17,647,857
Investments in associates and joint ventures	25,706	155,054	19,198	2	465,544	21,534	1,422	178,985	867,445
Capital expenditures[2]	216,450	498,550	51,675	37,694	330,424	225,240	58,110	86,457	1,504,600

[1] Capital expenditures for the nine months ended 30 September 2018.
[2] Capital expenditures for the year ended 31 December 2017.

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

Notes		30 September 2018	31 December 2017
	Assets of reportable segments	17,334,501	16,516,348
	Assets of other segments	1,290,298	1,131,509
	Total assets of segments	**18,624,799**	**17,647,857**
	Differences in property, plant and equipment, net[1]	(1,628,303)	(1,967,878)
	Borrowing costs capitalised	783,707	714,392
6	Cash and cash equivalents	885,721	869,007
	Short-term financial assets	62,600	31,057
	VAT recoverable	125,977	119,881
12	Other current assets	728,325	554,283
21	Long-term financial assets	422,103	268,432
	Goodwill	107,497	105,469
12	Other non-current assets	514,009	313,793
	Inter-segment assets	(849,957)	(742,369)
	Other	158,684	324,846
	Total assets in the consolidated interim condensed balance sheet	**19,935,162**	**18,238,770**

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

5 SEGMENT INFORMATION (continued)

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

Liabilities of segments are provided in the table below.

	30 September 2018	31 December 2017
Distribution of gas	844,411	841,706
Refining	477,074	337,170
Production of gas	319,727	329,521
Transportation	244,170	306,235
Production of crude oil and gas condensate	219,871	217,805
Electric and heat energy generation and sales	90,684	82,315
Gas storage	23,145	24,416
All other segments	263,991	287,748
Total liabilities of segments	**2,483,073**	**2,426,916**

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

Notes		30 September 2018	31 December 2017
	Liabilities of reportable segments	2,219,082	2,139,168
	Liabilities of other segments	263,991	287,748
	Total liabilities of segments	**2,483,073**	**2,426,916**
	Current profit tax payable	32,623	59,922
	Short-term borrowings, promissory notes and current portion of long-term borrowings	782,760	874,805
13	Long-term borrowings, promissory notes	2,729,567	2,391,713
20	Long-term provisions (except for provision for decommissioning and site restoration)	264,715	266,837
14	Deferred tax liabilities	774,709	699,413
	Other non-current liabilities	129,177	73,194
	Dividends	4,434	5,099
	Inter-segment liabilities	(849,957)	(742,369)
	Other	258,301	167,759
	Total liabilities in the consolidated interim condensed balance sheet	**6,609,402**	**6,223,289**

6 CASH AND CASH EQUIVALENTS

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

	30 September 2018	31 December 2017
Cash on hand and bank balances payable on demand	526,112	508,585
Term deposits with original maturity of three months or less	359,609	360,422
Total cash and cash equivalents	**885,721**	**869,007**

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 September 2018	31 December 2017
Trade receivables	800,518	758,150
Other receivables	114,693	136,980
Loans receivable	68,379	149,302
Advances paid and prepayments	101,857	78,292
Total accounts receivable and prepayments	**1,085,447**	**1,122,724**

Accounts receivable are presented net of allowance for expected credit losses in the amount of RUB 911,847 million and RUB 781,978 million, prepayments are presented net of impairment allowance in the amount of RUB 12,359 million and RUB 12,542 million as of 30 September 2018 and 31 December 2017, respectively.

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

Accounts receivable due from NJSC Naftogaz of Ukraine in relation to gas sales are RUB nil million as of 30 September 2018 and 31 December 2017 net of allowance for expected credit losses in the amount of RUB 121,946 million and RUB 80,231 million as of 30 September 2018 and 31 December 2017, respectively.

8 INVENTORIES

Inventories are presented net of allowance for obsolescence of RUB 5,002 million and RUB 4,974 million as of 30 September 2018 and 31 December 2017, respectively.

9 PROPERTY, PLANT AND EQUIPMENT

	Operating property, plant and equipment (including production licenses)	Social assets	Assets under construction	Total
As of 31 December 2016				
Cost	14,329,467	95,229	2,577,846	17,002,542
Accumulated depreciation	(5,458,960)	(40,835)	-	(5,499,795)
Net book value as of 31 December 2016	**8,870,507**	**54,394**	**2,577,846**	**11,502,747**
Nine months ended 30 September 2017				
Net book value as of 31 December 2016	8,870,507	54,394	2,577,846	11,502,747
Depreciation	(443,378)	(1,874)	-	(445,252)
Additions	46,546	443	938,792	985,781
Translation differences	8,828	20	19,412	28,260
Transfers	201,410	62	(201,472)	-
Disposals	(22,777)	(145)	(38,147)	(61,069)
Change in impairment allowance	-	-	(5,138)	(5,138)
Net book value as of 30 September 2017	**8,661,136**	**52,900**	**3,291,293**	**12,005,329**
Three months ended 31 December 2017				
Net book value as of 30 September 2017	8,661,136	52,900	3,291,293	12,005,329
Depreciation	(155,778)	(627)	-	(156,405)
Additions	100,298	300	601,507	702,105
Translation differences	(7,988)	(6)	2,127	(5,867)
Transfers	493,580	1,261	(494,841)	-
Disposals	(22,259)	(373)	(5,281)	(27,913)
Change in impairment allowance	37,640	-	(9,810)	27,830
Net book value as of 31 December 2017	**9,106,629**	**53,455**	**3,384,995**	**12,545,079**
As of 31 December 2017				
Cost	15,164,745	96,791	3,384,995	18,646,531
Accumulated depreciation	(6,058,116)	(43,336)	-	(6,101,452)
Net book value as of 31 December 2017	**9,106,629**	**53,455**	**3,384,995**	**12,545,079**
Nine months ended 30 September 2018				
Net book value as of 31 December 2017	9,106,629	53,455	3,384,995	12,545,079
Depreciation	(474,144)	(1,714)	-	(475,858)
Additions	71,289	-	1,164,283	1,235,572
Translation differences	66,070	84	61,907	128,061
Transfers	205,705	-	(205,705)	-
Disposals	(25,780)	(10,082)	(15,477)	(51,339)
Change in impairment allowance	-	-	(4,318)	(4,318)
Net book value as of 30 September 2018	**8,949,769**	**41,743**	**4,385,685**	**13,377,197**
As of 30 September 2018				
Cost	15,482,029	86,793	4,385,685	19,954,507
Accumulated depreciation	(6,532,260)	(45,050)	-	(6,577,310)
Net book value as of 30 September 2018	**8,949,769**	**41,743**	**4,385,685**	**13,377,197**

9 PROPERTY, PLANT AND EQUIPMENT (continued)

Operating property, plant and equipment are presented net of allowance for impairment of RUB 158,214 million and RUB 157,849 million as of 30 September 2018 and 31 December 2017, respectively.

Assets under construction are presented net of allowance for impairment of RUB 194,714 million and RUB 185,145 million as of 30 September 2018 and 31 December 2017, 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.

Social assets (rest houses, housing, schools and medical facilities) included in the property, plant and equipment which were vested to the Group at privatisation have a net book value of RUB 85 million and RUB 148 million as of 30 September 2018 and 31 December 2017, respectively.

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Notes			Carrying value as of 30 September 2018	Carrying value as of 31 December 2017	Share of profit (loss) of associates and joint ventures for the nine months ended 30 September 2018	Share of profit (loss) of associates and joint ventures for the nine months ended 30 September 2017
22, 23	Sakhalin Energy Investment Company Ltd.	Associate	212,083	169,242	41,788	22,378
22	PJSC NGK Slavneft and its subsidiaries	Joint venture	152,000	140,548	11,452	5,095
22, 23	Gazprombank (Joint-stock Company) and its subsidiaries[1]	Associate	150,645	145,603	13,088	8,945
22	JSC Arcticgas[2]	Joint venture	135,704	105,157	29,909	12,672
22, 23	Nord Stream AG	Joint venture	91,414	79,288	13,184	11,161
22	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Associate	51,427	45,436	4,561	3,704
22	JSC Achimgaz	Joint venture	35,626	33,509	8,198	6,674
22	JSC Messoyakhaneftegas	Joint venture	33,349	17,965	20,584	7,040
22	JSC EUROPOL GAZ	Associate	32,483	29,588	482	(547)
	Wintershall AG	Associate	17,269	15,645	62	107
22	KazRosGas LLP	Joint venture	11,228	9,435	548	2,514
22	CJSC Northgas	Joint venture	7,750	12,786	2,690	2,515
22	Wintershall Noordzee B.V.	Joint venture	7,411	6,532	133	(319)
	Other (net of allowance for investments impairment of RUB 22,910 million and RUB 21,795 million as of 30 September 2018 and 31 December 2017, respectively)		78,345	56,711	2,501	1,891
			1,016,734	**867,445**	**149,180**	**83,830**

[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 ownership interest of the Group in Gazprombank (Joint-stock Company) increased from 37 % to 48 %.

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

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

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

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

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

	Ownership interest as of 30 September 2018	Country of primary operations	As of 30 September 2018		Nine months ended 30 September 2018	
			Assets	Liabilities	Revenue	Profit
Gazprombank (Joint-stock Company) and its subsidiaries[1]	48 %[2]	Russia	6,119,261	5,627,659	188,085	41,007
Sakhalin Energy Investment Company Ltd.[3]	50 %	Russia	1,094,276	670,109	278,285	83,575
PJSC NGK Slavneft and its subsidiaries	50 %	Russia	557,817	254,653	237,620	23,963
Nord Stream AG[4]	51 %	Russia, Germany	477,536	298,292	59,103	25,851
JSC Arcticgas	50 %	Russia	426,552	176,986	147,368	60,738
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	291,426	177,509	51,438	9,318
JSC Messoyakhaneftegas	50 %	Russia	200,040	133,760	90,792	41,168
JSC Achimgaz	50 %	Russia	86,774	15,523	27,436	16,395
Wintershall AG[5]	49 %	Libya	79,207	54,671	5,595	127
JSC EUROPOL GAZ	48 %	Poland	69,796	2,124	11,200	965
Wintershall Noordzee B.V.	50 %	Netherlands	55,173	41,378	10,535	267
CJSC Northgas	50 %	Russia	46,558	30,121	17,497	5,379
KazRosGaz LLP	50 %	Kazakhstan	28,202	5,747	33,142	1,994

[1] Revenue of Gazprombank (Joints-stock Company) and its subsidiaries includes revenue of media business, machinery business and other non-banking companies.
[2] Ownership interest was determined on the base of ordinary shares less treasury shares.
[3] Country of incorporation is Bermuda Islands.
[4] Country of incorporation is Switzerland.
[5] Country of incorporation is Germany.

	Ownership interest as of 31 December 2017	Country of primary operations	As of 31 December 2017		Nine months ended 30 September 2017	
			Assets	Liabilities	Revenue	Profit (loss)
Gazprombank (Joint-stock Company) and its subsidiaries[1]	48 %[2]	Russia	5,439,664	4,957,243	157,259	34,389
Sakhalin Energy Investment Company Ltd.[3]	50 %	Russia	944,134	605,649	225,452	44,756
PJSC NGK Slavneft and its subsidiaries	50 %	Russia	489,098	210,804	174,545	10,887
Nord Stream AG[4]	51 %	Russia, Germany	437,421	281,955	52,449	21,883
JSC Arcticgas	50 %	Russia	401,450	212,622	104,402	27,057
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	252,107	155,126	27,162	8,083
JSC Messoyakhaneftegas	50 %	Russia	171,124	135,612	39,767	14,080
JSC Achimgaz	50 %	Russia	78,206	11,188	23,029	13,802
Wintershall AG[5]	49 %	Libya	67,904	44,818	8,717	219
JSC EUROPOL GAZ	48 %	Poland	64,993	3,353	9,886	(1,176)
CJSC Northgas	50 %	Russia	58,730	32,221	16,725	5,031
Wintershall Noordzee B.V.	50 %	Netherlands	50,550	38,271	6,947	(637)
KazRosGaz LLP	50 %	Kazakhstan	30,824	11,953	32,572	5,029

[1] Revenue of Gazprombank (Joint-stock Company) and its subsidiaries includes revenue of media business, machinery business and other non-banking companies.
[2] Ownership interest was determined on the base of ordinary shares less treasury shares.
[3] Country of incorporation is Bermuda Islands.
[4] Country of incorporation is Switzerland.
[5] Country of incorporation is Germany.

11 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 September 2018	31 December 2017
Long-term accounts receivable and prepayments	161,051	183,894
Advances paid for assets under construction	509,502	485,392
Total long-term accounts receivable and prepayments	**670,553**	**669,286**

11 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

Long-term accounts receivable are presented net of allowance for expected credit losses in the amount of RUB 12,190 million and RUB 8,810 million as of 30 September 2018 and 31 December 2017, respectively. Prepayments and advances paid for assets under construction are presented net of impairment allowance in the amount of RUB 8,024 million and RUB 7,508 million as of 30 September 2018 and 31 December 2017, respectively.

12 OTHER CURRENT AND NON-CURRENT ASSETS

Other current assets are provided in the table below.

Notes		30 September 2018	31 December 2017
	Short-term deposits	421,221	327,969
21	Derivative financial instruments	181,246	55,202
	Prepaid VAT	106,152	150,511
	Prepaid profit tax	9,296	6,271
	Other	10,410	14,330
	Total other current assets	**728,325**	**554,283**

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

Notes		30 September 2018	31 December 2017
20	Net pension plan assets	91,416	27,173
21	Derivative financial instruments	88,226	19,575
	Intangible assets	50,057	52,174
	VAT recoverable related to assets under construction	44,510	36,681
	Long-term deposits	1,365	1,559
	Other	238,435	176,631
	Total other non-current assets	**514,009**	**313,793**

13 LONG-TERM BORROWINGS, PROMISSORY NOTES

	Currency	Final maturity	30 September 2018	31 December 2017
Long-term borrowings, promissory notes payable to:				
Loan participation notes issued in April 2009[1]	US Dollar	2019	153,570	131,865
Bank of China Limited, London branch	Euro	2021	107,794	137,186
Loan participation notes issued in November 2013[2]	US Dollar	2023	100,403	86,875
Loan participation notes issued in September 2012[2]	US Dollar	2022	98,518	87,461
Loan participation notes issued in March 2007[1]	US Dollar	2022	85,638	76,424
Loan participation notes issued in August 2007[1]	US Dollar	2037	82,735	73,968
Loan participation notes issued in April 2004[1]	US Dollar	2034	81,593	70,163
Loan participation notes issued in October 2015[1]	Euro	2018	79,610	69,539
Loan participation notes issued in November 2016[1]	Euro	2023	77,780	68,530
Loan participation notes issued in March 2013[1]	Euro	2020	77,610	70,702
J.P. Morgan Europe Limited[3]	Euro	2022	76,076	68,256
Loan participation notes issued in April 2017[1, 4]	British Pound Sterling	2024	75,440	67,474
Loan participation notes issued in July 2012[1]	US Dollar	2022	66,240	58,883
Loan participation notes issued in February 2013[1]	US Dollar	2028	59,478	52,874
Loan participation notes issued in February 2014[1]	Euro	2021	58,396	53,224
Loan participation notes issued in November 2017[1]	Euro	2024	57,755	51,194
Loan participation notes issued in March 2018[1]	Euro	2026	57,389	-
China Construction Bank Corporation, Beijing branch[3]	US Dollar	2020	56,870	75,699
Credit Agricole CIB	Euro	2022	53,075	48,138

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	30 September 2018	31 December 2017
UniCredit S.p.A.	Euro	2022	53,039	27,135
UniCredit S.p.A.	Euro	2025	52,868	-
Loan participation notes issued in February 2013[1]	US Dollar	2020	52,781	46,795
J.P. Morgan Europe Limited[3]	Euro	2020	50,736	54,522
Loan participation notes issued in March 2018[1]	Swiss Franc	2023	50,350	-
Loan participation notes issued in March 2017[1]	US Dollar	2027	48,768	43,261
Credit Agricole CIB	Euro	2023	45,647	-
Loan participation notes issued in September 2013[1, 4]	British Pound Sterling	2020	45,603	41,651
Loan participation notes issued in November 2011[1]	US Dollar	2021	39,800	35,470
Loan participation notes issued in March 2013[1]	Euro	2025	38,999	35,611
Loan participation notes issued in November 2016[1, 4]	Swiss Franc	2021	36,121	31,923
Loan participation notes issued in July 2017[1,4]	Swiss Franc	2022	34,520	31,272
Loan participation notes issued in March 2016[1]	Swiss Franc	2018	34,497	29,438
Loan participation notes issued in October 2013[1]	Swiss Franc	2019	34,467	29,641
ING Bank, a branch of ING-DiBa AG	Euro	2023	30,303	-
AO «ALFA-BANK»	US Dollar	2019	26,250	23,052
Russian bonds issued in October 2017[2]	Russian Ruble	2022	25,860	25,371
PJSC Sberbank	Euro	2023	25,438	-
Russian bonds issued in March 2018[2]	Russian Ruble	2024	25,084	-
Wintershall Nederland Transport and Trading B.V.[5]	Euro	2035	25,066	20,555
Uniper Gas Transportation and Finance B.V.[5]	Euro	2035	25,066	20,555
OMV Gas Marketing Trading & Finance B.V.[5]	Euro	2035	25,064	20,554
Shell Exploration and Production (LXXI) B.V.[5]	Euro	2035	25,064	20,554
Engie Energy Management Holding Switzerland AG[5]	Euro	2035	25,064	20,554
Gazprombank (Joint-stock Company)	US Dollar	2019	23,613	20,736
UniCredit Bank Austria AG	Euro	2021	22,418	23,908
Gazprombank (Joint-stock Company)	US Dollar	2019	21,645	19,008
VTB Bank (Europe) SE	Euro	2027	20,647	19,640
Gazprombank (Joint-stock Company)	US Dollar	2019	20,333	17,856
Bank of America Securities Limited	US Dollar	2018	20,183	17,453
Mizuho Bank Ltd.[3]	US Dollar	2019	20,174	53,130
Wintershall Nederland Transport and Trading B.V.[5]	Euro	2019	19,658	3,119
OMV Gas Marketing Trading & Finance B.V.[5]	Euro	2019	19,658	3,119
Shell Exploration and Production (LXXI) B.V.[5]	Euro	2019	19,658	3,119
Uniper Gas Transportation and Finance B.V.[5]	Euro	2019	19,658	3,119
PJSC Sberbank	Euro	2020	18,362	16,591
PJSC Sberbank	Euro	2022	18,348	15,736
Russian bonds issued in April 2017[2]	Russian Ruble	2022	15,603	15,276
Deutsche Bank Luxembourg S.A.	Euro	2022	15,294	13,818
BANK ROSSIYA	Russian Ruble	2022	15,272	15,012
Russian bonds issued in July 2018[6]	Russian Ruble	2048	15,203	-
Russian bonds issued in July 2018[6]	Russian Ruble	2048	15,203	-
Russian bonds issued in November 2013[6]	Russian Ruble	2043	15,182	15,059
Russian bonds issued in November 2013[6]	Russian Ruble	2043	15,182	15,059
Russian bonds issued in August 2017[2]	Russian Ruble	2024	15,169	15,476
Russian bonds issued in February 2017[7]	Russian Ruble	2027	15,168	15,501
Russian bonds issued in February 2017[7]	Russian Ruble	2027	15,168	15,501
Gazprombank (Joint-stock Company)	Russian Ruble	2025	15,000	15,001
BNP Paribas S.A.[3]	Euro	2022	14,073	14,069
UniCredit Bank Austria AG	US Dollar	2018	13,292	11,526
Russian bonds issued in June 2016[2]	Russian Ruble	2046	10,309	10,064
Russian bonds issued in December 2017[2]	Russian Ruble	2024	10,213	10,021
Russian bonds issued in July 2018[6]	Russian Ruble	2033	10,135	-
Russian bonds issued in February 2011[2]	Russian Ruble	2021	10,127	10,371

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	30 September 2018	31 December 2017
Russian bonds issued in August 2016[2]	Russian Ruble	2046	10,085	10,319
Russian bonds issued in February 2018[7]	Russian Ruble	2028	10,065	-
Russian bonds issued in February 2018[7]	Russian Ruble	2028	10,065	-
AO «ALFA-BANK»	Russian Ruble	2023	10,004	-
Gazprombank (Joint-stock Company)	Russian Ruble	2020	4,045	10,000
Russian bonds issued in April 2009[2]	Russian Ruble	2019	118	10,184
Loan participation notes issued in October 2007[1]	Euro	2018	-	87,456
Loan participation notes issued in April 2008[1]	US Dollar	2018	-	64,507
Loan participation notes issued in July 2013[1]	Euro	2018	-	62,985
Loan participation notes issued in April 2013[2]	Euro	2018	-	52,684
PJSC Sberbank	US Dollar	2018	-	43,776
Russian bonds issued in March 2016[2]	Russian Ruble	2018	-	15,427
Commerzbank International S.A.	US Dollar	2018	-	11,522
Russian bonds issued in March 2016[2]	Russian Ruble	2018	-	10,303
Gazprombank (Joint-stock Company)	Russian Ruble	2018	-	10,000
Other long-term borrowings, promissory notes	Various	Various	520,671	476,517
Total long-term borrowings, promissory notes			**3,447,426**	**3,180,337**
Less: current portion of long-term borrowings			(717,859)	(788,624)
			2,729,567	**2,391,713**

[1] Issuer of these bonds is Gaz Capital S.A.
[2] Issuer of these bonds is PJSC Gazprom Neft.
[3] Loans received from consortiums of banks, named lender is the bank-agent.
[4] According to the signed agreements between the bond issuer Gas Capital S.A. and the banks, settlements for the bonds are made in Euro (up to achieve of a coefficient based on the ratio of currency exchange rates set in the agreements).
[5] Borrowings were obtained for financing of the Nord Stream 2 project.
[6] Issuer of these bonds is PJSC Gazprom.
[7] Issuer of these bonds is Gazprom capital LLC.

The analysis of due for repayment of long-term borrowings, promissory notes is presented in the table below.

Due for repayment of long-term borrowings, promissory notes	30 September 2018	31 December 2017
between one and two years	535,337	481,070
between two and five years	1,136,253	1,087,239
after five years	1,057,977	823,404
	2,729,567	**2,391,713**

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,571,719 million and RUB 2,355,672 million and fair value of RUB 2,709,445 million and RUB 2,605,734 million as of 30 September 2018 and 31 December 2017, respectively.

All other long-term borrowings have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 875,707 million and RUB 824,665 million and fair value is RUB 878,477 million and RUB 837,266 million as of 30 September 2018 and 31 December 2017, respectively.

As of 30 September 2018 according to the agreements signed within the framework of financing the Nord Stream 2 project with Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation and Finance B.V., 100 % of shares of Nord Stream 2 AG held by PJSC Gazprom were pledged until a full settlement of the secured obligations.

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

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

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

Under the terms of the Russian bonds with the nominal value of RUB 30,000 million issued by

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

Gazprom capital LLC in February 2018 due in 2028 the issuer can execute the right of early redemption in February 2025.

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

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

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

The Group has no subordinated debt and no debt that may be converted into an equity interest of the Group (see Note 19).

14 PROFIT TAX

Profit tax is recognised based on the estimated average annual effective profit tax rate applied to the profit before profit tax for the nine months ended 30 September 2018. Differences between the recognition criteria of assets and liabilities reflected in IFRS financial statements and for the purposes of Russian statutory taxation give rise to certain temporary differences. The tax effect of the movement in these temporary differences is recorded at the applicable statutory rates with the prevailing rate of 20 % in the Russian Federation.

	30 September 2018	Temporary differences recognition and reversals	31 December 2017	30 September 2017	Temporary differences recognition and reversals	31 December 2016
Tax effect of taxable temporary differences:						
Property, plant and equipment	(869,449)	(38,214)	(831,235)	(808,870)	(58,497)	(750,373)
Inventories	(7,341)	1,566	(8,907)	(7,449)	4,170	(11,619)
	(876,790)	**(36,648)**	**(840,142)**	**(816,319)**	**(54,327)**	**(761,992)**
Tax effect of deductible temporary differences:						
Financial assets	1,935	6,509	(4,574)	2,581	645	1,936
Tax losses carry forward	19,498	6,157	13,341	9,056	3,397	5,659
Retroactive gas price adjustments	8,364	(14,096)	22,460	22,626	(131)	22,757
Accounts receivable	68,761	21,690	47,071	34,684	(4,481)	39,165
Accounts payable	-	(53,859)	53,859	-	-	-
Other deductible temporary differences	3,523	(5,049)	8,572	4,805	833	3,972
	102,081	**(38,648)**	**140,729**	**73,752**	**263**	**73,489**
Total net deferred tax liabilities	**(774,709)**	**(75,296)**	**(699,413)**	**(742,567)**	**(54,064)**	**(688,503)**

Taxable temporary differences recognised for the nine months ended 30 September 2018 and 30 September 2017 include the effect of depreciation premium on certain items of property, plant and equipment. The negative tax effect on these differences for the nine months ended 30 September 2018 was RUB 5,897 million and it was offset by the increase in the current profit tax by the corresponding amount which did not have influence on profit for the nine months ended 30 September 2018. The positive tax effect on these differences for the nine months ended 30 September 2017 amounted to RUB 11,532 million and it was offset by the decrease in the current profit tax by the corresponding amount which did not have influence on profit for the nine months ended 30 September 2017.

15 EQUITY

Share capital

Share capital authorised, issued and paid totals RUB 325,194 million as of 30 September 2018 and 31 December 2017 and consists of 23.7 billion ordinary shares, each with a par value of 5 Russian Rubles.

15 EQUITY (continued)

Treasury shares

As of 30 September 2018 and 31 December 2017 subsidiaries of PJSC Gazprom held 1,573 million ordinary shares of PJSC Gazprom including American depositary receipts in the amount of 639 million PJSC Gazprom's ordinary shares, which are accounted for as treasury shares.

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

The shares including American depositary receipts held by PJSC Gazprom's subsidiaries represent 6.6 % of the total number of PJSC Gazprom's shares as of 30 September 2018 and 31 December 2017.

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

16 SALES

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Gas sales gross of excise tax and customs duties to customers in:				
Russian Federation	128,108	121,453	636,873	587,978
Former Soviet Union (excluding Russian Federation)	77,447	55,925	261,226	223,119
Europe and other countries	934,774	628,406	2,715,098	1,952,011
	1,140,329	805,784	3,613,197	2,763,108
Customs duties	(202,636)	(125,639)	(562,300)	(388,590)
Excise tax	(11,781)	(14,268)	(37,891)	(37,059)
Retroactive gas price adjustments[1]	(109)	2,076	37,686	(5,228)
Total gas sales	925,803	667,953	3,050,692	2,332,231
Sales of refined products to customers in:				
Russian Federation	388,103	311,974	1,006,710	820,857
Former Soviet Union (excluding Russian Federation)	35,074	31,040	112,143	82,030
Europe and other countries	171,475	102,984	467,372	323,923
Total sales of refined products	594,652	445,998	1,586,225	1,226,810
Sales of crude oil and gas condensate to customers in:				
Russian Federation	17,721	14,842	49,112	56,299
Former Soviet Union (excluding Russian Federation)	10,349	6,477	29,433	20,732
Europe and other countries	176,985	93,336	472,166	310,922
Total sales of crude oil and gas condensate	205,055	114,655	550,711	387,953
Electric and heat energy sales				
Russian Federation	81,049	82,516	346,388	337,333
Former Soviet Union (excluding Russian Federation)	2,153	589	3,907	2,089
Europe and other countries	4,394	3,339	11,474	10,177
Total electric and heat energy sales	87,596	86,444	361,769	349,599
Gas transportation sales				
Russian Federation	53,178	55,757	164,475	170,354
Former Soviet Union (excluding Russian Federation)	629	545	2,053	1,790
Europe and other countries	731	744	1,764	2,384
Total gas transportation sales	54,538	57,046	168,292	174,528
Other sales				
Russian Federation	50,610	48,757	147,380	141,310
Former Soviet Union (excluding Russian Federation)	2,869	1,400	6,653	4,164
Europe and other countries	8,913	9,409	29,869	25,001
Total other sales	62,392	59,566	183,902	170,475
Total sales	**1,930,036**	**1,431,662**	**5,901,591**	**4,641,596**

[1] The effect of retroactive gas price adjustments relate to gas deliveries in previous years for which a price adjustment has been agreed or is in the process of negotiations. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded in the consolidated interim condensed financial information when they become probable and a reliable estimate of the amounts can be made.
The effects of retroactive gas price adjustments for the three and nine months ended 30 September 2018 recorded as a decrease of sales by RUB 109 million and an increase of sales by RUB 37,686 million, respectively.
The effects of retroactive gas price adjustments for the three and nine months ended 30 September 2017 recorded as an increase of sales by RUB 2,076 million and a decrease of sales by RUB 5,228 million, respectively.
These effects are due to change of related accruals following agreements reached prior to the issuance of the respective consolidated interim condensed financial information and due to recognition of adjustments increasing gas prices for the past periods.

17 OPERATING EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Purchased gas and oil	368,419	272,407	1,112,961	838,007
Taxes other than on profit	386,480	303,565	1,054,965	869,742
Staff costs	183,560	173,907	562,331	514,981
Depreciation	157,589	145,276	476,136	448,579
Transit of gas, oil and refined products	169,509	152,486	472,992	440,317
Cost of goods for resale, including refined products	63,585	57,612	187,334	170,451
Materials	57,076	67,091	185,621	191,604
Repairs and maintenance	41,249	46,383	93,925	105,566
Electricity and heating expenses	23,797	24,547	81,405	77,631
Rental expenses	10,535	7,917	30,001	28,797
Social expenses	8,717	8,678	25,157	23,898
Insurance expenses	8,312	7,062	23,904	21,594
Transportation services	6,010	4,335	22,971	20,071
Processing services	4,958	4,338	14,079	11,789
Research and development expenses	1,294	4,029	8,823	10,236
(Profit on recovery) impairment loss on non-financial assets	(153)	(1,311)	5,005	9,539
Derivatives gain	(22,227)	(4,348)	(6,072)	(11,699)
Foreign exchange rate differences on operating items	(11,782)	(594)	(20,573)	(9,354)
Other	67,940	95,252	244,663	273,084
	1,524,868	**1,368,632**	**4,575,628**	**4,034,833**
Change in inventories of finished goods, work in progress and other effects	(110,483)	(154,401)	(125,594)	(158,700)
Total operating expenses	**1,414,385**	**1,214,231**	**4,450,034**	**3,876,133**

Staff costs include RUB 11,657 million and RUB 34,940 million of expenses for provision for post-employment benefits for the three and nine months ended 30 September 2018, respectively, and RUB 11,044 million and RUB 33,120 million for the three and nine months ended 30 September 2017, respectively (see Note 20).

18 FINANCE INCOME AND EXPENSE

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Foreign exchange gain	140,237	81,564	363,328	272,945
Interest income	16,717	20,741	53,565	65,404
Total finance income	**156,954**	**102,305**	**416,893**	**338,349**
Foreign exchange loss	228,549	70,931	597,702	279,615
Interest expense	11,741	7,779	37,420	38,722
Total finance expense	**240,290**	**78,710**	**635,122**	**318,337**

Total interest paid amounted to RUB 39,155 million and RUB 121,935 million for the three and nine months ended 30 September 2018, respectively, and RUB 39,683 million and RUB 119,349 million for the three and nine months ended 30 September 2017, respectively.

Foreign exchange gain and loss for the three and nine months ended 30 September 2018 and 30 September 2017 were recognised as a result of change in Euro and the US Dollar exchange rates against the Russian Ruble. Gain and loss primarily relate to revaluation of borrowings denominated in a foreign currency.

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

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

19 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF PJSC GAZPROM (continued)

There were 22.1 billion of weighted average number of shares outstanding, excluding the weighted average number of treasury shares, for the three and nine months ended 30 September 2018 and for the three and nine months ended 30 September 2017.

There are no dilutive financial instruments outstanding in the Group.

20 PROVISIONS

	30 September 2018	31 December 2017
Provision for post-employment benefits	250,858	258,132
Provision for decommissioning and site restoration	218,287	202,616
Other	13,857	8,705
Total provisions	**483,002**	**469,453**

The Group operates post-employment and other employee 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 plan assets related to benefits, provided by NPF GAZFOND, are presented within other non-current assets in the consolidated interim condensed balance sheet in the amount of RUB 91,416 million and RUB 27,173 million as of 30 September 2018 and 31 December 2017, respectively (see Note 12).

In accordance with IAS 19 Employee Benefits, pension plan assets are recorded at estimated fair value subject to certain limitations. As of 30 September 2018 and 31 December 2017 management estimated the fair value of these assets at RUB 500,036 million and RUB 449,814 million, respectively. The pension plan assets comprise shares of PJSC Gazprom, shares of Gazprombank (Joint-stock Company) and other assets held by NPF GAZFOND.

Net liabilities or assets related to post-employment benefits recognised in the consolidated interim condensed balance sheet are presented below.

	30 September 2018		31 December 2017	
	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	(408,620)	(250,858)	(422,641)	(258,132)
Fair value of plan assets	500,036	-	449,814	-
Total net assets (liabilities)	**91,416**	**(250,858)**	**27,173**	**(258,132)**

The amounts of post-employment benefit obligations recognised in operating expenses are presented below (see Note 17).

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Current service cost	7,264	6,441	21,790	19,323
Net interest expense	4,393	4,603	13,150	13,797
Total expenses included in staff costs	**11,657**	**11,044**	**34,940**	**33,120**

The principal assumptions used for the evaluation of post-employment benefit obligations for the three and nine months ended 30 September 2018 were the same as those applied for the year ended 31 December 2017 with exception of the discount rate based on the market yield on government securities. The increase in the discount rate from 7.8 % to 8.7 % resulted in recognition of an actuarial gain of RUB 52,295 million in other comprehensive income for the three months ended 30 September 2018. The increase in the discount rate from 7.6 % to 8.7 % resulted in recognition of an actuarial gain of RUB 63,631 million in other comprehensive income for the nine months ended 30 September 2018.

Remeasurement of provision for post-employment benefits recognised in other comprehensive income is presented below.

20 PROVISIONS (continued)

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Actuarial gains (losses)	52,295	(13,540)	63,631	(45,217)
Return on plan assets excluding amounts included in interest expense	16,826	(30,929)	21,028	(13,281)
Translation differences	(148)	(46)	(343)	(253)
Total	**68,973**	**(44,515)**	**84,316**	**(58,751)**

21 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

a) Financial instruments included in Level 1

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

b) Financial instruments included in Level 2

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

c) Financial instruments included in Level 3

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

The fair value of long-term accounts receivable is classified as Level 3 (see Note 11), long-term borrowings – Level 2 (see Note 13).

As of 30 September 2018 and 31 December 2017 the Group had the following assets and liabilities that are measured at fair value:

		30 September 2018			
Notes		Level 1	Level 2	Level 3	Total
	Financial assets measured at fair value with changes recognised through profit or loss:				
12	Derivative financial instruments	21,765	155,725	3,756	181,246
	Bonds	23,251	-	-	23,251
	Equity securities	250	-	-	250
	Financial assets measured at fair value with changes recognised through other comprehensive income:				
	Promissory notes	-	99	-	99
	Total short-term financial assets measured at fair value	**45,266**	**155,824**	**3,756**	**204,846**
	Financial assets measured at fair value with changes recognised through profit or loss:				
12	Derivative financial instruments	20,028	68,198	-	88,226
	Equity securities	-	-	1,896	1,896
	Financial assets measured at fair value with changes recognised through other comprehensive income:				
	Equity securities	370,879	43,594	5,474	419,947
	Promissory notes	-	260	-	260
	Total long-term financial assets measured at fair value	**390,907**	**112,052**	**7,370**	**510,329**
	Total financial assets	**436,173**	**267,876**	**11,126**	**715,175**
	Financial liabilities measured at fair value with changes recognised through profit or loss:				
	Short-term derivative financial instruments	7,075	153,531	5,053	165,659
	Long-term derivative financial instruments	3,823	70,555	1,143	75,521
	Total financial liabilities measured at fair value	**10,898**	**224,086**	**6,196**	**241,180**

21 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Notes		31 December 2017			
		Level 1	Level 2	Level 3	Total
	Financial assets measured at fair value with changes recognised through profit or loss:				
12	Derivative financial instruments	7,182	46,109	1,911	55,202
	Bonds	30,758	-	-	30,758
	Equity securities	206	-	-	206
	Financial assets measured at fair value with changes recognised through other comprehensive income:				
	Promissory notes	-	93	-	93
	Total short-term financial assets measured at fair value	**38,146**	**46,202**	**1,911**	**86,259**
	Financial assets measured at fair value with changes recognised through profit or loss:				
12	Derivative financial instruments	4,764	14,745	66	19,575
	Equity securities	-	-	797	797
	Financial assets measured at fair value with changes recognised through other comprehensive income:				
	Equity securities	215,733	43,594	8,059	267,386
	Promissory notes	-	249	-	249
	Total long-term financial assets measured at fair value	**220,497**	**58,588**	**8,922**	**288,007**
	Total financial assets	**258,643**	**104,790**	**10,833**	**374,266**
	Financial liabilities measured at fair value with changes recognised through profit or loss:				
	Short-term derivative financial instruments	6,912	55,137	2,293	64,342
	Long-term derivative financial instruments	346	27,180	181	27,707
	Total financial liabilities measured at fair value	**7,258**	**82,317**	**2,474**	**92,049**

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the reporting period.

Financial assets measured at fair value with changes recognised through profit or loss include derivative financial instruments and marketable equity and debt securities intended to generate short-term profit through trading.

As of 30 September 2018 and 31 December 2017 long-term financial assets measured at fair value with changes recognised through other comprehensive income include shares of PJSC NOVATEK in the amount of RUB 366,075 million and RUB 210,010 million, respectively.

22 RELATED PARTIES

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

Government (Russian Federation)

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

As of 30 September 2018 38.373 % of PJSC Gazprom's issued shares are directly owned by the Government. 11.859 % of PJSC Gazprom's issued shares are owned by JSC Rosneftegaz and JSC Rosgazifikatsiya controlled by the Government.

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

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

22 RELATED PARTIES (continued)

Parties under the Government control

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

As of 30 September 2018 prices of natural gas sales and gas transportation, electricity tariffs in the Russian Federation are regulated by the Federal Antimonopoly Service ("FAS").

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

As of 30 September 2018 and 31 December 2017 and for the three and nine months ended 30 September 2018 and for the three and nine months ended 30 September 2017, the Group had the following significant transactions and balances with the Government and parties under the Government control:

	As of 30 September 2018		Three months ended 30 September 2018		Nine months ended 30 September 2018	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	7,441	25,116	-	72,372	-	170,954
Insurance contributions	1,236	8,508	-	32,151	-	107,504
VAT recoverable / payable	268,053	102,617	-	-	-	-
Customs duties	19,316	-	-	-	-	-
Other taxes	3,711	179,528	-	360,179	-	983,119
Transactions and balances with entities under the Government control						
Gas sales	-	-	21,284	-	92,684	-
Electricity and heating sales	-	-	20,311	-	113,995	-
Gas transportation sales	-	-	11,629	-	33,735	-
Other services sales	-	-	1,916	-	5,124	-
Accounts receivable	37,512	-	-	-	-	-
Oil and refined products transportation expenses	-	-	-	30,097	-	92,045
Accounts payable	-	23,131	-	-	-	-
Borrowings	-	188,070	-	-	-	-
Interest expense	-	-	-	1,946	-	8,133
Short-term financial assets	17,873	-	-	-	-	-
Long-term financial assets	4,792	-	-	-	-	-

	As of 31 December 2017		Three months ended 30 September 2017		Nine months ended 30 September 2017	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	4,088	53,112	-	45,103	-	120,100
Insurance contributions	1,359	7,689	-	40,311	-	98,527
VAT recoverable / payable	300,567	90,632	-	-	-	-
Customs duties	16,249	-	-	-	-	-
Other taxes	4,029	153,784	-	282,790	-	816,764
Transactions and balances with entities under the Government control						
Gas sales	-	-	14,976	-	72,746	-
Electricity and heating sales	-	-	20,099	-	110,926	-
Gas transportation sales	-	-	12,462	-	36,753	-
Other services sales	-	-	2,775	-	4,511	-
Accounts receivable	43,701	-	-	-	-	-
Oil and refined products transportation expenses	-	-	-	30,662	-	91,477
Accounts payable	-	17,201	-	-	-	-
Borrowings	-	226,565	-	-	-	-
Interest expense	-	-	-	3,401	-	13,099
Short-term financial assets	27,472	-	-	-	-	-
Long-term financial assets	5,711	-	-	-	-	-

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 entities under the Government control.

See the consolidated interim condensed statement of changes in equity for returns of social assets to governmental authorities during for the nine months ended 30 September 2018 and 30 September 2017. See Note 9 for net book values as of 30 September 2018 and 31 December 2017 of social assets vested to the Group at privatisation.

Transactions with JSC FSC

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with JSC FSC. Current financial system in JSC FSC does not provide the ultimate counterparty with automated information about transactions and outstanding balances with the participants of the wholesale electricity and capacity market.

The Group's significant transactions and balances with JSC FSC are presented below.

	As of 30 September 2018		Three months ended 30 September 2018		Nine months ended 30 September 2018	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with JSC FSC						
Electricity and heating sales	-	-	33,253	-	109,347	-
Purchased electricity and heating	-	-	-	6,095	-	18,966
Accounts receivable	4,960	-	-	-	-	-
Accounts payable	-	1,686	-	-	-	-

	As of 31 December 2017		Three months ended 30 September 2017		Nine months ended 30 September 2017	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with JSC FSC						
Electricity and heating sales	-	-	35,149	-	110,892	-
Purchased electricity and heating	-	-	-	6,118	-	18,806
Accounts receivable	6,030	-	-	-	-	-
Accounts payable	-	1,856	-	-	-	-

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of the Group's companies. The members of the Board of Directors, who are governmental officials, do not receive remuneration from the Group. The remuneration of the members of the Board of Directors is approved by the General Meeting of Shareholders of the Group's companies.

Compensation of key management personnel (other than remuneration of the members of the Board of Directors) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

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

Key management personnel are also entitled to post-retirement benefits. These benefits include pension benefits provided by the non-governmental pension fund, NPF GAZFOND, and one-time retirement payments from the Group (see Note 20).

Employees of the majority of the Group's companies are eligible for such post-retirement benefits.

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

22 RELATED PARTIES (continued)

Associates and joint ventures

For the three and nine months ended 30 September 2018 and 30 September 2017 and also as of 30 September 2018 and 31 December 2017 significant transactions performed by the Group with associates and joint ventures and balances with associates and joint ventures are presented below.

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
	Income		Income	
Gas sales				
Panrusgas Co.	22,198	15,155	48,119	37,311
JSV Moldovagaz	5,369	3,329	17,898	11,713
JSC Latvijas Gaze	11,033	6,358	12,014	13,493
CJSC Gazprom YRGM Trading[1]	3,382	3,746	11,032	12,750
Bosphorus Gaz Corporation A.S.	2,046	2,140	8,784	11,330
JSC Gazprom YRGM Development[1]	2,416	2,676	7,880	9,107
Prometheus Gas S.A.	2,753	1,944	7,230	5,419
KazRosGas LLP	-	317	6,761	6,681
VEMEX s.r.o. and its subsidiaries	735	2,045	2,751	6,854
JSC EUROPOL GAZ	710	555	1,957	1,742
Gas transportation sales				
CJSC Gazprom YRGM Trading[1]	5,728	5,671	18,610	18,557
JSC Gazprom YRGM Development[1]	4,092	4,051	13,293	13,255
KazRosGas LLP	629	545	2,053	1,789
Gas condensate, crude oil and refined products sales				
PJSC NGK Slavneft and its subsidiaries	11,485	8,356	33,781	29,046
JSC SOVEX	2,382	1,277	5,407	3,681
LLC Poliom	1,423	594	3,577	2,132
LLC NPP Neftekhimia	1,372	698	3,411	1,844
Sakhalin Energy Investment Company Ltd.	-	15	1,985	1,391
Field operator services sales and other services sales				
JSC Messoyakhaneftegas	689	614	2,825	3,230
PJSC NGK Slavneft and its subsidiaries	627	681	1,764	3,789

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
	Income		Income	
Gas processing services sales				
KazRosGas LLP	2,236	1,810	7,632	6,032
Interest income				
Gazprombank (Joint-stock Company) and its subsidiaries	8,317	9,925	26,582	31,043
JSC Messoyakhaneftegas	-	1,604	551	4,901
	Expenses		Expenses	
Purchased gas				
CJSC Gazprom YRGM Trading[1]	14,324	12,223	45,240	39,760
JSC Gazprom YRGM Development[1]	10,240	8,733	32,340	28,442
JSC Arcticgas	12,422	13,880	26,284	35,024
KazRosGas LLP	7,895	10,105	22,314	24,658
Sakhalin Energy Investment Company Ltd.	3,514	6,442	10,768	10,781
CJSC Northgas	1,687	1,527	4,518	2,732

22 RELATED PARTIES (continued)

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
	Expenses		Expenses	
Purchased transit of gas				
Nord Stream AG	20,473	18,671	59,004	52,649
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	9,269	6,617	26,248	20,265
JSC EUROPOL GAZ	3,334	3,033	9,542	8,497
JSV Moldovagaz	738	728	2,390	2,532
Purchased crude oil and refined products				
PJSC NGK Slavneft and its subsidiaries	44,635	28,064	118,089	77,470
JSC Messoyakhaneftegas	18,348	7,857	45,386	19,438
Sakhalin Energy Investment Company Ltd.	3,807	4,240	7,362	10,827
Purchased services of gas and gas condensate production				
JSC Achimgaz	10,905	8,282	27,396	23,029
Purchased processing services				
PJSC NGK Slavneft and its subsidiaries	3,779	5,886	10,854	15,554
Purchased transit of crude oil and oil products				
JSC Messoyakhaneftegas	1,422	1,013	3,931	2,748
PJSC NGK Slavneft and its subsidiaries	980	1,218	2,773	4,544
Interest expense				
Gazprombank (Joint-stock Company) and its subsidiaries	3,030	3,357	9,006	8,393

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

Gas is sold to and purchased from the Group's associates and joint ventures in the Russian Federation mainly at the rates established by the FAS. Gas is sold and purchased outside the Russian Federation generally on a long-term basis at prices based on world prices of oil products. Crude oil is sold to and purchased from the Group's associates and joint ventures in the ordinary course of business at prices not significantly different from average market prices.

	As of 30 September 2018		As of 31 December 2017	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
Gazprombank (Joint-stock Company)	11,051	-	17,380	-
Panrusgas Co.	7,814	-	4,023	-
JSC Messoyakhaneftegas	5,748	-	796	-
PJSC NGK Slavneft and its subsidiaries	4,263	-	5,304	-
CJSC Gazprom YRGM Trading	3,001	-	2,327	-
JSC Gazprom YRGM Development	2,143	-	1,662	-
JSC Achimgaz	1,283	-	61	-
KazRosGas LLP	724	-	5,457	-
Sakhalin Energy Investment Company Ltd.	294	-	1,045	-
JSC Arcticgas	90	-	3,459	-
Bosphorus Gaz Corporation A.S.	-	-	2,603	-
Cash				
Gazprombank (Joint-stock Company) and its subsidiaries	424,847	-	388,436	-
OJSC Belgazprombank	8,033	-	19,320	-
Other current assets				
Gazprombank (Joint-stock Company)	397,736	-	290,322	-
OJSC Belgazprombank	8,373	-	7,436	-

22 RELATED PARTIES (continued)

	As of 30 September 2018		As of 31 December 2017	
	Assets	Liabilities	Assets	Liabilities
Long-term accounts receivable and prepayments				
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	15,222	-	13,768	-
Wintershall Noordzee B.V.	6,149	-	5,595	-
OJSC Belgazprombank	4,957	-	4,957	-
JSC Evroteck-Yugra	2,024	-	1,514	-
Gazprombank (Joint-stock Company)	141	-	141	-
JSC Messoyakhaneftegas	-	-	24,414	-
JSC Arcticgas	-	-	4,483	-
Short-term accounts payable				
PJSC NGK Slavneft and its subsidiaries	-	59,740	-	31,164
JSC Messoyakhaneftegas	-	25,783	-	6,928
Nord Stream AG	-	6,812	-	6,172
CJSC Gazprom YRGM Trading	-	6,158	-	7,927
JSC Arcticgas	-	5,075	-	2,963
JSC Achimgaz	-	4,751	-	3,195
JSC Gazprom YRGM Development	-	4,395	-	5,662
JSC Latvijas Gaze	-	3,376	-	293
Prometheus Gas S.A.	-	1,740	-	-
KazRosGas LLP	-	1,169	-	2,079
JSC EUROPOL GAZ	-	1,087	-	2,078
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	-	745	-	1,957
Sakhalin Energy Investment Company Ltd.	-	704	-	5,710
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint-stock Company) and its subsidiaries	-	140,159	-	80,807
Long-term borrowings				
Gazprombank (Joint-stock Company)	-	22,533	-	87,511

Accounts receivable due from JSV Moldovagaz are RUB nil million as of 30 September 2018 and 31 December 2017 net of allowance for expected credit losses in the amount of RUB 400,298 million and RUB 339,481 million as of 30 September 2018 and 31 December 2017, respectively.

Accounts receivable for gas due from Overgas Inc. AD are RUB nil million as of 30 September 2018 and 31 December 2017 net of allowance for expected credit losses in the amount of RUB 6,899 million and RUB 6,058 million as of 30 September 2018 and 31 December 2017, respectively.

As of 30 September 2018 the Group sold the investment in the associate Bosphorus Gaz Corporation A.S. As of 31 December 2017 accounts receivable due from Bosphorus Gaz Corporation A.S. are RUB 2,603 million, net of allowance for expected credit losses in the amount of RUB 5,935 million.

Under the agreement of subordinated loan the Group provided cash to Gazprombank (Joint-stock Company) in the amount of RUB 15,542 million and RUB 3,880 million for the nine months ended 30 September 2018 and 30 September 2017, 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 equally exposed to influence of changes in economic or other factors. The amount of secured borrowings was RUB 60,000 million as of 30 September 2018 and 31 December 2017.

Information on investments in associates and joint ventures is disclosed in Note 10.

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

23 COMMITMENTS AND CONTINGENCIES

Taxation

The Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 30 September 2018 is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

Legal proceedings

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

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

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

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

1) to pay PJSC Gazprom the overdue debt for the gas supplied amounting to USD 2,019 million, and interest for the period from 22 December 2017 to the date of such payment at the rate of 0.03 % for each day of delay;

2) starting from 2018 to buy and pay for 5 billion cubic meters of gas annually or in case of the failure to buy this quantity to pay for 80 % of this volume.

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

On 21 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to challenge stated final decision of 22 December 2017 and to annual it partially. Preliminary court hearings in the cases on challenging the separate and final arbitration awards are planned for 27 November 2018.

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

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

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

23 COMMITMENTS AND CONTINGENCIES (continued)

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

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

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

On 29 May 2018 PJSC Gazprom became aware of the fact that NJSC Naftogaz of Ukraine was taking actions to enforce the arbitration award in Switzerland. On 5 June 2018 PJSC Gazprom became aware of the fact that NJSC Naftogaz of Ukraine was taking similar actions in the Netherlands. On 22 June 2018 PJSC Gazprom received an order of the High Court of Justice (the United Kingdom) dated 18 June 2018 for the seizure of PJSC Gazprom’s assets in the United Kingdom as requested by NJSC Naftogaz of Ukraine as part of its efforts to enforce the above mentioned arbitration award and the decision of the court of first instance dated 8 June 2018 on the enforcement of this decision. In particular on 30 May 2018 the shares in Blue Stream Pipeline Company B.V., the operator of the Blue Stream pipeline, owned by PJSC Gazprom and the receivables payable to PJSC Gazprom (with such receivables remaining at the disposal of the Dutch Group’s companies) were seized pursuant to the decision of the District Court of Amsterdam. In addition, an injunction was issued seizing PJSC Gazprom’s receivables from Nord Stream AG and Nord Stream 2 AG in Switzerland. Payments from these companies to PJSC Gazprom should be directed to the bailiff. PJSC Gazprom has not received any official notifications on this issue. PJSC Gazprom is currently challenging the actions taken by NJSC Naftogaz of Ukraine to enforce the arbitration award dated 28 February 2018, including the injunction, in Swiss, Dutch and British courts.

23 COMMITMENTS AND CONTINGENCIES (continued)

On 2 August 2018 PJSC Gazprom filed a reasoned objection to the injunction to the Swiss court. The Swiss court has not rendered a final decision yet. On 13 September 2018 the High Court of England and Wales cancelled its order dated 18 June 2018 to seize PJSC Gazprom's assets in England and Wales. The condition for the cancellation was the obligation undertaken by PJSC Gazprom not to alienate shares of Nord Stream AG before the end of the hearings in the English court in the case on recognition and execution of the decision of the Stockholm arbitration court in the transit case dated 28 February 2018. The hearings in the case are preliminarily scheduled for February 2019.

On 5 March 2018 PJSC Gazprom notified NJSC Naftogaz of Ukraine about the need to restore the balance of interests between the parties under gas supply and transit contracts disrupted by earlier awards of the Stockholm arbitration court and suggested negotiating this issue. Negotiations were unsuccessful, therefore, on 20 April 2018 PJSC Gazprom filed to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a request for arbitration seeking amendment or termination of contracts with NJSC Naftogaz of Ukraine for gas supply and gas transit through the territory of Ukraine in order to restore the balance between contractual obligations and elimination of disproportions in terms of parties' contractual liabilities. On 22 May 2018 NJSC Naftogaz of Ukraine filed in response to this a request for arbitration and counter-claims in respect of the gas supply and transit contracts.

On 10 July 2018 NJSC Naftogaz of Ukraine filed to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a request for arbitration for changing of the tariff for gas transit through Ukraine starting from 18 March 2018 and for enforced recovery from PJSC Gazprom of USD 11,580 million for the period from 18 March 2018 until the expiration date of the effective gas transit contract (until 31 December 2019). PJSC Gazprom filed a response to this request for arbitration on 14 August 2018. On 6 September 2018 upon a motion from PJSC Gazprom the Stockholm Chamber of Commerce decided to consolidate this proceeding and those initiated to consider PJSC Gazprom's request to amend or terminate contracts with NJSC Naftogaz of Ukraine for gas supply and gas transit through the territory of Ukraine in order to restore the balance between contractual obligations and elimination of disproportions in terms of the parties' contractual liabilities. The parties have appointed the arbitrators, the chairman of the arbitration tribunal has not been appointed. The procedural schedule has not currently been compiled.

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 September 2018 – RUB 110,388 million). PJSC Gazprom did not agree to the claims and on 9 November 2012 filed with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a response to the request for arbitration. The Arbitration panel was formed and the hearing on the merits took place from 1 to 9 July 2015. On 30 September 2015 the parties submitted additional written opinions based on the analysis of the hearing materials including witness and expert statements. On 22 June 2016 the arbitration court issued a final award which rejects all claims raised by the Ministry of Energy of the Republic of Lithuania, including the claims on unfair pricing of the gas which PJSC Gazprom supplied to Lithuania in 2006-2015. On 22 September 2016 it became known that the Ministry of Energy of the Republic of Lithuania had filed a motion with the Court of Appeal of Stockholm, Sweden, to annul the Final arbitration award of 22 June 2016. On 4 April 2017 PJSC Gazprom was officially served with this motion. On 9 June 2017 PJSC Gazprom filed a defence to the claim with the Court of Appeal of Stockholm, Sweden. The Ministry of Energy of the Republic of Lithuania submitted its detailed written opinions of the case on 10 October 2017. PJSC Gazprom is keeping on analysing received documents and is preparing its legal position. The hearings in the case are scheduled for May 2019.

In December 2015 South Stream Transport B.V., a subsidiary of the Group, was served with an official notification by the Secretariat of the International Court of Arbitration of the International Chamber of Commerce stating that Saipem S.p.A. had submitted a request for arbitration against South Stream Transport B.V. in view of unilateral termination by South Stream Transport B.V. of the agreement dated 14 March 2014 for the construction of the "South Stream" pipeline. The amount of current claims of Saipem S.p.A. to South Stream Transport B.V. is about EUR 615 million (at the exchange rate as of 30 September 2018 – RUB 46,881 million). The parties are currently undergoing a mutual information disclosure procedure. The hearings are scheduled for June 2019.

23 COMMITMENTS AND CONTINGENCIES (continued)

On 22 January 2016 the Antimonopoly Committee of Ukraine rendered a decision to impose a fine on PJSC Gazprom in the amount of 85,966 million Ukrainian hryvnia (at the exchange rate as of 30 September 2018 – RUB 199,489 million) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed a claim with the Kiev Economic Court to challenge the decision of the Antimonopoly Committee of Ukraine. On 13 April 2016 the claim was returned unconsidered on formal grounds. On 4 May 2016 PJSC Gazprom filed an appeal with the Kiev Economic Court of Appeal which on 18 May 2016 left the decision of the court of first instance unchanged. On 7 June 2016 PJSC Gazprom filed a cassation petition 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 instance and the decision of the court of appeal. On 2 September 2016 PJSC Gazprom filed with the Supreme Court of Ukraine a petition to review the decisions in the case rendered by the lower 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 courts. On 7 October 2016 the Kiev Economic Court rendered a decision to initiate proceedings of the case due to the claim filed by the Antimonopoly Committee of Ukraine requesting for enforced recovery from PJSC Gazprom of the fine imposed by it amounting to about USD 3 billion, and the penalty amounting to about USD 3 billion and demanding for enforcement of PJSC Gazprom to fulfil to the full extent the part of its decision concerning fulfillment of the terms and conditions of Contract No. TKGU related to the volumes of gas for transit to be supplied. 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 petition 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 held on 16 May 2017 the cassation petition 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 annul decisions of lower courts. On 11 September 2017 the Supreme Court of Ukraine left these decisions in force and the appeal of PJSC Gazprom was unsatisfied. In April 2017 the Antimonopoly Committee of Ukraine filed a request with the Department of State Executive Service of the Ministry of Justice of Ukraine for enforced recovery from PJSC Gazprom of an amount of 171,932 million Ukrainian hryvnia (about USD 6 billion). On 12 May 2017 PJSC Gazprom was served via its Kiev-based Representative office Orders of the Department of the State Executive Service of the Ministry of Justice of Ukraine on institution of enforcement proceedings to recover an amount of 189,125 million Ukrainian hryvnia (at the exchange rate as of 30 September 2018 – RUB 438,876 million), including an execution fee of 17,193 million Ukrainian hryvnia (at the exchange rate as of 30 September 2018 – RUB 39,897 million), the seizure of the bank accounts of the Kiev-based Representative office of PJSC Gazprom, dividends due to PJSC Gazprom for the participation in JSC Gaztranzit, the shares of JSC Gaztranzit owned by PJSC Gazprom, the shares of PJSC YUZHNIIGIPROGAZ Institute, equity interests in LLC Gazprom sbyt Ukraine, and LLC International Consortium for the Ukrainian Gas Transmission System Management and Development. PJSC Gazprom is currently challenging the actions under the enforcement proceedings in the Ukrainian courts. PJSC Gazprom is also considering other legal remedies to restore its violated rights. The shares of PJSC YUZHNIIGIPROGAZ Institute with a nominal value of 651,500 Ukrainian hryvnia (at the exchange rate as of 30 September 2018 – RUB 2 million) (estimated value – 6,241,386 Ukrainian hryvnia, at the exchange rate as of 30 September 2018 – RUB 14 million) were sold on 22 August 2018 in a forced sale auction.

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

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

23 COMMITMENTS AND CONTINGENCIES (continued)

On 3 February 2016 under Council Regulation (EC) No. 1/2003 on the implementation of the rules on competition laid down in Articles 101 and 102 of the Treaty on the Functioning of the EU 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. Delivery of the request does not constitute an initiation of any formal stage of investigation or any accusation of committing any EU antitrust offense by PJSC Gazprom, and intended solely to collect corresponding information. The subject of the request is providing information regarding PJSC Gazprom's 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.

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 violated Article 102 of the Treaty on the Functioning of the EU. In this complaint PGNiG S.A. 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 this complaint, the European Commission registered case No. AT.40497. The commencement of the case does not necessarily entail formal investigation and constitute an accusation of PJSC Gazprom in violationing the antitrust law of the EU. These claims relate to issues covered by the European Commission investigation of PJSC Gazprom and LLC Gazprom export's operation in the countries of Central and Eastern Europe, which formal phase was initiated in 2012. It is currently impossible to assess a potential negative impact of this ongoing investigation on PJSC Gazprom's operation in Europe and on the financial position of PJSC Gazprom as a whole.

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

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

Sanctions

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

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

1) transacting in, providing financing for, or otherwise dealing with new debt of longer than 90 days maturity (from 28 November 2017 – 60 days maturity) or newly issued share capital, property or rights to property in respect of a number of energy companies, including PJSC Gazprom Neft;

2) transacting in, providing financing for, or otherwise dealing with new debt of longer than 30 days maturity (from 28 November 2017 – 14 days maturity) or newly issued share capital, property or rights to property

23 COMMITMENTS AND CONTINGENCIES (continued)

in respect of a number of Russian companies of the banking sector, including Gazprombank (Joint-stock Company) (PJSC Gazprom is not on the list of restricted entities in this respect);

3) providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of potential exploration and production of oil in deep water, Arctic offshore, or shale formations in the Russian Federation, inland or in territorial waters claimed by the Russian Federation with participation of Russian companies, including PJSC Gazprom and PJSC Gazprom Neft. Since 7 August 2015 restriction has included the Yuzhno-Kirinskoye field located in the Sea of Okhotsk. According to the changes of 31 October 2017 the scope of the stated restriction is extended for projects that meet three criteria at the same time:

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

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

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

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

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

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

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

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

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

4) after 12 September 2014 providing directly or indirectly or being part of any arrangement to make new borrowings with a maturity exceeding 30 days to some Russian companies (including PJSC Gazprom Neft and Gazprombank (Joint-stock Company) but excluding PJSC Gazprom), except for borrowings that have a specific

23 COMMITMENTS AND CONTINGENCIES (continued)

and documented objective to provide financing for non-prohibited imports or exports of goods and non-financial services between the EU and the Russian Federation or for borrowings that have a specific and documented objective to provide emergency funding to meet solvency and liquidity criteria for bodies established in the EU, whose proprietary rights are owned for more than 50 percent by any entity referred to above.

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

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

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

Financial guarantees

	30 September 2018	31 December 2017
Guarantees issued for:		
Nord Stream AG	137,160	128,913
LLC Stroygazconsulting	93,970	81,710
Sakhalin Energy Investment Company Ltd.	76,415	78,563
Other	21,131	26,353
Total financial guarantees	**328,676**	**315,539**

For the nine months ended 30 September 2018 and in 2017 counterparties fulfilled their contractual obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 1,165 million and USD 1,391 million as of 30 September 2018 and 31 December 2017, respectively, as well as amounts denominated in Euro of EUR 1,913 million and EUR 1,905 million as of 30 September 2018 and 31 December 2017, respectively.

In June 2008 the Group pledged the shares of Sakhalin Energy Investment Company Ltd. to the bank-agent Mizuho Bank Ltd. under the loan obligations of Sakhalin Energy Investment Company Ltd. As of 30 September 2018 and 31 December 2017 the amount of Sakhalin Energy Investment Company Ltd. obligations up to the amount of the Group's share (50 %) amounted to RUB 76,415 million (USD 1,165 million) and RUB 78,563 million (USD 1,364 million), respectively.

In March 2010 the Group pledged the shares of Nord Stream AG to the bank-agent Societe Generale under the obligations of Nord Stream AG under the project financing agreement. As of 30 September 2018 and 31 December 2017 the amount of Nord Stream AG obligations up to the amount of the Group's share (51 %) amounted to RUB 137,160 million (EUR 1,799 million) and RUB 128,913 million (EUR 1,872 million), respectively.

In December 2017 the Group provided guarantees to Gazprombank (Joint-stock Company) for LLC Stroygazconsulting under its loan obligations. As of 30 September 2018 and 31 December 2017 the guarantees amounted to RUB 93,970 million and RUB 81,710 million, respectively.

Capital commitments

The total investment utilisation in accordance with investment programme for 2018 for gas, oil, electricity and heat generating assets is expected to be RUB 1,920,518 million.

Operating lease commitments

As of 30 September 2018 and 31 December 2017 the Group does not have significant liabilities related to operating leases.

23 COMMITMENTS AND CONTINGENCIES (continued)

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 30 September 2018 no loss is expected to result from these long-term commitments.

24 EVENTS AFTER REPORTING PERIOD

Borrowings

In October 2018 the Group signed an agreement to obtain a long-term loan from PJSC Sberbank in the amount of RUB 10,000 million at an interest rate, which is set up according to each loan transaction, due in 2023. In November 2018 under that agreement the Group obtained RUB 5,300 million at an interest rate of 8.65 % due in 2019.

In October 2018 the Group obtained a long-term loan from Intesa Sanpaolo Bank Luxembourg in the amount of EUR 1,200 million at an interest rate of EURIBOR + 1.75 % due in 2023.

In October 2018 the Group obtained a long-term loan from J.P. Morgan Europe Limited in the amount of EUR 1,100 million at an interest rate of EURIBOR + 1.6 % due in 2023.

In October 2018 the Group obtained a long-term loan from Gazprombank (Joint-stock Company) in the amount of RUB 15,000 million due in 2021.

In November 2018 the subsidiary Nord Stream 2 AG obtained long-term loans from Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation and Finance B.V. in the amount of EUR 340 million within the terms of the long-term financing agreement signed between the parties in April 2017.

In November 2018 the Group issued Loan Participation Notes in the amount of EUR 1,000 million at an interest rate of 2.949 % due in 2024 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

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ФБК

PJSC GAZPROM

IFRS Consolidated Financial Statements with Independent Auditor's Report

31 December 2017

Moscow | 2018

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Independent Auditor's Report

To the Shareholders of PJSC Gazprom

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Gazprom ("PJSC Gazprom") and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Revenue recognition

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

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

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

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

Impairment of property, plant and equipment

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

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

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

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

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

Impairment of accounts receivable

One of high-risk audit areas is the evaluation of sufficiency of impairment allowance for accounts receivable. We assessed the assumptions and professional judgments applied by the Group’s management, including critical assessment of the information used by the Group to forecast the ability of its customers to repay their debts. We also performed procedures to evaluate controls over the recognition and repayment of the accounts receivable.

Based on the results of the procedures performed, we considered the criteria and assumptions applied by the management to accrue impairment allowance for accounts receivable to be appropriate.

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

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

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

In 2017 and 2018, the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, made the decisions in respect of legal proceedings with NJSC Naftogaz of Ukraine, which were the most significant litigations of the Group.

Procedures we performed included analysis of the decisions made in respect of legal proceedings with NJSC Naftogaz of Ukraine, discussions of these and other significant matters with the Group’s staff, including staff responsible for providing judicial and legal support to the Group in its activities, evaluation and testing of terms underlying the recognition of liabilities. Based on the results of the procedures performed, we considered the estimates and approaches applied by the management, including the procedure for recognition of liabilities in respect of the court decisions made on legal proceedings with NJSC Naftogaz of Ukraine, to be consistent and appropriate.

Information about liabilities accrued in respect of litigations is disclosed in Note 18 “Accounts payable and provisions for liabilities and chargers” to the consolidated financial statements, information about contingent liabilities in respect of litigations is disclosed in Note 36 “Operating risks” to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of PJSC Gazprom for 2017 and the Quarterly issuer’s report for the second quarter of 2018 but does not include the consolidated financial statements and our auditor’s report thereon. The Annual Report of PJSC Gazprom for 2017 and the Quarterly issuer’s report are expected to be made available to us after the date of this auditor’s report.

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

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

When we read the Annual report of PJSC Gazprom for 2017 and the Quarterly issuer's report for the second quarter of 2018, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

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

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Group's management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

President of FBK, LLC

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)

Date of the Independent Auditor's Report:
24 April 2018

Audited entity

Name:

Public Joint Stock Company Gazprom
(PJSC Gazprom).

Address of the legal entity within its location:

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

Official registration:

State Registration Certificate No. 002.726, issued by Moscow Registration Chamber on 25 February 1993. The registration entry was made in the Unified State Register of Legal Entities on 02 August 2002 under principal state registration (OGRN) number 1027700070518.

Auditor

Name:

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

Address of the legal entity within its location:

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

Official registration:

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

Membership in self-regulatory organization of auditors:

Self-regulatory organization of auditors Association "Sodruzhestvo".

Number in the register of self-regulatory organization of auditors:

Certificate of membership in the self-regulatory organization of auditors Association "Sodruzhestvo" No. 7198, number in the register – 11506030481.

PJSC GAZPROM
CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2017
(in millions of Russian Rubles)

Notes		31 December 2017	31 December 2016
	Assets		
	Current assets		
8	Cash and cash equivalents	869,007	896,728
	Restricted cash	2,943	3,471
9	Short-term financial assets	31,057	11,481
10	Accounts receivable and prepayments	1,122,724	1,084,967
11	Inventories	772,314	711,199
	VAT recoverable	119,881	195,033
12	Other current assets	551,340	331,467
		3,469,266	**3,234,346**
	Non-current assets		
13	Property, plant and equipment	12,545,079	11,502,747
14	Goodwill	105,469	105,330
15	Investments in associates and joint ventures	867,445	730,149
16	Long-term accounts receivable and prepayments	669,286	710,747
17	Available-for-sale long-term financial assets	268,432	294,345
12	Other non-current assets	313,793	341,274
		14,769,504	**13,684,592**
	Total assets	**18,238,770**	**16,918,938**
	Liabilities and equity		
	Current liabilities		
18	Accounts payable and provisions for liabilities and charges	1,378,182	1,197,005
	Current profit tax payable	59,922	62,479
19	Taxes and fees payable	276,607	215,244
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	874,805	447,080
		2,589,516	**1,921,808**
	Non-current liabilities		
21	Long-term borrowings, promissory notes	2,391,713	2,382,543
24	Provisions for liabilities and charges	469,453	406,234
22	Deferred tax liabilities	699,413	688,503
	Other non-current liabilities	73,194	78,011
		3,633,773	**3,555,291**
	Total liabilities	**6,223,289**	**5,477,099**
	Equity		
25	Share capital	325,194	325,194
25	Treasury shares	(235,919)	(235,919)
25	Retained earnings and other reserves	11,539,811	11,005,256
		11,629,086	**11,094,531**
33	Non-controlling interest	386,395	347,308
	Total equity	**12,015,481**	**11,441,839**
	Total liabilities and equity	**18,238,770**	**16,918,938**

A.B. Miller
Chairman of the Management Committee
24 April 2018

E.A. Vasilieva
Chief Accountant
24 April 2018

The accompanying notes on pages 12 to 77 are an integral part of these consolidated financial statements.

PJSC GAZPROM
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(in millions of Russian Rubles)

Notes		Year ended 31 December 2017	2016
26	Sales	6,546,143	6,111,051
	Net (loss) gain from trading activity	(16,352)	3,382
27	Operating expenses	(5,714,090)	(5,244,983)
27	Change in impairment and other provisions	54,922	(143,870)
	Operating profit	**870,623**	**725,580**
28	Finance income	426,705	1,018,997
28	Finance expense	(407,044)	(543,370)
15	Share of net income of associates and joint ventures	126,940	82,872
	Gain on disposal of available-for-sale financial assets	782	1,059
	Profit before profit tax	**1,018,006**	**1,285,138**
	Current profit tax expense	(241,817)	(218,113)
	Deferred profit tax expense	(9,310)	(69,921)
22	Profit tax	(251,127)	(288,034)
	Profit for the year	**766,879**	**997,104**
	Other comprehensive income (loss):		
	Items that will not be reclassified to profit or loss:		
24	Remeasurements of post-employment benefit obligations	(5,064)	33,118
	Total items that will not be reclassified to profit or loss	**(5,064)**	**33,118**
	Items that may be reclassified subsequently to profit or loss:		
17	(Loss) gain arising from change in fair value of available-for-sale financial assets, net of tax	(30,404)	62,133
15	Share of other comprehensive income (loss) of associates and joint ventures	2,967	(6,397)
	Translation differences	23,290	(297,703)
	Gain from cash flow hedges, net of tax	13,601	49,196
	Total items that may be reclassified subsequently to profit or loss	**9,454**	**(192,771)**
	Other comprehensive income (loss) for the year, net of tax	**4,390**	**(159,653)**
	Total comprehensive income for the year	**771,269**	**837,451**
	Profit for the year attributable to:		
	Owners of PJSC Gazprom	714,302	951,637
33	Non-controlling interest	52,577	45,467
		766,879	**997,104**
	Total comprehensive income for the year attributable to:		
	Owners of PJSC Gazprom	710,840	806,903
	Non-controlling interest	60,429	30,548
		771,269	**837,451**
30	**Basic and diluted earnings per share for profit attributable to the owners of PJSC Gazprom (in Russian Rubles)**	**32.32**	**42.19**

A.B. Miller
Chairman of the Management Committee
24 April 2018

E.A. Vasilieva
Chief Accountant
24 April 2018

The accompanying notes on pages 12 to 77 are an integral part of these consolidated financial statements.

PJSC GAZPROM
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in millions of Russian Rubles)

Notes		Year ended 31 December 2017	2016
	Cash flows from operating activities		
31	**Net cash from operating activities**	**1,187,022**	**1,571,323**
	Cash flows from investing activities		
	Capital expenditures	(1,405,780)	(1,369,052)
	Interest paid and capitalised	(127,159)	(132,477)
	Net change in loans issued	18,788	(9,627)
	Acquisition of subsidiaries, net of cash acquired	(16)	(1,113)
	Investments in associates and joint ventures	(97,238)	(3,359)
	Interest received	75,547	119,460
	Change in available-for-sale long-term financial assets	(13,673)	13,451
	Proceeds from associates and joint ventures	87,197	62,461
	Proceeds from the sale of associates	559	22,801
	Placement of long-term bank deposits	(2,586)	(142,374)
	Repayment of long-term bank deposits	100,000	85
	Other	(3,770)	(6,221)
	Net cash used in investing activities	**(1,368,131)**	**(1,445,965)**
	Cash flows from financing activities		
37	Proceeds from long-term borrowings	933,987	548,623
37	Repayment of long-term borrowings (including current portion of long-term borrowings)	(592,056)	(653,092)
37	Proceeds from short-term borrowings	74,576	124,783
37	Repayment of short-term borrowings	(40,035)	(110,291)
37	Dividends paid	(191,875)	(186,337)
37	Interest paid	(34,296)	(50,835)
25	Acquisition of treasure shares	-	(132,000)
	Acquisition of non-controlling interest in subsidiaries	(885)	(124)
	Issue of shares acquired by non-controlling interests	-	450
	Change in restricted cash	528	(1,656)
	Net cash from (used in) financing activities	**149,944**	**(460,479)**
	Effect of foreign exchange rate changes on cash and cash equivalents	3,444	(127,246)
	Decrease in cash and cash equivalents	**(27,721)**	**(462,367)**
8	Cash and cash equivalents at the beginning of the reporting year	896,728	1,359,095
8	**Cash and cash equivalents at the end of the reporting year**	**869,007**	**896,728**

A.B. Miller
Chairman of the Management Committee
24 April 2018

E.A. Vasilieva
Chief Accountant
24 April 2018

The accompanying notes on pages 12 to 77 are an integral part of these consolidated financial statements.

PJSC GAZPROM
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(in millions of Russian Rubles)

Notes		Number of shares out-standing (billions)	Attributable to the owners of PJSC Gazprom: Share capital	Treasury shares	Retained earnings and other reserves	Total	Non-controlling interest	Total equity
	Balance as of 31 December 2015	**23.0**	**325,194**	**(103,919)**	**10,368,311**	**10,589,586**	**325,036**	**10,914,622**
33	Profit for the year	-	-	-	951,637	951,637	45,467	997,104
	Other comprehensive income (loss):							
24, 33	Remeasurements of post-employment benefit obligations	-	-	-	33,110	33,110	8	33,118
33	Gain arising from changes in fair value of available-for-sale financial assets, net of tax	-	-	-	62,132	62,132	1	62,133
	Share of other comprehensive loss of associates and joint ventures	-	-	-	(6,397)	(6,397)	-	(6,397)
25, 33	Translation differences	-	-	-	(281,414)	(281,414)	(16,289)	(297,703)
33	Gain from cash flow hedges, net of tax	-	-	-	47,835	47,835	1,361	49,196
	Total comprehensive income for the year ended 31 December 2016	**-**	**-**	**-**	**806,903**	**806,903**	**30,548**	**837,451**
33	Change in non-controlling interest in subsidiaries	-	-	-	4,437	4,437	3,451	7,888
25	Return of social assets to governmental authorities	-	-	-	(23)	(23)	-	(23)
25, 34	Treasury shares	(0.9)	-	(132,000)	-	(132,000)	-	(132,000)
25, 33	Dividends declared	-	-	-	(174,372)	(174,372)	(11,727)	(186,099)
	Balance as of 31 December 2016	**22.1**	**325,194**	**(235,919)**	**11,005,256**	**11,094,531**	**347,308**	**11,441,839**
33	Profit for the year	-	-	-	714,302	714,302	52,577	766,879
	Other comprehensive income (loss):							
24, 33	Remeasurements of post-employment benefit obligations	-	-	-	(4,982)	(4,982)	(82)	(5,064)
33	Loss arising from changes in fair value of available-for-sale financial assets, net of tax	-	-	-	(30,397)	(30,397)	(7)	(30,404)
	Share of other comprehensive income of associates and joint ventures	-	-	-	2,967	2,967	-	2,967
25, 33	Translation differences	-	-	-	16,145	16,145	7,145	23,290
33	Gain from cash flow hedges, net of tax	-	-	-	12,805	12,805	796	13,601
	Total comprehensive income for the year ended 31 December 2017	**-**	**-**	**-**	**710,840**	**710,840**	**60,429**	**771,269**
33	Change in non-controlling interest in subsidiaries	-	-	-	1,413	1,413	(2,963)	(1,550)
25	Return of social assets to governmental authorities	-	-	-	(18)	(18)	-	(18)
25, 33	Dividends declared	-	-	-	(177,680)	(177,680)	(18,379)	(196,059)
	Balance as of 31 December 2017	**22.1**	**325,194**	**(235,919)**	**11,539,811**	**11,629,086**	**386,395**	**12,015,481**

A.B. Miller
Chairman of the Management Committee
24 April 2018

E.A. Vasilieva
Chief Accountant
24 April 2018

The accompanying notes on pages 12 to 77 are an integral part of these consolidated financial statements.

1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

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

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

The weighted average number of employees during 2017 and 2016 was 463 thousand and 456 thousand, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

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

- as of 31 December 2017 – 57.6002;
- 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 31 December 2017 – 68.8668;
- 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

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

The consolidated financial statements of the Group are prepared under the historical cost convention except for certain financial instruments as described in Note 5. The principal accounting policies applied in the

3 BASIS OF PRESENTATION (continued)

preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

4 SCOPE OF CONSOLIDATION

As described in Note 5, the consolidated financial statements include consolidated subsidiaries, associates, joint ventures and operation of the Group. There were no significant changes in the Group's structure in 2017 and 2016.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Group accounting

Subsidiaries

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

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

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

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

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

Goodwill and non-controlling interest

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements

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

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

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

Associates

Associates are entities over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint arrangement. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies. Associates are accounted for using the equity method. The group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised gains are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

5.2 Financial instruments

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

Accounting for financial guarantee contracts

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

Fair value disclosure

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Derivative financial instruments

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

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

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

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

5.4 Hedge accounting

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

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

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

5.5 Non-derivative financial assets

The Group classifies its financial assets in the following categories:

(a) financial assets at fair value through profit or loss;

(b) available-for-sale financial assets; and

(c) loans and receivables.

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial assets at fair value through profit or loss of the consolidated statement of comprehensive income

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

There were no material financial assets designated at the fair value through profit or loss at inception as of 31 December 2017 and 31 December 2016.

(b) Available-for-sale financial assets

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

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

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

(c) Loans and receivables

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

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

Impairment of financial assets

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5.6 Options on purchase or sale of financial assets

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

5.7 Cash and cash equivalents and restricted cash

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

5.8 Value added tax

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

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

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

5.9 Mineral extraction tax

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

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

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

1) the base rate of RUB 35 per thousand cubic meters of natural fuel gas;

2) the base value of a unit of fuel equivalent calculated, based on various macroeconomic indicators, including oil and gas prices;

3) the coefficient representing the degree of difficulty of extracting natural fuel gas and (or) gas condensate from raw hydrocarbon deposits;

4) the indicator representing the transportation costs of natural fuel gas.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1) the base rate of RUB 42 per ton for extracted gas condensate;

2) the base value of a unit of fuel equivalent, calculated taking into account various macroeconomic indicators including oil and gas prices;

3) the coefficient representing the degree of difficulty of extracting natural fuel gas and (or) gas condensate from raw hydrocarbon deposits;

4) the adjustment coefficient.

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

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

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

MET is included in operating expenses.

5.10 Customs duties

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

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

Revenues are recognised net of the amount of custom duties.

5.11 Excise tax

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

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

5.12 Inventories

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

5.13 Property, plant and equipment

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

5.14 Impairment of non-current non-financial assets

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5.15 Borrowings

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

5.16 Deferred tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred income tax is provided on all temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

5.17 Foreign currency transactions

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

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

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

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

5.18 Provisions for liabilities and charges

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.19 Equity

Treasury shares

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

Dividends

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

5.20 Revenue recognition

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

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

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

Net gain (loss) from trading activity

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

5.21 Interest

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

5.22 Research and development

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

5.23 Employee benefits

Pension and other post-retirement benefits

The Group operates post-employment benefits, which are recorded in the consolidated financial statements under IAS 19 Employee Benefits. Defined benefit plan covers the majority of employees of the Group. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

accrued and charged to staff expenses within operating expenses in the consolidated statement of comprehensive income reflecting the cost of benefits as they are earned over the service lives of employees. The post-employment benefit obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability.

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

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

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

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

Social expenses

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

5.24 Recent accounting pronouncements

Application of new IFRSs

A number of amendments to current IFRSs became effective for the periods beginning on or after 1 January 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 financial information. The amended standards have no significant impact on the Group's consolidated 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:

- 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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 amendments to IAS 28 Investments in Associates and Joint Ventures (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify that long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments.
- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify which borrowing costs are eligible for capitalisation in particular circumstances.

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

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

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

IFRS 9 Financial Instruments combine the three phases of the financial instruments project: classification and measurement, impairment and hedge accounting. The Group plans to apply the new standard starting from its effective date. The Group has performed detailed assessment of all three parts of IFRS 9 Financial Instruments. This assessment is based on the currently available information and may be modified after receipt of additional valid and justifiable information, which will become available in 2018 when the Group starts application of IFRS 9 Financial Instruments.

a) Classification and measurement of financial assets

Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value with changes recognised in other comprehensive income, and measured at fair value with changes recognised in profit or loss.

Classification of debt instruments depends on the entity's business model applied to manage financial assets and on whether the contractual cash flows are just payments of principal and interest. The Group’s accounts receivable and loans granted are mainly held to obtain contractual cash flows and it is expected that they will result in cash flows being payments of principal and interest. The Group has analysed characteristics of contractual cash flows in respect of these instruments and come to a conclusion that they continue to meet the criteria for measurement at amortised cost in accordance with the requirements of IFRS 9 Financial Instruments. Financial assets that do not contain cash flows being payments of principal and interest shall be measured at fair value with changes recognised in profit or loss. Such instruments include the Group’s derivative financial instruments and financial instruments held for trading. The Group has analysed characteristics of contractual cash flows in respect of these instruments and come to a conclusion that they continue to meet the criteria for measurement at fair value in accordance with the requirements of IFRS 9 Financial Instruments. According to the Group’s assessment, classification and measurement of debt financial assets in accordance with the requirements of IFRS 9 Financial Instruments as at 1 January 2018 will not have a significant effect on the consolidated financial statements.

Investments in equity instruments shall always be measured at fair value. However, management can make an irrevocable decision to recognise changes in fair value in other comprehensive income if the instrument is not held for trading. If an equity instrument is held for trading, changes in fair value are recognised in profit or loss. The Group’s management has made a decision to recognise changes in fair value of the majority of equity instruments in other comprehensive income. Other comprehensive income / expense from changes in fair value of such instruments shall not be subsequently reclassified to profit or loss.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Impairment of financial assets

IFRS 9 Financial Instruments sets out a new expected credit loss impairment model, which replaces the existing incurred loss model in IAS 39 Financial Instruments: Recognition and Measurement. Application of the new model requires significant professional judgements from the Group to determine how changes in economic factors affect expected credit losses determined as the probability-weighted estimate of credit losses.

The new impairment model will be applied to financial assets measured at amortised cost or at fair value through other comprehensive income, expect for investments in equity instruments, and to contract assets.

In accordance with IFRS 9 Financial Instruments, expected credit loss allowances will be measured using one of the following methods:

- based on 12-month expected credit losses. These are the expected credit losses that result from default events that are possible within 12 months after the reporting date;
- based on lifetime expected credit losses. These are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

For trade receivables or contract assets that do not contain a significant financing component, measurement at an amount equal to lifetime ECL shall be applied The Group has selected the same accounting approach for trade receivables and contract assets that contain a significant financing component.

According to the Group's preliminary assessment, application of the impairment requirements of IFRS 9 Financial Instruments as at 1 January 2018 will not result in recognition of significant additional losses.

c) Classification of financial liabilities

IFRS 9 Financial Instruments is consistent with the significant requirements of IAS 9 Financial Instruments: Recognition and Measurement related to classification of financial liabilities. At the same time, in accordance with IAS 9 Financial Instruments: Recognition and Measurement all changes in fair value of financial liabilities classified as measured at fair value through profit or loss are recognised in profit or loss, while in accordance with IFRS 9 Financial Instruments such changes are generally recognised as follows:

- the amount of the change in the financial liability’s fair value attributable to changes in the credit risk is recognised in other comprehensive income;
- the remaining amount of change in fair value is recognised in profit or loss.

The Group does not choose to classify any financial liabilities as measured at fair value through profit or loss and it does not currently intend to do so. According to the Group’s assessment, classification of financial liabilities as at 1 January 2018 will not have a significant effect on the consolidated financial statements.

d) Hedge accounting

New hedge accounting rules continue to identify three types of hedging relationships set in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 Financial Instruments contains softer rules for the possibility to apply hedge accounting to various transactions, extended list of financial instruments that can be recognised as hedging instrument and extended list of components of non-financial items that can be hedged. In addition, a hedge effectiveness test is replaced with a test of economic relationship. Retrospective effectiveness testing is no longer required. The standard introduces extensive new disclosure requirements for risk management. The Group's management has made a decision to apply the hedge accounting requirements of IFRS 9 Financial Instruments. According to the Group’s assessment, hedge accounting in accordance with the new requirements as at 1 January 2018 will not have a significant effect on the consolidated financial statements.

The Group will use an option not to restate prior periods in respect of changes in classification and measurement (including impairment) of financial instruments. Any difference between the previous carrying amount of instruments and their carrying amount in accordance with IFRS 9 Financial Instruments will be generally recognised in retained earnings and other reserves of the Group as at 1 January 2018.

Thus, the Group does not expect significant effects of the new requirements of IFRS 9 Financial Instruments on the consolidated financial statements.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 15 Revenue from Contracts with Customers (IFRS 15) (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. To assess the impact of IFRS 15 on the consolidated financial statements, the Group

reviewed the major contracts with customers. Based on the analysis, the Group does not expect the standard to have a significant impact on its consolidated financial statements.

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. The Group is currently assessing the impact of the adoption of the standard on the consolidated financial statements.

6 CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from management estimates, and management estimates can be revised in the future, either negatively or positively, depending upon the outcome or changes in expectations based on the facts surrounding each estimate.

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

6.1 Consolidation of subsidiaries

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

6.2 Tax legislation and uncertain tax positions

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 36).

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

6.3 Assumptions to determine amount of provisions

Impairment allowance for accounts receivable

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

6 CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

Impairment of Property, plant and equipment and Goodwill

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

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

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

Accounting for provisions

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

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

6.4 Site restoration and environmental costs

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

6.5 Useful lives of Property, plant and equipment

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

Were the estimated useful lives to decrease by 10 % or increase by 10 % from management's estimates, the impact on depreciation for the year ended 31 December 2017 would be an increase by RUB 66,851 million or a decrease by RUB 54,696 million (2016: increase by RUB 63,429 million or a decrease by RUB 51,896 million).

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

6 CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

6.6 Fair value estimation for financial instruments

The fair values of energy trading contracts, commodity futures and swaps are based on market quotes on measurement date (Level 1 in accordance with the valuation hierarchy). Customary valuation models are used to value financial instruments which are not traded in active markets. The fair values are based on inputs that are observable either directly or indirectly (Level 2 in accordance with the valuation hierarchy). Contracts that are valued based on non-observable market data belong to Level 3 in accordance with the valuation hierarchy. Management's best estimates based on internally developed models are used for the valuation. Where the valuation technique employed incorporates significant unobservable input data such as these long-term price assumptions, contracts have been categorised as Level 3 in accordance with the valuation hierarchy (see Note 38).

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

6.7 Fair value estimation for acquisitions

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

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

6.8 Accounting for plan assets and pension liabilities

Pension plan liabilities are estimated using actuarial techniques and assumptions (see Note 24). Actual results may differ from the estimates, and the Group's estimates can be revised in the future based on changes in economic and financial conditions. In addition, certain plan assets included in NPF GAZFOND are estimated using the fair value estimation techniques. Management makes judgements with respect to the selection of valuation model applied, the amount and timing of cash flow forecasts or other assumptions such as discount rates. The recognition of plan assets is limited to the estimated present value of future benefits which are available to the Group in relation to this plan. These benefits are determined using actuarial techniques and assumptions. The impact of the change in the limitation of the plan assets in accordance with IAS 19 Employee Benefits is disclosed in Note 24. The value of plan assets and the limit are subject to revision in the future.

6.9 Joint Arrangements

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

7 SEGMENT INFORMATION

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

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

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

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

Other activities have been included within "All other segments" 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, Transportation and Gas storage segments, are established by the management of the Group with the objective of providing specific funding requirements of the individual subsidiaries within each segment.

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

7 SEGMENT INFORMATION (continued)

	Production of gas	Transpor-tation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Year ended 31 December 2017									
Total segment revenues	**989,961**	**1,163,097**	**3,585,422**	**56,250**	**1,176,672**	**1,695,205**	**503,819**	**372,225**	**9,542,651**
Inter-segment sales	965,839	928,036	268,957	51,997	636,714	8,115	-	-	2,859,658
External sales	24,122	235,061	3,316,465	4,253	539,958	1,687,090	503,819	372,225	6,682,993
Segment result	**43,920**	**55,068**	**(27,885)**	**5,565**	**265,308**	**76,073**	**49,925**	**51,268**	**519,242**
Depreciation	192,460	513,940	18,126	27,104	117,071	48,555	48,435	38,329	1,004,020
Share of net income of associates and joint ventures	6,525	20,120	1,907	180	85,911	2,905	116	9,276	126,940
Year ended 31 December 2016									
Total segment revenues	**745,972**	**1,051,683**	**3,531,666**	**53,843**	**1,005,690**	**1,506,457**	**481,716**	**345,925**	**8,722,952**
Inter-segment sales	723,169	852,712	251,699	48,275	593,732	8,895	-	-	2,478,482
External sales	22,803	198,971	3,279,967	5,568	411,958	1,497,562	481,716	345,925	6,244,470
Segment result	**14,909**	**5,454**	**125,649**	**7,247**	**68,478**	**85,161**	**40,762**	**16,108**	**363,768**
Depreciation	170,794	456,377	19,609	25,226	102,147	50,587	45,826	38,082	908,648
Share of net income (loss) of associates and joint ventures	8,157	26,233	4,577	(2,774)	37,293	5,132	34	4,220	82,872

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

Notes		Year ended 31 December 2017	2016
	Segment result for reportable segments	467,974	347,660
	Other segments' result	51,268	16,108
	Segment result	**519,242**	**363,768**
	Difference in depreciation[1]	390,860	337,084
	Expense associated with pension obligations	(8,967)	(12,992)
28	Net finance income	19,661	475,627
	Gain on disposal of available-for-sale financial assets	782	1,059
15	Share of net income of associates and joint ventures	126,940	82,872
27	Derivatives gain (loss)	18,344	(9,863)
	Other	(48,856)	47,583
	Profit before profit tax	**1,018,006**	**1,285,138**

[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 statement of comprehensive income is provided as follows:

	Year ended 31 December 2017	2016
External sales for reportable segments	6,310,768	5,898,545
External sales for other segments	372,225	345,925
Total external segment sales	**6,682,993**	**6,244,470**
Differences in external sales[1]	(136,850)	(133,419)
Total sales per the consolidated statement of comprehensive income	**6,546,143**	**6,111,051**

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

7 SEGMENT INFORMATION (continued)

	Production of gas	Transpor-tation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
As of 31 December 2017									
Segment assets	2,677,231	6,721,549	1,669,202	347,929	2,516,019	1,715,485	868,933	1,131,509	17,647,857
Investments in associates and joint ventures	25,706	155,054	19,198	2	465,544	21,534	1,422	178,985	867,445
Capital additions	216,450	498,550	51,675	37,694	330,424	225,240	58,110	86,457	1,504,600
As of 31 December 2016									
Segment assets	2,636,296	6,596,937	1,557,089	393,482	2,310,960	1,361,161	990,120	937,460	16,783,505
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	235,161	406,828	41,785	35,542	326,366	193,243	63,485	54,926	1,357,336

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

Notes		31 December 2017	31 December 2016
	Segment assets for reportable segments	16,516,348	15,846,045
	Other segments' assets	1,131,509	937,460
	Total segment assets	**17,647,857**	**16,783,505**
	Differences in property, plant and equipment, net[1]	(1,967,878)	(2,361,075)
13	Borrowing interest capitalised	714,392	623,101
8	Cash and cash equivalents	869,007	896,728
	Restricted cash	2,943	3,471
9	Short-term financial assets	31,057	11,481
	VAT recoverable	119,881	195,033
	Other current assets	551,340	331,467
17	Available-for-sale long-term financial assets	268,432	294,345
14	Goodwill	105,469	105,330
	Other non-current assets	313,793	341,274
	Inter-segment assets	(742,369)	(597,369)
	Other	324,846	291,647
	Total assets per the consolidated balance sheet	**18,238,770**	**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 operating liabilities. Profit tax payable, deferred tax liabilities, long-term provisions for liabilities and charges, short-term and long-term borrowings, including current portion of long-term borrowings, short-term and long-term promissory notes payable and other non-current liabilities are managed on a central basis.

Segment liabilities are provided in the table below.

	31 December 2017	31 December 2016
Distribution of gas	841,444	636,223
Refining	335,114	337,711
Production of gas	329,521	279,091
Transportation	306,235	336,235
Production of crude oil and gas condensate	213,298	139,909
Electric and heat energy generation and sales	82,315	86,511
Gas storage	9,154	8,401
Other segments	287,029	131,742
Total segment liabilities	**2,404,110**	**1,955,823**

7 SEGMENT INFORMATION (continued)

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

Notes		31 December 2017	31 December 2016
	Segment liabilities for reportable segments	2,117,081	1,824,081
	Other segments' liabilities	287,029	131,742
	Total segment liabilities	**2,404,110**	**1,955,823**
	Current profit tax payable	59,922	62,479
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	874,805	447,080
21	Long-term borrowings, promissory notes	2,391,713	2,382,543
	Provisions for liabilities and charges	288,903	263,162
22	Deferred tax liabilities	699,413	688,503
	Other non-current liabilities	73,194	78,011
	Dividends	5,099	3,029
	Inter-segment liabilities	(742,369)	(597,369)
	Other	168,499	193,838
	Total liabilities per the consolidated balance sheet	**6,223,289**	**5,477,099**

8 CASH AND CASH EQUIVALENTS

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

	31 December 2017	31 December 2016
Cash on hand and bank balances payable on demand	508,585	793,169
Term deposits with original maturity of three months or less	360,422	103,559
Total cash and cash equivalents	**869,007**	**896,728**

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

	31 December 2017	31 December 2016
Cash on hand	1,015	940
External credit rating of A-3 and above	113,522	190,298
External credit rating of B	579,989	558,278
No external credit rating	174,481	147,212
Total cash and cash equivalents	**869,007**	**896,728**

The sovereign credit rating of the Russian Federation published by Standard & Poor's is BB+ as of 31 December 2017 and 31 December 2016, however the outlook has changed from stable to positive.

9 SHORT-TERM FINANCIAL ASSETS

	31 December 2017	31 December 2016
Financial assets held for trading:	**30,964**	**11,363**
Bonds	30,758	10,976
Equity securities	206	387
Available-for-sale financial assets:	**93**	**118**
Promissory notes	93	118
Total short-term financial assets	**31,057**	**11,481**

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

	31 December 2017	31 December 2016
External credit rating of A-3 and above	-	2,662
External credit rating of B	25,557	6,812
No external credit rating	5,294	1,620
	30,851	**11,094**

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2017	2016
Financial assets		
Trade receivables	758,150	731,566
Short-term loans	149,302	142,068
Other receivables	136,980	134,352
	1,044,432	1,007,986
Non-financial assets		
Advances and prepayments	78,292	76,981
Total accounts receivable and prepayments	**1,122,724**	**1,084,967**

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

Trade receivables are presented net of impairment allowance of RUB 752,629 million and RUB 831,164 million as of 31 December 2017 and 31 December 2016, respectively.

Accounts receivable due from NJSC Naftogaz Ukraine in relation to gas sales are RUB nil million and RUB nil million net of impairment allowance of RUB 80,231 million and RUB 188,307 million as of 31 December 2017 and 31 December 2016, respectively.

Short-term loans are presented net of impairment allowance of RUB 8,534 million and RUB 9,264 million as of 31 December 2017 and 31 December 2016, respectively.

Other receivables are presented net of impairment allowance of RUB 20,815 million and RUB 16,950 million as of 31 December 2017 and 31 December 2016, respectively.

Advances and prepayments are presented net of impairment allowance of RUB 12,542 million and RUB 11,074 million as of 31 December 2017 and 31 December 2016, respectively.

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

	31 December	
	2017	2016
Short-term trade receivables neither past due nor impaired	654,381	614,543
Short-term trade receivables past due and impaired	768,010	855,687
Allowance for impairment at the end of the year	(752,629)	(831,164)
Short-term trade receivables past due but not impaired	88,388	92,500
Total short-term trade receivables	**758,150**	**731,566**

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

	31 December	
	2017	2016
Europe and other countries gas, crude oil, gas condensate and refined products receivables	376,543	303,516
Domestic gas, crude oil, gas condensate and refined products receivables	158,288	171,165
Former Soviet Union countries (excluding the Russian Federation) gas, crude oil, gas condensate and refined products receivables	9,346	14,504
Electricity and heat trade receivables	54,671	50,661
Gas transportation services receivables	4,087	5,222
Other trade receivables	51,446	69,475
Total trade receivables neither past due nor impaired	**654,381**	**614,543**

As of 31 December 2017 and 31 December 2016 the individually impaired receivables mainly relate to gas sales to certain Russian regions and Former Soviet Union countries. In management's view the receivables will be ultimately recovered. The ageing analysis of these receivables is as follows:

Ageing from the due date	Gross book value 31 December		Allowance for impairment 31 December		Net book value 31 December	
	2017	2016	2017	2016	2017	2016
Up to 6 months	66,292	68,509	(59,403)	(62,053)	6,889	6,456
From 6 to 12 months	64,832	79,045	(60,384)	(69,938)	4,448	9,107
From 1 to 3 years	193,191	330,717	(189,842)	(322,184)	3,349	8,533
More than 3 years	443,695	377,416	(443,000)	(376,989)	695	427
	768,010	**855,687**	**(752,629)**	**(831,164)**	**15,381**	**24,523**

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

	Trade receivables Year ended 31 December		Other receivables Year ended 31 December	
	2017	2016	2017	2016
Allowance for impairment at the beginning of the year	**831,164**	**839,123**	**16,950**	**24,118**
Allowance for impairment accrued[1]	106,714	130,084	13,307	7,064
Write-off of receivables during the year[2]	(5,192)	(10,099)	(1,444)	(3,948)
Release of previously created allowance[1]	(150,683)	(24,369)	(7,983)	(8,315)
Reclassification to other lines	(5,649)	-	-	-
Translation differences	(23,725)	(103,575)	(15)	(1,969)
Allowance for impairment at the end of the year	**752,629**	**831,164**	**20,815**	**16,950**

[1] The accrual and release of allowance for impaired receivables have been included in the line "Change in impairment and other provisions" in the consolidated statement of comprehensive income.
[2] If there is no probability of cash receipt for the impaired accounts receivable which were previously provided for, the amount of respective accounts receivable is written-off by means of that allowance.

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

Ageing from the due date	31 December	
	2017	2016
Up to 6 months	63,172	57,727
From 6 to 12 months	9,771	21,915
From 1 to 3 years	7,968	4,504
More than 3 years	7,477	8,354
	88,388	**92,500**

11 INVENTORIES

	31 December	
	2017	2016
Gas in pipelines and storage	475,233	430,720
Materials and supplies (net of allowance for inventory obsolescence of RUB 3,789 million and RUB 3,370 million as of 31 December 2017 and 31 December 2016, respectively)	157,348	169,486
Goods for resale (net of allowance for inventory obsolescence of RUB 1,185 million and RUB 831 million as of 31 December 2017 and 31 December 2016, respectively)	31,280	21,955
Crude oil and refined products	108,453	89,038
Total inventories	**772,314**	**711,199**

12 OTHER CURRENT AND NON-CURRENT ASSETS

Included within other current assets are prepaid taxes, predominantly VAT in the amount of RUB 150,511 million and RUB 97,869 million and profit tax in the amount of RUB 6,271 million and RUB 12,916 million as of 31 December 2017 and 31 December 2016, respectively. Other current assets include short-term deposits in the amount of RUB 327,969 million and RUB 144,035 million as of 31 December 2017 and 31 December 2016, respectively.

As of 31 December 2017 and 31 December 2016 other non-current assets include:

- intangible assets in the amount of RUB 52,174 million and RUB 46,126 million;
- VAT recoverable related to assets under construction totalling RUB 36,681 million and RUB 35,702 million;
- net pension assets in the amount of RUB 27,173 million and RUB 20,499 million (see Note 24);
- long-term deposits in the amount of RUB 1,559 million and RUB 42,230 million.

13 PROPERTY, PLANT AND EQUIPMENT

Notes		Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
	As of 31 December 2015								
	Cost	3,623,972	1,587,322	4,177,710	3,333,173	597,696	96,323	2,516,619	15,932,815
	Accumulated depreciation	(1,334,810)	(576,199)	(1,706,861)	(1,042,050)	(230,793)	(38,221)	-	(4,928,934)
	Net book value as of 31 December 2015	**2,289,162**	**1,011,123**	**2,470,849**	**2,291,123**	**366,903**	**58,102**	**2,516,619**	**11,003,881**
	Depreciation	(88,376)	(64,499)	(282,495)	(119,411)	(13,466)	(2,614)	-	(570,861)
	Additions	48	51,071	20,819	10,862	28,259	199	1,348,489	1,459,747
	Translation differences	(5,582)	(45,420)	(33,945)	(27,067)	(13,006)	(101)	(52,349)	(177,470)
	Transfers	134,715	176,390	449,665	330,898	1,249	1,933	(1,094,850)	-
	Disposals	(1,279)	(14,660)	(13,646)	(22,468)	(571)	(3,125)	(77,438)	(133,187)
27	Change in impairment allowance	-	(14,763)	-	-	(1,975)	-	(62,625)	(79,363)
	Net book value as of 31 December 2016	**2,328,688**	**1,099,242**	**2,611,247**	**2,463,937**	**367,393**	**54,394**	**2,577,846**	**11,502,747**
	As of 31 December 2016								
	Cost	3,751,874	1,739,940	4,600,603	3,625,398	611,652	95,229	2,577,846	17,002,542
	Accumulated depreciation	(1,423,186)	(640,698)	(1,989,356)	(1,161,461)	(244,259)	(40,835)	-	(5,499,795)
	Net book value as of 31 December 2016	**2,328,688**	**1,099,242**	**2,611,247**	**2,463,937**	**367,393**	**54,394**	**2,577,846**	**11,502,747**
	Depreciation	(86,950)	(72,397)	(296,922)	(132,112)	(10,775)	(2,501)	-	(601,657)
	Additions	16	58,892	67,759	11,452	8,725	743	1,540,299	1,687,886
	Translation differences	(1,250)	(5,115)	5,924	4,986	(3,705)	14	21,539	22,393
	Transfers	104,836	132,050	288,560	169,521	23	1,323	(696,313)	-
	Disposals	(714)	(3,038)	(24,162)	(10,809)	(6,313)	(518)	(43,428)	(88,982)
27	Change in impairment allowance	-	30,998	5,257	-	1,385	-	(14,948)	22,692
	Net book value as of 31 December 2017	**2,344,626**	**1,240,632**	**2,657,663**	**2,506,975**	**356,733**	**53,455**	**3,384,995**	**12,545,079**
	As of 31 December 2017								
	Cost	3,854,762	1,953,727	4,943,941	3,800,548	611,767	96,791	3,384,995	18,646,531
	Accumulated depreciation	(1,510,136)	(713,095)	(2,286,278)	(1,293,573)	(255,034)	(43,336)	-	(6,101,452)
	Net book value as of 31 December 2017	**2,344,626**	**1,240,632**	**2,657,663**	**2,506,975**	**356,733**	**53,455**	**3,384,995**	**12,545,079**

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

Operating property, plant and equipment are shown net of allowance for impairment of RUB 157,849 million and RUB 203,476 million as of 31 December 2017 and 31 December 2016, respectively.

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

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

The recoverable amount used in the impairment tests has been determined on the basis of the values in use of such assets. The values in use of cash-generating units have been calculated as the present values of projected future cash flows discounted using the rates derived from the weighted average cost of capital of the Group, as adjusted, where applicable, to take into account any specific risks of business operations related to the cash-generating units.

The Group used discount rates ranging from 10.66 % to 12.42 %. Cash flows are projected based on actual operating results, business plans and long-term development program. The cash flow projections cover periods commensurate with expected lives of the respective assets. The Group used estimated growth rates to extrapolate cash flows beyond the period, for which the Group usually prepares its budgets.

Based on the results of the impairment test the Group recognised an impairment release of RUB 38,909 million for oil production assets, which was primarily due to a decrease in discount rates and

13 PROPERTY, PLANT AND EQUIPMENT (continued)

stabilisation of oil prices.

As of 31 December 2017 the test did not reveal any impairment of the cash-generating units relating to production of gas, refining and electric and heat energy generation.

However, the Group recognised an impairment loss in respect of certain assets, including oil production assets in Iraq in the amount of RUB 256 million and gas production assets in Europe in the amount of RUB 1,013 million as of 31 December 2017. As of 31 December 2016 the Group recognised an impairment loss of oil production assets in Iraq in the amount of RUB 14,763 million.

Assets under construction are presented net of allowance for impairment of RUB 185,145 million and RUB 167,546 million as of 31 December 2017 and 31 December 2016, respectively. Charges for impairment allowance of assets under construction primarily relate to assets for which it is not yet probable that there will be future economic benefits.

Due to the suspension of the implementation of the project "South Stream" and the commencement of the implementation of the project "TurkStream" the Group recognised impairment losses in respect of facilities under construction in the amount of RUB 49,617 million and RUB 45,978 million as of 31 December 2017 and 31 December 2016, respectively.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RUB 148 million and RUB 200 million as of 31 December 2017 and 31 December 2016, respectively.

Included in additions above are capitalized borrowing costs of RUB 152,628 million and RUB 132,477 million for the years ended 31 December 2017 and 31 December 2016, respectively. Capitalization rates of 6.18 % and 5.75 % were used representing the weighted average borrowing cost including exchange losses on foreign currency borrowings for the years ended 31 December 2017 and 31 December 2016, respectively. Capitalization rates excluding exchange losses on foreign currency borrowings were 5.76 % and 5.75 % for the years ended 31 December 2017 and 31 December 2016, respectively.

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

	Year ended 31 December	
	2017	**2016**
Exploration and evaluation assets at the beginning of the year	**298,488**	**290,945**
Additions	49,008	42,303
Translation differences	(1,006)	(10,165)
Reclassification	(35,632)	(18,163)
Disposals	(29,701)	(6,432)
Exploration and evaluation assets at the end of the year	**281,157**	**298,488**

14 GOODWILL

Change in the Group's goodwill on subsidiaries is as follows:

	Year ended 31 December	
	2017	**2016**
Goodwill at the beginning of the year	**105,330**	**107,467**
Additions	187	-
Translation differences	(46)	(2,132)
Disposals	(2)	(5)
Goodwill at the end of the year	**105,469**	**105,330**

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

	31 December	
	2017	**2016**
Gas production, transportation and distribution	44,104	44,103
Production of crude oil and gas condensate	32,852	32,901
Electric and heat energy generation and sales	28,513	28,326
Total goodwill	**105,469**	**105,330**

14 GOODWILL (continued)

As of 31 December 2017 and 31 December 2016 the Group did not identify any indicators for recognising an impairment loss in relation to goodwill.

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Notes			Carrying value as of 31 December		Share of the income (loss) of associates and joint ventures for the year ended 31 December	
			2017	2016	2017	2016
34	Sakhalin Energy Investment Company Ltd.	Associate	169,242	185,013	43,846	13,893
34, 35	Gazprombank (Joint-stock Company) and its subsidiaries[1]	Associate	145,603	77,109	9,473	5,311
34	OJSC NGK Slavneft and its subsidiaries	Joint venture	140,548	129,082	7,122	10,509
34	LLC Yamal razvitie and its subsidiaries	Joint venture	105,157	86,600	19,861	14,472
34	Nord Stream AG	Joint venture	79,288	63,319	14,867	17,307
34	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Associate	45,436	40,510	5,552	8,149
34	JSC Achimgaz	Joint venture	33,509	32,043	8,768	10,221
34, 35	JSC EUROPOL GAZ	Associate	29,588	26,387	(506)	770
34	JSC Messoyakhaneftegas	Joint venture	17,965	353	9,976	(947)
34	Wintershall AG	Associate	15,645	14,233	256	(2,746)
34	CJSC Northgas	Joint venture	12,786	11,735	3,434	3,009
34	KazRosGas LLP	Joint venture	9,435	14,470	1,544	3,601
34	Wintershall Noordzee B.V.	Joint venture	6,532	6,862	207	(1,650)
34	JSC Latvijas Gaze and its subsidiaries[2, 3]	Associate	3,439	6,588	580	993
	Other (net of allowance for impairment of RUB 21,795 million and RUB 10,755 million as of 31 December 2017 and 31 December 2016, respectively)		53,272	35,845	1,960	(20)
			867,445	**730,149**	**126,940**	**82,872**

[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 31 December 2017 investment in JSC Conexus Baltic Grid was reclassified from other investments in associates into available-for-sale long-term financial assets due to loss of control.

[3] To complete the liberalization process of the Latvian gas market shareholders of JSC Latvijas Gaze at the foundation meeting on 22 November 2017 took decision to reorganize the company by separation of JSC Gaso, a 100% subsidiary, to which natural gas distribution business was transferred.

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

	Year ended 31 December	
	2017	2016
Balance at the beginning of the year	**730,149**	**808,246**
Share of net income of associates and joint ventures	126,940	82,872
Distributions from associates and joint ventures	(88,105)	(64,535)
Share of other comprehensive income (loss) of associates and joint ventures	2,967	(6,397)
Translation differences	4,831	(83,043)
Other acquisitions and disposals	90,663	(6,994)
Balance at the end of the year	**867,445**	**730,149**

Other acquisitions and disposals increased by the acquisition of Gazprombank (Joint-stock Company) ordinary shares as a result of additional issue of shares.

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

	31 December	
	2017	2016
JSC Latvijas Gaze	9,349	7,594

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Significant associates and joint ventures

	Country of primary operations	Country of incorporation	Nature of operations	Percent of ordinary shares held as of 31 December[1] 2017	2016
JSC Achimgaz	Russia	Russia	Exploration and production of gas and gas condensate	50	50
Bosphorus Gaz Corporation A.S.[2]	Turkey	Turkey	Gas distribution	71	71
WIGA Transport Beteiligungs-GmbH & Co. KG	Germany	Germany	Gas transportation	50	50
Wintershall AG	Libya	Germany	Production of oil and gas distribution	49	49
Gaz Project Development Central Asia AG	Uzbekistan	Switzerland	Gas production	50	50
Gazprombank (Joint-stock Company)	Russia	Russia	Banking	48	37
JSC EUROPOL GAZ	Poland	Poland	Transportation and gas distribution	48	48
KazRosGas LLP	Kazakhstan	Kazakhstan	Gas processing and sales of gas and refined products	50	50
JSC Latvijas Gaze	Latvia	Latvia	Sale and distribution of gas	34	34
JSC Messoyakhaneftegas	Russia	Russia	Production of oil and petroleum gas	50	50
JSV Moldovagaz	Moldova	Moldova	Transportation and gas distribution	50	50
Nord Stream AG[2]	Russia, Germany	Switzerland	Gas transportation	51	51
CJSC Northgas	Russia	Russia	Exploration and sales of gas and gas condensate	50	50
Panrusgas Gas Trading Plc	Hungary	Hungary	Gas distribution	40	40
Prometheus Gas S.A.	Greece	Greece	Gas distribution, construction	50	50
Sakhalin Energy Investment Company Ltd.	Russia	Bermuda Islands	Oil production, production of LNG	50	50
OJSC NGK Slavneft	Russia	Russia	Production, processing and sales of oil	50	50
LLC Yamal razvitie	Russia	Russia	Investment activities, assets management	50	50

[1] Cumulative share of the Group in charter capital of investees.
[2] Investments in companies continue to be accounted under the equity method of accounting, as the Group did not obtain control due to its corporate governance structure.

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

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

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

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

	OJSC NGK Slavneft and its subsidiaries	Gazprombank (Joint-stock Company) and its subsidiaries[1]	Sakhalin Energy Investment Company Ltd.
As of and for the year ended 31 December 2017			
Cash and cash equivalents	4,153	649,428	38,868
Other current assets (excluding cash and cash equivalents)	54,479	1,295,049	76,715
Other non-current assets	430,466	3,495,187	828,551
Total assets	**489,098**	**5,439,664**	**944,134**
Current financial liabilities (excluding trade payables)	10,359	4,050,693	61,963
Other current liabilities (including trade payables)	53,924	132,921	93,983
Non-current financial liabilities	88,198	748,068	166,083
Other non-current liabilities	58,323	25,561	283,620
Total liabilities	**210,804**	**4,957,243**	**605,649**
Net assets (including non-controlling interest)	**278,294**	**482,421**	**338,485**
Percent of ordinary shares held	50 %	48 %	50 %
Carrying value	**140,548**	**145,603**	**169,242**
Revenue	241,253	244,194	314,932
Depreciation	(44,453)	(42,011)	(114,681)
Interest income	989	365,335	1,682
Interest expense	(6,781)	(233,818)	(11,330)
Profit tax expense	(4,429)	(9,343)	(46,210)
Profit for the year	**15,179**	**35,493**	**87,692**
Other comprehensive income for the year	**59**	**1,757**	**1,382**
Total comprehensive income for the year	**15,238**	**37,250**	**89,074**
Dividends received from associates and joint ventures	**-**	**(3,398)**	**(51,221)**
As of and for the year ended 31 December 2016			
Cash and cash equivalents	4,333	473,460	23,400
Other current assets (excluding cash and cash equivalents)	22,505	1,180,849	63,540
Other non-current assets	404,873	3,103,394	919,405
Total assets	**431,711**	**4,757,703**	**1,006,345**
Current financial liabilities (excluding trade payables)	24,614	3,252,183	47,517
Other current liabilities (including trade payables)	47,481	126,121	74,752
Non-current financial liabilities	42,876	984,595	203,553
Other non-current liabilities	54,975	21,826	310,498
Total liabilities	**169,946**	**4,384,725**	**636,320**
Net assets (including non-controlling interest)	**261,765**	**372,978**	**370,025**
Percent of ordinary shares held	50 %	37 %	50 %
Carrying value	**129,082**	**77,109**	**185,013**
Revenue	214,509	213,948	304,810
Depreciation	(40,564)	(45,247)	(146,400)
Interest income	1,652	380,096	1,064
Interest expense	(6,593)	(258,049)	(13,068)
Profit tax expense	(6,224)	(24,403)	(27,502)
Profit for the year	**22,269**	**31,151**	**57,670**
Other comprehensive (loss) income for the year	**(403)**	**(18,585)**	**1,950**
Total comprehensive income for the year	**21,866**	**12,566**	**59,620**
Dividends received from associates and joint ventures	**-**	**-**	**(31,490)**

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

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

	Assets	Liabilities	Revenues	Profit (loss)
As of and for the year ended 31 December 2017				
Nord Stream AG	437,421	281,955	71,008	29,150
LLC Yamal razvitie and its subsidiaries	401,450	212,622	147,204	42,365
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	252,107	155,126	46,519	11,789
JSC Messoyakhaneftegas	171,124	135,612	61,030	19,952
JSC Achimgaz	78,206	11,188	31,027	17,536
Wintershall AG	67,904	44,818	10,066	522
JSC EUROPOL GAZ	64,993	3,353	13,865	(1,051)
CJSC Northgas	58,730	32,221	23,079	6,868
Wintershall Noordzee B.V.	50,550	38,271	9,858	414
KazRosGas LLP	30,824	11,953	43,548	3,087
JSC Latvijas Gaze and its subsidiaries	19,638	6,338	21,050	1,706
As of and for the year ended 31 December 2016				
Nord Stream AG	416,875	292,719	80,325	31,949
LLC Yamal razvitie and its subsidiaries	387,516	241,054	133,229	30,877
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	227,154	143,680	45,735	19,137
JSC Messoyakhaneftegas	130,129	129,842	12,097	1,889
Wintershall AG	72,134	50,551	14,259	(5,641)
JSC Achimgaz	71,778	7,693	27,994	20,441
JSC EUROPOL GAZ	62,485	7,513	19,196	1,873
CJSC Northgas	56,543	32,136	25,692	6,019
Wintershall Noordzee B.V.	49,008	38,088	11,114	(3,248)
KazRosGas LLP	46,158	17,220	45,435	7,203
JSC Latvijas Gaze	37,720	12,417	26,170	2,920

16 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2017	2016
Long-term accounts receivable and prepayments	183,894	198,242
Advances for assets under construction	485,392	512,505
Total long-term accounts receivable and prepayments	**669,286**	**710,747**

Long-term accounts receivable, prepayments and advances for assets under construction are presented net of impairment allowance of RUB 16,318 million and RUB 16,481 million as of 31 December 2017 and 31 December 2016, respectively.

As of 31 December 2017 and 31 December 2016 long-term accounts receivable and prepayments with carrying value RUB 183,894 million and RUB 198,242 million have an estimated fair value RUB 181,218 million and RUB 193,868 million, respectively.

	31 December	
	2017	2016
Long-term accounts receivable neither past due nor impaired	180,520	194,876
Long-term accounts receivable past due and impaired	8,819	5,838
Allowance for impairment of long-term accounts receivable at the end of the year	(8,810)	(5,837)
Long-term accounts receivable past due but not impaired	3,365	3,365
Total long-term accounts receivable and prepayments	**183,894**	**198,242**

16 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

	31 December	
	2017	2016
Long-term loans	81,892	101,600
Long-term trade receivables	11,243	16,292
Other long-term receivables[1]	87,385	76,984
Total long-term accounts receivable neither past due nor impaired	**180,520**	**194,876**

[1] Other long-term accounts receivable includes prepayments in the amount of RUB 25,561 million and RUB 20,747 million as of 31 December 2017 and 31 December 2016, respectively.

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

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

	Year ended 31 December	
	2017	2016
Allowance for impairment of long-term accounts receivable at the beginning of the year	**5,837**	**5,859**
Allowance for impairment of long-term accounts receivable accrued[1]	3,010	1,732
Release of previously created allowance[1]	(33)	(856)
Foreign exchange rate differences	(4)	(898)
Allowance for impairment of long-term accounts receivable at the end of the year	**8,810**	**5,837**

[1] The accrual and release of provision for impaired long-term accounts receivable have been included in the line "Change in impairment and other provisions" in the consolidated statement of comprehensive income.

17 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

	31 December	
	2017	2016
Equity securities[1]	268,183	294,034
Debt instruments	249	311
	268,432	**294,345**

[1] As of 31 December 2017 and 31 December 2016 equity securities include PJSC NOVATEK shares in the amount of RUB 210,010 million and RUB 238,817 million, respectively.

Available-for-sale long-term financial assets are shown net of allowance for impairment of RUB 379 million and RUB 1,275 million as of 31 December 2017 and 31 December 2016, respectively.

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

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

	Year ended 31 December	
	2017	2016
Available-for-sale long-term financial assets at the beginning of the year	**294,345**	**235,607**
(Decrease) increase in fair value of long-term available-for-sale financial assets	(30,404)	62,451
Acquisition of long-term available-for-sale financial assets	5,691	1,719
Disposal of long-term available-for-sale financial assets	(2,096)	(6,285)
Release of impairment of long-term available-for-sale financial assets	896	853
Available-for-sale long-term financial assets at the end of the year	**268,432**	**294,345**

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

18 ACCOUNTS PAYABLE AND PROVISIONS FOR LIABILITIES AND CHARGES

	31 December	
	2017	2016
Financial liabilities		
Accounts payable for acquisition of property, plant and equipment	354,857	351,170
Trade payables	353,179	331,774
Derivative financial instruments	64,342	94,414
Provision under financial guarantees[1]	-	3,427
Other payables[2]	455,585	296,180
	1,227,963	1,076,965
Non-financial liabilities		
Advances received	148,324	108,921
Accruals and deferred income	1,895	11,119
	150,219	120,040
Total accounts payable, accruals and provisions for liabilities and charges	**1,378,182**	**1,197,005**

[1] As of 31 December 2016 provision under financial guarantees includes accrual related to financial guarantee contract issued to Gazprombank (Joint-stock Company) for Ostchem Holding Limited. As of 31 December 2017 the guarantee agreement was terminated (see Note 27 and 35).

[2] As of 31 December 2017 and 31 December 2016 other payables include RUB 111,607 million and RUB 112,256 million of accruals for probable price adjustments related to natural gas deliveries made from 2013 to 2017, respectively.

Fair values of these liabilities approximate the carrying values.

19 TAXES AND FEES PAYABLE

	31 December	
	2017	2016
VAT	103,698	81,859
MET	96,320	65,776
Property tax	35,240	30,615
Excise tax	21,432	18,858
Other taxes	19,917	18,136
Total taxes and fees payable	**276,607**	**215,244**

20 SHORT-TERM BORROWINGS, PROMISSORY NOTES AND CURRENT PORTION OF LONG-TERM BORROWINGS

	31 December	
	2017	2016
Short-term borrowings and promissory notes:		
Borrowings and promissory notes denominated in Russian Rubles	74,374	44,352
Foreign currency denominated borrowings	11,807	16,280
	86,181	60,632
Current portion of long-term borrowings (see Note 21)	788,624	386,448
Total short-term borrowings, promissory notes and current portion of long-term borrowings	**874,805**	**447,080**

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

	31 December	
	2017	2016
Fixed rate short-term borrowings denominated in Russian Rubles	8.82 %	10.48 %
Fixed rate foreign currency denominated short-term borrowings	7.47 %	7.78 %
Variable rate short-term borrowings denominated in Russian Rubles	9.72 %	11.81 %
Variable rate foreign currency denominated short-term borrowings	3.05 %	2.73 %

Fair values of these liabilities approximate the carrying values.

21 LONG-TERM BORROWINGS, PROMISSORY NOTES

	Currency	Final maturity	31 December 2017	2016
Long-term borrowings and promissory notes payable to:				
Bank of China Limited, London branch	Euro	2021	137,186	126,414
Loan participation notes issued in April 2009[1]	US Dollar	2019	131,865	138,863
Loan participation notes issued in September 2012[2]	US Dollar	2022	87,461	92,102
Loan participation notes issued in October 2007[1]	Euro	2018	87,456	81,035
Loan participation notes issued in November 2013[2]	US Dollar	2023	86,875	91,485
Loan participation notes issued in March 2007[1]	US Dollar	2022	76,424	80,480
China Construction Bank Corporation, Beijing branch[3]	US Dollar	2020	75,699	92,627
Loan participation notes issued in August 2007[1]	US Dollar	2037	73,968	77,893
Loan participation notes issued in March 2013[1]	Euro	2020	70,702	65,512
Loan participation notes issued in April 2004[1]	US Dollar	2034	70,163	73,886
Loan participation notes issued in October 2015[1]	Euro	2018	69,539	64,434
Loan participation notes issued in November 2016[1]	Euro	2023	68,530	63,353
J.P. Morgan Europe Limited[3]	Euro	2022	68,256	-
Loan participation notes issued in April 2017[1, 4]	British Pound Sterling	2024	67,474	-
Loan participation notes issued in April 2008[1]	US Dollar	2018	64,507	67,930
Loan participation notes issued in July 2013[1]	Euro	2018	62,985	58,361
Loan participation notes issued in July 2012[1]	US Dollar	2022	58,883	62,008
J.P. Morgan Europe Limited[3]	Euro	2020	54,522	-
Loan participation notes issued in February 2014[1]	Euro	2021	53,224	49,317
Mizuho Bank Ltd.[3]	US Dollar	2019	53,130	93,228
Loan participation notes issued in February 2013[1]	US Dollar	2028	52,874	55,680
Loan participation notes issued in April 2013[2]	Euro	2018	52,684	48,817
Loan participation notes issued in November 2017[1]	Euro	2024	51,194	-
Credit Agricole CIB	Euro	2022	48,138	-
Loan participation notes issued in February 2013[1]	US Dollar	2020	46,795	49,278
PJSC Sberbank	US Dollar	2018	43,776	46,099
Loan participation notes issued in March 2017[1]	US Dollar	2027	43,261	-
Loan participation notes issued in September 2013[1, 4]	British Pound Sterling	2020	41,651	38,593
Loan participation notes issued in March 2013[1]	Euro	2025	35,611	32,997
Loan participation notes issued in November 2011[1]	US Dollar	2021	35,470	37,353
Loan participation notes issued in November 2016[1, 4]	Swiss Franc	2021	31,923	29,492
Loan participation notes issued in July 2017[1,4]	Swiss Franc	2022	31,272	-
Loan participation notes issued in October 2013[1]	Swiss Franc	2019	29,641	29,863
Loan participation notes issued in March 2016[1]	Swiss Franc	2018	29,438	29,513
UniCredit Bank S.p.A.	Euro	2022	27,135	-
Russian bonds issued in October 2017[2]	Russian Ruble	2022	25,371	-
UniCredit Bank Austria AG	Euro	2021	23,908	19,172
Alfa-Bank (Joint Stock Company)	US Dollar	2019	23,052	24,271
Gazprombank (Joint-stock Company)	US Dollar	2019	20,736	21,836
Wintershall Nederland Transport and Trading B.V.[5]	Euro	2035	20,555	-
Uniper Gas Transportation & Finance B.V.[5]	Euro	2035	20,555	-
OMV Gas Marketing Trading & Finance B.V.[5]	Euro	2035	20,554	-
Shell Exploration and Production (LXXI) B.V.[5]	Euro	2035	20,554	-
Engie Energy Management Holding Switzerland AG[5]	Euro	2035	20,554	-
VTB Bank (Europe) S.E.	Euro	2027	19,640	-
Gazprombank (Joint-stock Company)	US Dollar	2019	19,008	20,017
Gazprombank (Joint-stock Company)	US Dollar	2019	17,856	18,804
Bank of America Securities Limited	US Dollar	2018	17,453	18,368
PJSC Sberbank	Euro	2020	16,591	15,373
PJSC Sberbank	Euro	2022	15,736	7,713
Russian bonds issued in February 2017[6]	Russian Ruble	2027	15,501	-
Russian bonds issued in February 2017[6]	Russian Ruble	2027	15,501	-
Russian bonds issued in August 2017[2]	Russian Ruble	2024	15,476	-

21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	31 December 2017	2016
Russian bonds issued in March 2016[2]	Russian Ruble	2046	15,427	15,344
Russian bonds issued in April 2017[2]	Russian Ruble	2022	15,276	-
Russian bonds issued in November 2013[7]	Russian Ruble	2043	15,059	15,111
Russian bonds issued in November 2013[7]	Russian Ruble	2043	15,059	15,111
BANK ROSSIYA	Russian Ruble	2022	15,012	-
Gazprombank (Joint-stock Company)	Russian Ruble	2025	15,001	9,809
BNP Paribas S.A.[3]	Euro	2022	14,069	15,644
Deutsche Bank Luxembourg S.A.	Euro	2022	13,818	-
UniCredit Bank Austria AG	US Dollar	2018	11,526	12,135
Commerzbank International S.A.	US Dollar	2018	11,522	24,265
Russian bonds issued in February 2011[2]	Russian Ruble	2021	10,371	10,368
Russian bonds issued in August 2016[2]	Russian Ruble	2046	10,319	10,317
Russian bonds issued in March 2016[2]	Russian Ruble	2046	10,303	10,378
Russian bonds issued in April 2009[2]	Russian Ruble	2019	10,184	10,182
Russian bonds issued in June 2016[2]	Russian Ruble	2046	10,064	10,062
Russian bonds issued in December 2017[2]	Russian Ruble	2024	10,021	-
Gazprombank (Joint-stock Company)	Russian Ruble	2019	10,000	-
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000
UniCredit Bank Austria AG	Euro	2019	9,548	14,745
Citibank International plc[3]	US Dollar	2021	7,420	10,042
J.P. Morgan Europe Limited[3]	US Dollar	2018	3,601	18,962
Loan participation notes issued in July 2012[1]	Euro	2017	-	92,019
Loan participation notes issued in November 2006[1]	Euro	2017	-	33,185
Loan participation notes issued in March 2007[1]	Euro	2017	-	32,191
PJSC VTB Bank	Russian Ruble	2017	-	29,800
PJSC Sberbank	Russian Ruble	2017	-	19,802
PJSC Sberbank	Russian Ruble	2017	-	15,068
PJSC Sberbank	Russian Ruble	2017	-	15,067
PJSC VTB Bank	Russian Ruble	2017	-	14,654
PJSC Sberbank	Euro	2017	-	14,388
PJSC Sberbank	Russian Ruble	2017	-	12,511
PJSC Sberbank	Russian Ruble	2017	-	12,511
Bank of America Securities Limited	Euro	2017	-	11,541
Russian bonds issued in February 2013[6]	Russian Ruble	2017	-	10,279
Russian bonds issued in December 2012[2]	Russian Ruble	2017	-	10,075
PJSC Sberbank	Russian Ruble	2017	-	10,009
Gazprombank (Joint-stock Company)	Russian Ruble	2017	-	10,000
Other long-term borrowings, promissory notes	Various	Various	468,424	291,249
Total long-term borrowings, promissory notes			**3,180,337**	**2,768,991**
Less: current portion of long-term borrowings			(788,624)	(386,448)
			2,391,713	**2,382,543**

[1] Issuer of these bonds is Gaz Capital S.A.
[2] Issuer of these bonds is PJSC Gazprom Neft.
[3] Loans received from consortiums of banks, named lender is the bank-agent.
[4] According to the signed agreements between the bond issuer Gas Capital S.A. and the banks, settlements for the bonds are made in Euro (up to achieve of a coefficient based on the ratio of exchange rates set in the agreements).
[5] Borrowings were obtained for financing of the Nord Stream 2 project.
[6] Issuer of these bonds is Gazprom capital LLC.
[7] Issuer of these bonds is PJSC Gazprom

21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	31 December	
	2017	2016
Long-term borrowings and promissory notes		
denominated in Russian Rubles (including current portion of RUB 142,484 million and RUB 69,489 million as of 31 December 2017 and 31 December 2016, respectively)	558,509	427,014
denominated in foreign currency (including current portion of RUB 646,140 million and RUB 316,959 million as of 31 December 2017 and 31 December 2016, respectively)	2,621,828	2,341,977
	3,180,337	**2,768,991**

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

	31 December	
Due for repayment	**2017**	**2016**
Between one and two years	481,070	708,355
Between two and five years	1,087,239	956,731
After five years	823,404	717,457
	2,391,713	**2,382,543**

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,355,672 million and RUB 2,086,181 million and fair value of RUB 2,605,734 million and RUB 2,209,883 million as of 31 December 2017 and 31 December 2016, respectively.

All other long-term liabilities have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 824,665 million and RUB 682,810 million and fair value is RUB 837,266 million and RUB 702,251 million as of 31 December 2017 and 31 December 2016, respectively.

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

	31 December	
	2017	2016
Fixed rate long-term borrowings denominated in Russian Rubles	8.81 %	10.41 %
Fixed rate foreign currency denominated long-term borrowings	5.59 %	5.43 %
Variable rate long-term borrowings denominated in Russian Rubles	6.51 %	9.20 %
Variable rate foreign currency denominated long-term borrowings	3.28 %	3.72 %

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

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

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

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

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 February 2011 due in 2021 bondholders partially executed the right of early redemption in February 2018 at par, including interest accrued. All executed bonds were sold at the secondary market.

21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

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

The Group has no subordinated debt and no debt that may be converted into an equity interest of the Group (see Note 25).

22 PROFIT TAX

Profit before profit tax for financial reporting purposes is reconciled to profit tax expense as follows:

Notes		Year ended 31 December 2017	2016
	Profit before profit tax	1,018,006	1,285,138
	Theoretical tax charge calculated at applicable tax rates	(203,601)	(257,028)
	Tax effect of items which are not deductible or assessable for taxation purposes:		
	Non-deductible expenses, including:		
	Tax losses for which no deferred tax asset was recognised	(12,253)	(1,659)
24, 27	Provision for post-employment benefit obligations	(9,704)	(10,192)
13	Provision for impairment of assets under construction	(2,990)	(12,525)
	Non-operating expenses	(19,774)	(14,035)
	Social expenses	(6,338)	(5,619)
	Other non-deductible expenses	(25,779)	(7,192)
15	Non-taxable share of net income of associates and joint ventures	25,388	16,574
	Changes in tax policy regarding making of impairment allowance of accounts receivable	-	-
	Other non-taxable income	3,924	3,642
	Profit tax	**(251,127)**	**(288,034)**

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.

	Year ended 31 December 2015	Differences recognition and reversals recognised in profit or loss	in other comprehensive income	Year ended 31 December 2016	Differences recognition and reversals recognised in profit or loss	in other comprehensive income	Year ended 31 December 2017
Property, plant and equipment	(686,070)	(64,303)	-	(750,373)	(80,862)	-	(831,235)
Financial assets	377	3,020	(1,461)	1,936	(7,661)	1,151	(4,574)
Account receivables	28,559	10,606	-	39,165	7,906	-	47,071
Inventories	(14,743)	3,124	-	(11,619)	2,712	-	(8,907)
Tax losses carry forward	18,356	(12,697)	-	5,659	7,682	-	13,341
Retroactive gas price adjustments	20,600	2,157	-	22,757	(297)	-	22,460
Accounts payable	-	-	-	-	53,859	-	53,859
Other deductible temporary differences	14,517	(11,828)	1,283	3,972	7,351	(2,751)	8,572
Total net deferred tax liabilities	**(618,404)**	**(69,921)**	**(178)**	**(688,503)**	**(9,310)**	**(1,600)**	**(699,413)**

Taxable temporary differences recognised for the years ended 31 December 2017 and 31 December 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 44,723 million and RUB 14,742 million with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the years ended 31 December 2017 and 31 December 2016.

22 PROFIT TAX (continued)

Effective 1 January 2012, 55 major Russian subsidiaries of PJSC Gazprom formed a consolidated group of taxpayers ("CGT") with PJSC Gazprom acting as the responsible tax payer. Starting from 1 January 2013 the membership was expanded to 65 participants. Starting from 1 January 2014, the list of participants was 69. Starting from 1 January 2015 the number of participants was reduced to 65. Starting from 1 January 2016, the list of participants has been expanded to 67. In 2017, the number of participants did not change compared to 2016. In accordance with the Russian tax legislation, tax deductible losses can be offset against taxable profits among the companies within the CGT to the extent those losses and profits are recognised for tax purposes in the reporting year and, thus, are included into the tax base of the CGT. Tax assets recognised on losses prior to the formation of the CGT are written off.

23 DERIVATIVE FINANCIAL INSTRUMENTS

The Group has outstanding commodity contracts measured at fair value. The fair value of derivatives is based on market quotes on measurement date or calculation using an agreed price formula.

Where appropriate, in order to manage currency risk the Group uses foreign currency derivatives.

The following table provides an analysis of the Group's position and fair value of derivatives outstanding as of the end of the reporting year. Fair values of derivatives are reflected at their gross value included in other assets and other liabilities in the consolidated balance sheet.

Fair value	31 December	
	2017	2016
Assets		
Commodity contracts	73,273	100,021
Foreign currency derivatives and currency and interest rate swaps	1,504	1,565
	74,777	**101,586**
Liabilities		
Commodity contracts	58,181	100,111
Foreign currency derivatives and currency and interest rate swaps	20,680	46,330
Other derivatives	13,188	3,948
	92,049	**150,389**

Derivative financial instruments are mainly denominated in US dollars, Euros and Pounds sterling.

24 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December	
	2017	2016
Provision for post-employment benefit obligations	258,132	236,852
Provision for decommissioning and site restoration costs	202,616	161,764
Other	8,705	7,618
Total provisions for liabilities and charges	**469,453**	**406,234**

Provision for decommissioning and site restoration costs changed due to decrease in discount rate from 8.54 % to 8.47 % as of 31 December 2016 and 31 December 2017, respectively, and change in other estimations.

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

The amount of benefits depends on the period of the employees' service (years of service), salary level at retirement, predetermined fixed amount or the combination of these factors.

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Principal actuarial assumptions used:

	31 December	
	2017	**2016**
Discount rate (nominal)	7.6 %	8.5 %
Future salary and pension increases (nominal)	5.0 %	6.0 %
Retirement age, years	females 55, males 58	
Turnover ratio p.a.	Age-related curve, 3.8 % pa on average	

Weighted-average duration of obligations is 12 years.

The assumptions relating to life expectancy at expected pension age were 19.3 years for a 58 year old men and 28.5 years for a 55 year old women in 2017 and 2016.

The amounts associated with post-employment benefit obligations recognised in the consolidated balance sheet are as follows:

	31 December 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	(422,641)	(258,132)	(372,845)	(236,852)
Fair value of plan assets	449,814	-	393,344	-
Net balance assets (liabilities)	**27,173**	**(258,132)**	**20,499**	**(236,852)**

The net pension assets related to benefits provided through plan NPF GAZFOND in the amount of RUB 27,173 million and RUB 20,499 million as of 31 December 2017 and 31 December 2016, respectively, are included within other non-current assets.

Changes in the present value of the defined benefit obligations and fair value of plan assets for the years ended 31 December 2017 and 31 December 2016 are as follows:

	Funded liabilities - benefits provided through NPF GAZFOND	**Fair value of plan assets**	**Net (assets) liabilities**	**Unfunded liabilities–other post-employment benefits**
Opening balance as of 31 December 2016	**372,845**	**(393,344)**	**(20,499)**	**236,852**
Current service cost	14,966	-	14,966	12,703
Past service cost	1,878	-	1,878	1,134
Net interest expense (income)	31,678	(33,641)	(1,963)	19,804
Total expenses included in staff costs	**48,522**	**(33,641)**	**14,881**	**33,641**
Remeasurements:				
Actuarial gains arising from changes in financial assumptions	(4,384)	-	(4,384)	(2,996)
Actuarial (gains) losses arising from changes in demographic assumptions	(339)	-	(339)	72
Actuarial losses – experience adjustments	19,996	-	19,996	10,467
Return on plan assets excluding amounts included in net interest income	-	(17,972)	(17,972)	-
Exchange differences	-	-	-	220
Total recognised in other comprehensive loss	**15,273**	**(17,972)**	**(2,699)**	**7,763**
Benefits paid	(13,999)	13,999	-	(20,124)
Employer's contributions	-	(18,856)	(18,856)	-
Closing balance as of 31 December 2017	**422,641**	**(449,814)**	**(27,173)**	**258,132**

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

	Funded liabilities - benefits provided through NPF GAZFOND	Fair value of plan assets	Net (assets) liabilities	Unfunded liabilities–other post-employment benefits
Opening balance as of 31 December 2015	**356,565**	**(349,585)**	**6,980**	**226,097**
Current service cost	12,496	-	12,496	11,810
Past service cost	1,203	-	1,203	3,713
Net interest expense (income)	33,868	(33,385)	483	21,256
Total expenses included in staff costs	**47,567**	**(33,385)**	**14,182**	**36,779**
Remeasurements:				
Actuarial gains arising from changes in financial assumptions	(719)	-	(719)	(583)
Actuarial losses arising from changes in demographic assumptions	58	-	58	134
Actuarial gains – experience adjustments	(17,901)	-	(17,901)	(6,771)
Return on plan assets excluding amounts included in net interest income	-	(6,702)	(6,702)	-
Exchange differences	-	-	-	(626)
Total recognised in other comprehensive loss	**(18,562)**	**(6,702)**	**(25,264)**	**(7,846)**
Benefits paid	(12,725)	12,725	-	(18,178)
Employer's contributions	-	(16,397)	(16,397)	-
Closing balance as of 31 December 2016	**372,845**	**(393,344)**	**(20,499)**	**236,852**

The major categories of plan assets as a fair value and percentage of total plan assets are as follows:

	31 December 2017		31 December 2016	
	Fair value	Percent in plan assets, %	Fair value	Percent in plan assets, %
Quoted plan assets, including	**231,468**	**51.5 %**	**185,271**	**47.1 %**
Mutual funds	60,610	13.5 %	57,579	14.6 %
Bonds	108,236	24.1 %	49,065	12.5 %
Shares	62,622	13.9 %	78,627	20.0 %
Unquoted plan assets, including	**218,346**	**48.5 %**	**208,073**	**52.9 %**
Shares	177,016	39.3 %	171,949	43.7 %
Deposits	18,843	4.2 %	16,541	4.2 %
Mutual funds	18,400	4.1 %	17,553	4.5 %
Other securities	4,087	0.9 %	2,030	0.5 %
Total plan assets	**449,814**	**100 %**	**393,344**	**100 %**

The amount of ordinary shares of PJSC Gazprom included in the fair value of plan assets comprises RUB 32,490 million and RUB 38,599 million as of 31 December 2017 and 31 December 2016, respectively.

Non-quoted equities within plan assets are mostly represented by Gazprombank (Joint-stock Company) shares, which are measured at fair value (Level 2) using market approach valuation techniques based on available market data.

For the years ended 31 December 2017 and 31 December 2016 actual return on plan assets was a gain of RUB 51,613 million and RUB 40,087 million, respectively, primarily caused by the change in fair value of plan assets.

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2017 is presented below:

	Increase (decrease) of defined benefit obligation	Increase (decrease) of defined benefit obligation, %
Mortality rates lower by 20 %	24,634	3.7 %
Mortality rates higher by 20 %	(20,550)	(3.1 %)
Discount rate lower by 1 pp	63,240	9.4 %
Discount rate higher by 1 pp	(53,561)	(8.0 %)
Benefit growth lower by 1 pp	(55,628)	(8.3 %)
Benefit growth higher by 1 pp	64,708	9.7 %
Staff turnover lower by 1 pp for all ages	32,166	4.8 %
Staff turnover higher by 1 pp for all ages	(28,194)	(4.2 %)
Retirement ages lower by 1 year	29,837	4.5 %
Retirement ages higher by 1 year	(29,691)	(4.4 %)

The Group expects to contribute RUB 42,100 million to the defined benefit plans in 2018.

Retirement benefit plan parameters and related risks

As a rule, the above benefits are indexed in line with inflation rate or salary growth for benefits that depend on salary level. All retirement benefit plans of the Group are exposed to inflation risk.

In addition to the inflation risk, the pension plan of the Group is exposed to mortality risk.

25 EQUITY

Share capital

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

Dividends

In 2017 PJSC Gazprom declared and paid dividends in the nominal amount of 8.04 Russian Rubles per share for the year ended 31 December 2016. In 2016 PJSC Gazprom declared and paid dividends in the nominal amount of 7.89 Russian Rubles per share for the year ended 31 December 2015.

Treasury shares

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

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

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

Shares of PJSC Gazprom including American depositary receipts held by the subsidiaries represent 6.6 % of PJSC Gazprom shares as of 31 December 2017 and 31 December 2016.

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

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Russian Ruble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29 Financial Reporting in Hyperinflation Economies. Also, retained earnings and other reserves include translation differences arising on the translation of the net assets of foreign subsidiaries, associates and joint arrangements in the amount of RUB 634,067 million and RUB 617,922 million as of 31 December 2017 and 31 December 2016, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of

25 EQUITY (continued)

these assets to governmental authorities and this process may continue. Social assets with a net book value of RUB 23 million and RUB 18 million have been transferred to governmental authorities for 2016 and 2017, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with Russian Accounting Rules. For the year ended 31 December 2017 the statutory profit of the parent company was RUB 100,298 million. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

26 SALES

	Year ended 31 December	
	2017	**2016**
Gas sales gross of excise tax and customs duties to customers in:		
Russian Federation	875,685	819,924
Former Soviet Union (excluding Russian Federation)	323,037	340,437
Europe and other countries	2,823,939	2,685,551
	4,022,661	3,845,912
Customs duties	(581,109)	(537,059)
Excise tax	(51,873)	(39,258)
Retroactive gas price adjustments[1]	(49,092)	33,175
Total gas sales	3,340,587	3,302,770
Sales of refined products to customers in:		
Russian Federation	1,115,125	980,352
Former Soviet Union (excluding the Russian Federation)	117,635	88,883
Europe and other countries	454,330	428,327
Total sales of refined products	1,687,090	1,497,562
Sales of crude oil and gas condensate to customers in:		
Russian Federation	71,434	81,302
Former Soviet Union (excluding the Russian Federation)	29,770	23,528
Europe and other countries	438,754	307,128
Total sales of crude oil and gas condensate	539,958	411,958
Electric and heat energy sales:		
Russian Federation	487,283	461,908
Former Soviet Union (excluding the Russian Federation)	2,937	2,458
Europe and other countries	13,599	17,350
Total electric and heat energy sales	503,819	481,716
Gas transportation sales:		
Russian Federation	229,395	192,649
Former Soviet Union (excluding the Russian Federation)	2,433	2,689
Europe and other countries	3,233	3,633
Total gas transportation sales	235,061	198,971
Other revenues:		
Russian Federation	199,506	174,378
Former Soviet Union (excluding the Russian Federation)	6,212	5,858
Europe and other countries	33,910	37,838
Total other revenues	239,628	218,074
Total sales	**6,546,143**	**6,111,051**

[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 years ended 31 December 2017 and 31 December 2016 were the decrease of sales by RUB 49,092 million and the increase of sales by RUB 33,175 million, respectively.
The effects decreasing sales were due to increase in related accruals following agreements reached prior to the issuance of the respective consolidated financial statements. The effect arising from retroactive gas price adjustments on sales for the year ended 31 December 2017 included amount of adjustment related to the gas supply contract with NJSC Naftogaz Ukraine reflected in accordance with the court decision (see Note 36).
The effects increasing sales were due to recognition of adjustments increasing gas prices for the past periods and due to reverse of related accruals following agreements reached prior to the issuance of the respective consolidated financial statements.

27 OPERATING EXPENSES

	Year ended 31 December	
	2017	2016
Taxes other than on income	1,246,059	900,397
Purchased gas and oil	1,236,201	1,157,585
Staff costs	682,060	641,036
Depreciation	613,160	571,564
Transit of gas, oil and refined products	593,327	610,275
Materials	261,642	288,497
Cost of goods for resale, including refined products	207,689	185,441
Repairs and maintenance	154,785	147,608
Electricity and heating expenses	109,485	98,992
Rental expenses	37,723	30,152
Social expenses	34,461	35,516
Insurance expenses	30,491	29,967
Transportation services	27,253	28,923
Processing services	16,261	15,568
Research and development expenses	16,175	28,990
Foreign exchange rate differences on operating items	(14,487)	52,880
Derivatives (gain) loss	(18,344)	9,863
Other	610,787	414,638
	5,844,728	**5,247,892**
Change in finished goods, work in progress and other effects	(130,638)	(2,909)
Total operating expenses	**5,714,090**	**5,244,983**

Taxes other than on income consist of:

	Year ended 31 December	
	2017	2016
MET	915,228	613,662
Excise tax	162,140	144,648
Property tax	154,639	127,053
Other taxes	14,052	15,034
Total taxes other than profit tax	**1,246,059**	**900,397**

Gas purchase expenses included within purchased gas and oil amount to RUB 873,866 million and RUB 872,892 million for the years ended 31 December 2017 and 31 December 2016, respectively.

Staff costs include RUB 48,522 million and RUB 50,961 million of expenses associated with post-employment benefit obligations for the years ended 31 December 2017 and 31 December 2016, respectively (see Note 24).

The change in impairment and other provisions is presented below.

Notes		Year ended 31 December	
		2017	2016
	Change in allowance for investments	5,046	(596)
11	Change in allowance for inventory obsolescence	773	(2,976)
18, 35	Change in provision under financial guarantees	-	(50,736)
13	Change in allowance for impairment of property, plant and equipment	(22,692)	79,363
	Change in allowance for impairment of receivables	(38,049)	118,815
	Total change in impairment and other provisions	**(54,922)**	**143,870**

28 FINANCE INCOME AND EXPENSE

	Year ended 31 December	
	2017	2016
Foreign exchange gains	342,984	925,503
Interest income	83,721	93,494
Total finance income	**426,705**	**1,018,997**
Foreign exchange losses	353,712	471,814
Interest expense	53,332	71,556
Total finance expense	**407,044**	**543,370**

Total interest paid amounted to RUB 161,455 million and RUB 183,312 million for the years ended 31 December 2017 and 31 December 2016, respectively.

Foreign exchange gains and losses for the years ended 31 December 2017 and 31 December 2016 were recognised as a result of change in the US Dollar and Euro exchange rates against the Russian Ruble. Gains and losses primarily relate to revaluation of borrowings denominated in foreign currencies.

29 RECONCILIATION OF PROFIT, DISCLOSED IN CONSOLIDATED STATEMENT OF FINANCIAL RESULTS, PREPARED IN ACCORDANCE WITH RUSSIAN ACCOUNTING RULES (RAR) TO PROFIT DISCLOSED IN IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2017	2016
RAR profit for the year per consolidated statutory accounts	**82,118**	**666,912**
Effects of IFRS adjustments:		
Differences in depreciation of property, plant and equipment and intangible assets	451,406	370,692
Loan interest and foreign exchange losses capitalized	135,556	93,256
Reversal of goodwill amortisation	63,083	62,787
Classification of revaluation of available-for-sale financial assets	30,404	(62,132)
Impairment and other provisions, including provision for pension obligations	15,049	(113,994)
Differences in fixed assets disposal	7,272	1,103
Difference in share of net income of associates and joint ventures	(3,451)	(24,157)
Write-off of research and development expenses capitalized for RAR purposes	(2,480)	(5,488)
Other effects	(12,078)	8,125
IFRS profit for the year	**766,879**	**997,104**

30 BASIC AND DILUTED EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE OWNERS OF PJSC GAZPROM

Earnings per share attributable to owners of PJSC Gazprom have been calculated by dividing the profit for the year, attributable to the owners of PJSC Gazprom by the annual weighted average number of shares outstanding, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 25).

There were 22.1 billion and 22.6 billion weighted average shares outstanding for the years ended 31 December 2017 and 31 December 2016, respectively.

There are no dilutive financial instruments outstanding in the Group.

31 NET CASH FROM OPERATING ACTIVITIES

Notes		Year ended 31 December 2017	2016
	Profit before profit tax	**1,018,006**	**1,285,138**
	Adjustments to profit before profit tax for:		
27	Depreciation	613,160	571,564
28	Net finance income	(19,661)	(475,627)
15	Share of net income of associates and joint ventures	(126,940)	(82,872)
27	Change in provisions	(6,400)	194,831
27	Derivatives (gains) losses	(18,344)	9,863
	Gain on disposal of available-for-sale financial assets	(782)	(1,059)
	Other	(900)	(12,393)
	Total effect of adjustments	440,133	204,307
	Cash flows from operating activities before working capital changes	1,458,139	1,489,445
	(Increase) decrease in non-current assets	(6,973)	3,541
	Increase (decrease) in non-current liabilities	4,056	(8,821)
		1 455 222	1,484,165
	Changes in working capital:		
	Increase (decrease) in accounts receivable and prepayments	33,989	(98,791)
	(Increase) decrease in inventories	(51,996)	96,578
	(Increase) decrease in other current assets	(207,558)	159,473
	Increase (decrease) in accounts payable and accrued charges, excluding interest, dividends and capital construction	161,325	(33,497)
	Settlements on taxes and fees payable (other than profit tax)	43,190	59,923
	Increase in available-for-sale financial assets and financial assets held for trading	(19,601)	(952)
	Total effect of working capital changes	(40,651)	182,734
	Profit tax paid	(227,549)	(95,576)
	Net cash from operating activities	**1,187,022**	**1,571,323**

Total taxes and other similar payments paid in cash during 2016-2017:

	Year ended 31 December 2017	2016
MET	883,895	601,985
Customs duties	664,191	617,788
Excise	256,205	236,892
Profit tax	227,549	95,576
Property tax	149,236	120,391
Insurance contributions	126,307	117,503
VAT	93,862	53,771
Personal income tax	67,879	63,000
Other taxes	65,329	59,545
Total taxes paid	**2,534,453**	**1,966,451**

32 SUBSIDIARIES

Significant subsidiaries

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December[1] 2017	2016
LLC Aviapredpriyatie Gazprom avia	Russia	100	100
WIBG GmbH	Germany	100	100
WIEE Hungary Kft.	Hungary	100	100
WIEH GmbH	Germany	100	100
WINGAS GmbH	Germany	100	100
OJSC Vostokgazprom	Russia	100	100
CJSC Gazprom Armenia	Armenia	100	100
JSC Gazprom gazoraspredelenie	Russia	100	100
LLC Gazprom geologorazvedka	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Gerosgaz Holdings B.V.	Netherlands	100	100

32 SUBSIDIARIES (continued)

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December[1] 2017	2016
LLC Gazprom dobycha Astrakhan	Russia	100	100
LLC Gazprom dobycha Krasnodar	Russia	100	100
LLC Gazprom dobycha Nadym	Russia	100	100
LLC Gazprom dobycha Noyabrsk	Russia	100	100
LLC Gazprom dobycha Orenburg	Russia	100	100
LLC Gazprom dobycha Urengoy	Russia	100	100
LLC Gazprom dobycha shelf Yuzhno-Sakhalinsk	Russia	100	100
LLC Gazprom dobycha Yamburg	Russia	100	100
LLC Gazprom invest	Russia	100	100
LLC Gazprom invest RGK	Russia	100	100
LLC Gazprom investgazifikatsiia	Russia	100	100
LLC Gazprom komplektatciya	Russia	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
Gazprom Marketing and Trading Retail Ltd.	United Kingdom	100	100
LLC Gazprom mezhregiongaz	Russia	100	100
LLC Gazprom mezhregiongaz Moskva	Russia	100	100
JSC Gazprom mezhregiongaz Nizhny Novgorod	Russia	51	51
LLC Gazprom mezhregiongaz Sankt-Peterburg	Russia	100	100
LLC Gazprom neftekhim Salavat	Russia	100	100
PJSC Gazprom Neft	Russia	96	96
Gazprom Neft Badra B.V.[2]	Netherlands	100	100
Gazprom Neft Trading GmbH[2]	Austria	100	100
LLC Gazprom neft shelf[2]	Russia	100	100
LLC Gazprom pererabotka	Russia	100	100
LLC Gazprom pererabotka Blagoveshchensk	Russia	100	100
LLC Gazprom PKhG	Russia	100	100
Gazprom Sakhalin Holdings B.V.	Netherlands	100	100
OJSC Gazprom transgaz Belarus	Belorussia	100	100
LLC Gazprom transgaz Volgograd	Russia	100	100
LLC Gazprom transgaz Ekaterinburg	Russia	100	100
LLC Gazprom transgaz Kazan	Russia	100	100
LLC Gazprom transgaz Krasnodar	Russia	100	100
LLC Gazprom transgaz Moskva	Russia	100	100
LLC Gazprom transgaz Nizhny Novgorod	Russia	100	100
LLC Gazprom transgaz Samara	Russia	100	100
LLC Gazrpom transgaz Sankt-Peterburg	Russia	100	100
LLC Gazprom transgaz Saratov	Russia	100	100
LLC Gazprom transgaz Stavropol	Russia	100	100
LLC Gazprom transgaz Surgut	Russia	100	100
LLC Gazprom transgaz Tomsk	Russia	100	100
LLC Gazprom transgaz Ufa	Russia	100	100
LLC Gazprom transgaz Ukhta	Russia	100	100
LLC Gazprom transgaz Tchaikovsky	Russia	100	100
LLC Gazprom transgaz Yugorsk	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
Gazprom Holding Cooperatie U.A.	Netherlands	100	100
LLC Gazprom tsentrremont	Russia	100	100
GAZPROM Schweiz AG	Switzerland	100	100
LLC Gazprom export	Russia	100	100
LLC Gazprom energoholding	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
LLC Gazpromneft Marine Bunker[2]	Russia	100	100
JSC Gazpromneft-Aero[2]	Russia	100	100
LLC Gazpromneft-Vostok[2]	Russia	100	100
LLC Gazpromneft Corporate Sales[2]	Russia	100	100
JSC Gazpromneft - MNPZ[2]	Russia	100	100

32 SUBSIDIARIES (continued)

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December[1] 2017	2016
JSC Gazpromneft-Noyabrskneftegaz[2]	Russia	100	100
JSC Gazpromneft - ONPZ[2]	Russia	100	100
LLC Gazpromneft-Orenburg[2]	Russia	100	100
LLC Gazpromneft Regional Sales[2]	Russia	100	100
LLC Gazpromneft-Khantos[2]	Russia	100	100
LLC Gazpromneft-Centr[2]	Russia	100	100
LLC Gazpromneft-Yamal[2]	Russia	100	100
LLC Gazpromtrans	Russia	100	100
OJSC Gazpromtrubinvest	Russia	100	100
Gazfin Cyprus Limited	Cyprus	100	100
LLC GPN-Invest[2]	Russia	100	100
LLC GPN-Finans[2]	Russia	100	100
LLC Zapolyarneft[2]	Russia	100	100
JSC Mezhregionenergosbyt	Russia	58	58
PJSC Mosenergo	Russia	53	53
PJSC MIPC	Russia	90	90
Naftna Industrija Srbije a.d.[2]	Serbia	56	56
LLC Novourengoysky gazohimicheskii kompleks	Russia	100	100
Nord Stream 2 AG	Switzerland	100	100
PJSC WGC-2	Russia	77	77
Rosingaz Limited	Cyprus	100	100
South Stream Transport B.V.	Netherlands	100	100
OJSC Severneftegazprom[3]	Russia	50	50
LLC Sibmetakhim	Russia	100	100
PJSC TGC-1	Russia	52	52
JSC Teploset Sankt-Peterburga	Russia	75	75
OJSC Tomskgazprom	Russia	100	100
LLC Faktoring-Finance	Russia	100	100
PJSC Centerenergoholding	Russia	100	100

[1] Cumulative share of the Group in charter capital of investees.
[2] Subsidiaries of PJSC Gazprom Neft.
[3] Group's portion of voting shares.

33 NON-CONTROLLING INTEREST

	Year ended 31 December	
	2017	2016
Non-controlling interest at the beginning of the year	**347,308**	**325,036**
Non-controlling interest share of net profit of subsidiaries[1]	52,577	45,467
Changes in interest in JSC Gazprom StroyTEK Salavat[2]	(2,127)	-
Changes in interest in PJSC MIPC	(777)	-
Changes in interest in JSC Gazprom gazoraspredelenie Sever	(117)	2,644
Changes in interest in PJSC WGC-2	91	131
Changes in the non-controlling interest as a result of other acquisitions and disposals	(33)	676
Gain from cash flow hedges	796	1,361
(Loss) gain arising from change in fair value of available-for-sale financial assets	(7)	1
Remeasurements of post-employment benefit obligations	(82)	8
Dividends	(18,379)	(11,727)
Translation differences	7,145	(16,289)
Non-controlling interest at the end of the year	**386,395**	**347,308**

[1] Non-controlling interest share of net profit of subsidiaries includes share in impairment of assets in the amount of RUB 3,299 million and RUB 5,365 million for the years ended 31 December 2017 and 31 December 2016, respectively.
[2] Subsidiary of LLC Gazprom neftekhim Salavat.

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

	Country of primary operation	Percent of share capital held by non-controlling interest[1]	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
As of and for the year ended 31 December 2017					
Gazprom Neft Group[2]	Russia	4 %	32,093	149,974	5,061
Naftna Industrija Srbije a.d. Group	Serbia	46 %	6,808	75,560	1,014
Mosenergo Group	Russia	46 %	10,857	97,594	1,556
TGC-1 Group	Russia	48 %	5,009	67,012	642
WGC-2 Group	Russia	20 %	915	30,364	171
As of and for the year ended 31 December 2016					
Gazprom Neft Group[2]	Russia	4 %	20,412	114,916	1,377
Naftna Industrija Srbije a.d. Group	Serbia	46 %	4,183	62,044	1,049
Mosenergo Group	Russia	46 %	6,398	88,296	1,039
TGC-1 Group	Russia	48 %	4,088	62,701	452
WGC-2 Group	Russia	19 %	200	29,558	117

[1] Effective share held by non-controlling interest in charter capital of investments.
[2] Including non-controlling interest in Naftna Industrija Srbije a.d. Group.

The summarised financial information of these subsidiaries before inter-company eliminations was as follows:

33 NON-CONTROLLING INTEREST (continued)

	Gazprom Neft Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
As of and for the year ended 31 December 2017					
Current assets	422,567	61,658	87,075	26,943	29,510
Non-current assets	2,732,329	218,321	189,909	159,749	216,978
Current liabilities	479,606	36,160	29,657	18,968	21,504
Non-current liabilities	851,041	61,812	21,726	33,874	80,831
Revenue	1,857,929	195,130	196,216	87,568	141,504
Profit for the year	294,784	13,997	23,470	10,047	4,776
Total comprehensive income for the year	326,072	14,340	23,463	9,926	4,630
Net cash from (used in):					
operating activities	401,778	29,130	42,067	17,209	24,741
investing activities	(328,608)	(19,533)	(6,580)	(9,968)	(9,788)
financing activities	(15,477)	(7,553)	(24,921)	(3,752)	(14,323)
As of and for the year ended 31 December 2016					
Current assets	396,286	48,388	83,363	24,233	29,375
Non-current assets	2,357,154	195,271	201,377	155,517	220,817
Current liabilities	290,940	35,641	45,361	20,945	49,695
Non-current liabilities	864,337	57,136	33,696	33,552	60,053
Revenue	1,545,608	189,781	190,744	79,228	134,537
Profit for the year	201,763	7,483	13,482	8,453	809
Total comprehensive income for the year	187,873	7,483	12,789	8,065	527
Net cash from (used in):					
operating activities	397,128	22,896	31,690	14,162	24,266
investing activities	(382,981)	(15,894)	(23,668)	(8,949)	(14,064)
financing activities	(86,500)	(4,914)	(3,581)	(3,386)	(13,097)

The rights of the non-controlling shareholders of the presented subgroups are determined by the respective laws of country of incorporation and the charter documents of the subsidiaries.

34 RELATED PARTIES

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

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

Government (Russian Federation)

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

As of 31 December 2017 38.373 % of PJSC Gazprom's issued shares are directly owned by the Government. 11.859 % are owned JSC Rosneftegaz and JSC Rosgazifikatsiya controlled by Government.

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

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

Parties under control of the Government

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

As of 31 December 2017 prices of natural gas sales, gas transportation and electricity tariffs in Russia are regulated by the FAS.

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

As of 31 December 2017 and 31 December 2016 and for the years ended 31 December 2017 and 31 December 2016, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	As of 31 December 2017		Year ended 31 December 2017	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
Current profit tax	4,088	53,112	-	228,221
Insurance contributions	1,359	7,689	-	129,947
VAT recoverable / payable	300,567	90,632	-	-
Customs duties	16,249	-	-	-
Other taxes	4,029	153,784	-	1,172,472
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	113,062	-
Electricity and heating sales	-	-	166,292	-
Gas transportation sales	-	-	49,846	-
Other services sales	-	-	7,865	-
Accounts receivable	43,701	-	-	-
Oil and refined products transportation expenses	-	-	-	121,118
Accounts payable	-	17,201	-	-
Borrowings	-	226,565	-	-
Interest expense	-	-	-	19,171
Short-term financial assets	27,472	-	-	-
Available-for-sale long-term financial assets	5,711	-	-	-

34 RELATED PARTIES (continued)

	As of 31 December 2016		Year ended 31 December 2016	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
Current profit tax	11,608	56,695	-	199,675
Insurance contributions	720	7,795	-	96,693
VAT recoverable / payable	322,643	72,557	-	-
Customs duties	16,183	-	-	-
Other taxes	2,457	116,769	-	763,267
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	76,955	-
Electricity and heating sales	-	-	154,923	-
Gas transportation sales	-	-	46,849	-
Other services sales	-	-	3,842	-
Accounts receivable	46,274	-	-	-
Oil and refined products transportation expenses	-	-	-	109,508
Accounts payable	-	13,381	-	-
Borrowings	-	345,604	-	-
Interest expense	-	-	-	11,467
Short-term financial assets	10,136	-	-	-
Available-for-sale long-term financial assets	8,087	-	-	-

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

See the consolidated statement of changes in equity for returns of social assets to governmental authorities during the years ended 31 December 2017 and 31 December 2016. See Note 13 for net book values as of 31 December 2017 and 31 December 2016 of social assets vested to the Group at privatisation.

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

As of 31 December 2016 and for the year ended 31 December 2016 comparative data in the section "Parties under control of the Government" was adjusted in connection with the separate disclosure of balances and transactions with JSC Financial Settling Center ("JSC FSC').

Transactions with JSC FSC

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with JSC FSC. Current financial system of JSC FSC does not provide the final counterparty with automated information about transactions and outstanding balances with the ultimate consumers.

The Group's transactions and balances with JSC FSC are detailed below.

	As of 31 December 2017		Year ended 31 December 2017	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with JSC FSC				
Electricity and heating sales	-	-	153,914	-
Purchased electricity and heating	-	-	-	26,621
Accounts receivable	6,030	-	-	-
Accounts payable	-	1,856	-	-

34 RELATED PARTIES (continued)

	As of 31 December 2016		Year ended 31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Transactions and balances with JSC FSC				
Electricity and heating sales	-	-	157,898	-
Purchased electricity and heating	-	-	-	24,686
Accounts receivable	7,219	-	-	-
Accounts payable	-	1,954	-	-

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RUB 4,537 million and RUB 4,685 million for the years ended 31 December 2017 and 31 December 2016, respectively.

Government officials, who are directors, do not receive remuneration from the Group.

The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

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

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

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

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

34 RELATED PARTIES (continued)

Associates and joint ventures

For the years ended 31 December 2017 and 31 December 2016 and as of 31 December 2017 and 31 December 2016 the Group had the following significant transactions and balances with associates and joint ventures.

	Year ended 31 December	
	2017	2016
	Revenues	
Gas sales		
Panrusgas Gas Trading Plc	46,715	38,041
JSV Moldovagaz	18,063	24,849
CJSC Gazprom YRGM Trading[1]	17,264	7,917
Bosphorus Gaz Corporation A.S.	15,128	15,376
JSC Latvijas Gaze	14,608	10,237
JSC Gazprom YRGM Development[1]	12,332	7,137
KazRosGas LLP	11,118	10,509
VEMEX s.r.o. and its subsidiaries	8,654	16,046
Prometheus Gas S.A.	7,454	806
JSC EUROPOL GAZ	2,347	4,759
PremiumGas S.p.A.	677	4,702
Gas transportation sales		
CJSC Gazprom YRGM Trading[1]	25,391	11,453
JSC Gazprom YRGM Development[1]	18,137	10,323
KazRosGas LLP	2,432	2,688
Gas condensate, crude oil and refined products sales		
OJSC NGK Slavneft and its subsidiaries	39,597	38,445
CJSC SOVEKS	5,377	3,696
LLC Poliom	2,931	1,800
LLC NPP Neftekhimia	2,732	2,379
Sakhalin Energy Investment Company Ltd.	2,118	2,054
Operator services sales and other services sales		
OJSC NGK Slavneft and its subsidiaries	4,486	663
JSC Messoyakhaneftegas	4,389	4,538
Gas refining services sales		
KazRosGas LLP	8,137	8,169
Interest income		
Gazprombank (Joint-stock Company)	39,507	39,167
JSC Messoyakhaneftegas	6,352	5,480
	Expenses	
Purchased gas		
CJSC Gazprom YRGM Trading[1]	54,752	24,566
LLC SeverEnergiya and its subsidiaries	43,980	49,393
JSC Gazprom YRGM Development[1]	39,154	22,089
KazRosGas LLP	30,264	32,567
Sakhalin Energy Investment Company Ltd.	17,525	11,811
CJSC Northgas	2,732	8,512
VEMEX s.r.o. and its subsidiaries	465	3,885
Purchased transit of gas		
Nord Stream AG	71,047	79,002
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	30,699	38,035
JSC EUROPOL GAZ	12,572	16,613
JSV Moldovagaz	3,499	3,587
Purchased crude oil and refined products		
OJSC NGK Slavneft and its subsidiaries	114,674	96,427

34 RELATED PARTIES (continued)

	Year ended 31 December	
	2017	2016
JSC Messoyakhaneftegas	29,699	6,351
Sakhalin Energy Investment Company Ltd.	18,380	19,090
Purchased services of gas and gas condensate products		
JSC Achimgaz	31,027	27,994
Purchased refining services		
OJSC NGK Slavneft and its subsidiaries	13,719	13,313
Purchased transit of crude oil and oil refinery products		
OJSC NGK Slavneft and its subsidiaries	6,252	6,766
JSC Messoyakhaneftegas	3,863	771
Interest expense		
Gazprombank (Joint-stock Company) and its subsidiaries	11,736	10,750

[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 related parties in the ordinary course of business at prices close to average market prices.

	31 December 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
Gazprombank (Joint-stock Company)	17,380	-	14,306	-
KazRosGas LLP	5,457	-	3,287	-
OJSC NGK Slavneft and its subsidiaries	5,304	-	8,286	-
Panrusgas Gas Trading Plc	4,023	-	3,175	-
LLC Yamal razvitie	3,459	-	-	-
Bosphorus Gaz Corporation A.S.	2,603	-	-	-
CJSC Gazprom YRGM Trading	2,327	-	1,167	-
JSC Gazprom YRGM Development	1,662	-	1,052	-
Sakhalin Energy Investment Company Ltd.	1,045	-	2,733	-
JSC Messoyakhaneftegas	796	-	40,530	-
VEMEX s.r.o. and its subsidiaries	521	-	1,518	-
Wintershall Noordzee B.V.	-	-	5,811	-
Wintershall AG	-	-	2,125	-
Cash balances				
Gazprombank (Joint-stock Company)	388,436	-	518,084	-
OJSC Belgazprombank	19,320	-	917	-
Other current assets				
Gazprombank (Joint-stock Company)	290,322	-	100,015	-
OJSC Belgazprombank	7,436	-	968	-
Other non-current assets				
Gazprombank (Joint-stock Company)	-	-	42,230	-
Long-term accounts receivable and prepayments				
JSC Messoyakhaneftegas	24,414	-	18,962	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	13,768	-	12,757	-
Gazprombank (Joint-stock Company)	9,599	-	745	-
Wintershall Noordzee B.V.	5,595	-	-	-
OJSC Belgazprombank	4,957	-	4,957	-
LLC Yamal razvitie	4,483	-	15,722	-
JSC Evroteck-Yugra	1,514	-	-	-

34 RELATED PARTIES (continued)

	31 December 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts payable				
OJSC NGK Slavneft and its subsidiaries	-	31,164	-	4,094
CJSC Gazprom YRGM Trading	-	7,927	-	4,490
JSC Messoyakhaneftegas	-	6,928	-	3,694
Nord Stream AG	-	6,172	-	5,723
Sakhalin Energy Investment Company Ltd.	-	5,710	-	2,948
JSC Gazprom YRGM Development	-	5,662	-	3,682
JSC Achimgaz	-	3,195	-	3,025
LLC SeverEnergia and its subsidiaries	-	2,963	-	3,436
KazRosGas LLP	-	2,079	-	4,186
JSC EUROPOL GAZ	-	2,078	-	2,100
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	-	1,957	-	124
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint-stock Company) and its subsidiaries	-	80,807	-	31,797
Long-term borrowings				
Gazprombank (Joint-stock Company)	-	87,511	-	88,850

Accounts receivable due from Bosphorus Gaz Corporation A.S. are RUB 2,603 million and RUB nil million as of 31 December 2017 and 31 December 2016, respectively, net of impairment allowance of RUB 5,935 million and RUB 7,802 million as of 31 December 2017 and 31 December 2016, respectively.

Accounts receivable for gas due from Overgas Inc. AD are RUB nil million as of 31 December 2017 and 31 December 2016 net of impairment allowance of RUB 6,058 million and RUB 6,380 million as of 31 December 2017 and 31 December 2016, respectively.

Accounts receivable due from JSV Moldovagaz are RUB nil million as of 31 December 2017 and 31 December 2016 net of impairment allowance of RUB 339,481 million and RUB 342,765 million as of 31 December 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. The amount of secured borrowings was RUB 60,000 million and RUB nil million as of 31 December 2017 and 31 December 2016, respectively.

Investments in associates and joint ventures are disclosed in Note 15.

Financial guarantees issued by the Group for the associates and joint ventures are disclosed in Note 35.

35 COMMITMENTS AND CONTINGENCIES

Financial guarantees

Notes		31 December 2017	2016
	Outstanding guarantees issued for:		
	LLC Stroygazconsulting	81,710	-
	Blackrock Capital Investments Limited	1,572	4,968
18, 27	Ostchem Holding Limited	-	3,427
	Other	24,781	36,362
	Total financial guarantees	**108,063**	**44,757**

In 2017 and 2016 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 27 million and USD 87 million as of 31 December 2017 and 31 December 2016, respectively, as well as amounts denominated in Euros of EUR 33 million and EUR 66 million as of 31 December 2017 and 31 December 2016, respectively.

35 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 JSC EUROPOL GAZ. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. In December 2015 loans issued by EM Interfinance Limited were redeemed. As a result as of 31 December 2017 and 31 December 2016 the guarantees issued for Blackrock Capital Investments Limited amounted to RUB 1,572 million (USD 27 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 of Ostchem Holding Limited under the credit facility for financing of operating activities. As of 31 December 2017 and 31 December 2016 the above guarantee amounted to RUB nil million and RUB 3,427 million, respectively, and was fully provided. As of 31 December 2017 the guarantee agreement was terminated.

In December 2017 the Group provided guarantees to Gazprombank (Joint-stock Company) related to debts of LLC Stroygazconsulting under its credit facilities. As of 31 December 2017 the guarantees amounted to RUB 81,710 million.

Other

The Group has transportation agreements with certain of its associates and joint ventures (see Note 34).

Capital commitments

The total investment program related to gas, oil and power assets for 2018 is RUB 1 981 965 million.

Operating lease commitments

As of 31 December 2017 and 31 December 2016 the Group does not have significant liabilities related to operating leases.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2017 no loss is expected to result from these long-term commitments.

36 OPERATING RISKS

Operating environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. Due to the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings of the Group.

The future economic prospects of the Russian Federation is largely dependent upon the world economic situation, effectiveness of economic, financial and monetary measures undertaken by the Government of the Russian Federation, together with tax, legal, regulatory, and political developments.

Taxation

The tax, currency and customs legislation in the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 31 December 2017 is appropriate and all of the Group's material tax, currency and customs positions will be sustainable.

36 OPERATING RISKS (continued)

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.

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

1) to pay PJSC Gazprom the overdue debt for the gas supplied amounting to USD 2,019 million, and penalty interest for the period from 22 December 2017 to the date of such payment amounting at the rate 0.03 % for each day of delay;

2) starting from 2018 to buy and pay for 5 billion cubic meters of gas annually or in case of the failure to buy this quantity to pay for 80 % of this volume.

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

On 21 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to review stated final decision of 22 December 2017 and to cancel it partially.

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;

(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

36 OPERATING RISKS (continued)

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. On 2 February 2018 NJSC Naftogaz of Ukraine submitted the corrected amount of claim to the arbitration court, including a claim to recover damages for the failure to provide gas for transit and underpayment of the transit tariff for the second half of 2016 and 2017. Total amount of the claim filed by NJSC Naftogaz of Ukraine (without interest) was USD 14,865 million. On 16 February 2018 PJSC Gazprom submitted to the arbitration court a response to this claim and a claim to refund the overpaid transit tariff for the period from April 2014 to December 2017 due to the change in the gas price under the Contract No. KP for purchase and sale of natural gas in 2009-2019 totaling USD 44 million without interest. The final award in the case was delivered on 28 February 2018. The arbitration court rejected a request of NJSC Naftogaz of Ukraine to change the gas transit tariff, recognised almost all provisions of the Contract No. TKGU as valid and refused application of the anti-monopoly legislation of Ukraine and the European Union to the Contract. The arbitration court rejected a request of NJSC Naftogaz of Ukraine to transfer its rights and obligations under the Contract No. TKGU to PJSC Ukrtransgaz or to another gas transportation system operator. The arbitration court satisfied the demand of NJSC Naftogaz of Ukraine to oblige PJSC Gazprom to pay USD 4,673 million for having provided less gas for transit to European consumers than stipulated in the Contract. With consideration for the amount awarded to PJSC Gazprom under the supply contract, the arbitration court set off counterclaims, as a result of which PJSC Gazprom is obliged to pay USD 2,560 million to NJSC Naftogaz of Ukraine. Expenses for recognition of the liabilities under the award are presented in the line "Operating expenses" in the consolidated statement of comprehensive income (see Note 27). The amount of the liability is presented in the line "Accounts payable and provisions for liabilities and charges" of the consolidated balance sheet. On 29 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to review stated final award of 28 February 2018 and to cancel it partially.

In March 2018 following the arbitration proceeding PJSC Gazprom sent a notice to NJSC Naftogaz of Ukraine about an imbalance in the rights and obligations under the Contract and elimination of injustice. In case of the failure to come to an agreement PJSC Gazprom has the right to apply to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, for final dispute resolution.

On 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders' agreement with AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5,000 million compensation (at the exchange rate as of 31 December 2017 – RUB 99,726 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. 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 submitted its detailed written opinions of the case on 10 October 2017. PJSC Gazprom is keeping on analysing received documents and is preparing its legal position. The hearings of the case are scheduled for June 2018.

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

36 OPERATING RISKS (continued)

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, 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.

In 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.

The amount of current claims of Saipem S.p.A. to South Stream Transport B.V. is about EUR 615 million (at the exchange rate as of 31 December 2017 – RUB 42,353 million). The parties are currently undergoing a mutual information disclosure procedure. The hearings are scheduled for June 2019.

On 25 January 2016 the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of Ukrainian hryvnia 85,966 million (at the exchange rate as of 31 December 2017 – RUB 176,192 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. On 11 September 2017 the Supreme Court of Ukraine left these decisions in force and the appeal of PJSC Gazprom was unsatisfied. 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 Orders of the Department of the State Executive Service of the Ministry of Justice of Ukraine on institution of enforcement proceedings to recover the amount of Ukrainian hryvnia 189,125 million (at the exchange rate as of 31 December 2017 – RUB 387,621 million), including an execution fee of Ukrainian hryvnia 17,193 million (at the exchange rate as of 31 December 2017 – RUB 35,238 million), the seizure of

36 OPERATING RISKS (continued)

the accounts of the Kiev-based Branch of PJSC Gazprom, dividends due to PJSC Gazprom from the participation in JSC Gaztranzit, the stocks of JSC Gaztranzit owned by PJSC Gazprom, the stocks of PJSC YUZHNIIGIPROGAZ Institute, a participation stake in LLC Gazprom sbyt Ukraine, the LLC International Consortium for the Ukrainian Gas Transmission System Management and Development. PJSC Gazprom is currently challenging the actions under the enforcement proceedings in the Ukrainian courts. PJSC Gazprom is also considering other legal mechanisms to restore its violated rights.

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 recognise PJSC Gazprom guilty of violation of the antitrust law of the European Union. These claims relate to issues covered by the European Commission investigation of PJSC Gazprom and LLC Gazprom export activities in the countries of Central and Eastern Europe, which formal phase was initiated in 2012. It is currently impossible to assess a potential negative impact of this ongoing investigation 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

From 2014 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 their subsidiaries and other companies, including Gazprombank (Joint-stock Company), and some of them include general restrictions of economic activity in certain sectors of the Russian Federation economy.

The U.S. sanctions prohibit any U.S. person, and 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 with new debt of longer than 90 days maturity (from 28 November 2017 – 60 days maturity) or newly issued share capital, property or rights to property in respect of a number of Russian energy companies, including PJSC Gazprom Neft;

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

3) providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or

36 OPERATING RISKS (continued)

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 2015restriction includes the Yuzhno-Kirinskoye field located in the Sea of Okhotsk. According to the changes from 31 October 2017 the scope of the stated prohibition is extended for projects that meet three criteria at the same time:

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

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

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

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

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

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

1) provision of drilling, 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.

36 OPERATING RISKS (continued)

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.

37 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

Risks are managed centrally and to some extent at the level of subsidiaries in accordance with Group policies.

Market risk

Market risk is a risk that changes in market prices, such as foreign currency exchange rates, interest rates, commodity prices and prices of marketable securities, will affect the Group's financial results or the value of its holdings of financial instruments.

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The carrying amounts of the Group's financial instruments are denominated in the following currencies.

Notes		Russian Ruble	US dollar	Euro	Other	Total
	As of 31 December 2017					
	Financial assets					
	Current					
8	Cash and cash equivalents	478,401	201,232	162,436	26,938	869,007
9	Short-term financial assets (excluding equity securities)	30,851	-	-	-	30,851
10	Trade and other accounts receivable	533,110	132,995	244,398	133,929	1,044,432
	Non-current					
16	Long-term accounts receivable (excluding prepayments)	121,411	2,026	33,254	1,642	158,333
17	Available-for-sale long-term financial assets (excluding equity securities)	249	-	-	-	249
	Total financial assets	**1,164,022**	**336,253**	**440,088**	**162,509**	**2,102,872**
	Financial liabilities					
	Current					
18	Accounts payable (excluding derivative financial instruments)	706,795	261,772	148,179	46,875	1,163,621
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	216,858	259,646	366,685	31,616	874,805
	Non-current					
21	Long-term borrowings, promissory notes	416,025	933,435	841,633	200,620	2,391,713
	Total financial liabilities	**1,339,678**	**1,454,853**	**1,356,497**	**279,111**	**4,430,139**

37 FINANCIAL RISK FACTORS (continued)

Notes		Russian Ruble	US dollar	Euro	Other	Total
	As of 31 December 2016					
	Financial assets					
	Current					
8	Cash and cash equivalents	539,158	249,143	90,458	17,969	896,728
9	Short-term financial assets (excluding equity securities)	11,094	-	-	-	11,094
10	Trade and other accounts receivable	506,332	187,767	216,638	97,249	1,007,986
	Non-current					
16	Long-term accounts receivable (excluding prepayments)	130,556	6,573	39,068	1,298	177,495
17	Available-for-sale long-term financial assets (excluding equity securities)	311	-	-	-	311
	Total financial assets	**1,187,451**	**443,483**	**346,164**	**116,516**	**2,093,614**
	Financial liabilities					
	Current					
18	Accounts payable (excluding derivative financial instruments)	692,907	126,497	96,091	67,056	982,551
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	113,841	108,334	223,953	952	447,080
	Non-current					
21	Long-term borrowings, promissory notes	357,525	1,192,238	705,741	127,039	2,382,543
	Total financial liabilities	**1,164,273**	**1,427,069**	**1,025,785**	**195,047**	**3,812,174**

See discussion of derivative financial instruments in Note 23.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in selected foreign currencies.

As of 31 December 2017, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 223,620 million, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. As of 31 December 2016, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 195,208 million, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. The effect of related Russian Ruble strengthening against the US dollar would have been approximately the same amount with opposite impact.

As of 31 December 2017, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 183,626 million, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. As of 31 December 2016, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 145,508 million, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. The effect of related Russian Ruble strengthening against the Euro would have been approximately the same amount with opposite impact.

(b) Cash flow and fair value interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group's interest rate risk primarily arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The table below summarises the balance between long-term borrowings at fixed and at variable interest rates:

Notes	Long-term borrowings and promissory notes	31 December 2017	2016
21	At fixed rate	2,355,672	2,086,181
21	At variable rate	824,665	682,810
		3,180,337	**2,768,991**

37 FINANCIAL RISK FACTORS (continued)

The Group does not have a formal policy of determining how much the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether obtaining financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

During the years ended 31 December 2017 and 31 December 2016 the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2017, if benchmark interest rates on borrowings had been 5 % higher with all other variables held constant, profit before profit tax would have been lower by RUB 41,233 million for 2017, mainly as a result of higher interest expense on floating rate borrowings. As of 31 December 2016, if benchmark interest rates on borrowings had been 5 % higher with all other variables held constant, profit before profit tax would have been lower by RUB 34,141 million for 2016, mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in benchmark interest rates is approximately equal and opposite.

(c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows.

The Group's overall strategy in production and sales of natural gas, crude oil and related products is centrally managed. Natural gas export prices to Europe and other countries are generally based on a formula linked to oil product prices, which in turn are linked to crude oil prices.

The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2017, if the average gas prices related to the export market had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 246,490 million for 2017. As of 31 December 2016, if the average gas prices related to the export market had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 248,285 million for 2016.

The Russian gas tariffs are regulated by the FAS and are as such less subject to significant price fluctuations.

The Group assesses on regular basis the potential scenarios of future fluctuation in commodity prices and their impacts on operational and investment decisions. However, in the current environment management estimates may materially differ from actual impact on the Group's financial position.

(d) Securities price risk

The Group is exposed to movements in the equity securities prices because of financial assets held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss (see Notes 9 and 17).

As of 31 December 2017 and 31 December 2016, if London Stock Exchange equity index, which affects the major part of Group's equity securities, had decreased by 10 % with all other variables held constant, assuming the Group's equity instruments moved according to the historically high correlation with the index, Group's total comprehensive income for the year would have been RUB 26,839 million and RUB 29,442 million lower, respectively.

The Group is also exposed to movements in the equity securities prices used to assess the fair value of pension plan assets held by NPF GAZFOND (see Note 24).

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations. The maximum exposure to credit risk is the value of the assets which might be lost.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

37 FINANCIAL RISK FACTORS (continued)

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable. Credit risks related to accounts receivable are systematically monitored, taking into account customer's financial position, past experience and other factors.

Management systematically reviews ageing analysis of receivables and uses this information for calculation of impairment provision (see Note 10, 16). Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customers default risk and country risk. Group operates with various customers and substantial part of sales relates to major customers.

Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash and cash equivalents are deposited only with banks that are considered by the Group to have a minimal risk of default.

The Group's maximum exposure to credit risk is presented in the table below.

Notes		31 December 2017	31 December 2016
8	Cash and cash equivalents	869,007	896,728
9	Debt securities	30,851	11,094
10, 16	Long-term and short-term trade and other accounts receivable	1,202,765	1,185,481
35	Financial guarantees	108,063	44,757
	Total maximum exposure to credit risk	**2,210,686**	**2,138,060**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group liquidity is managed centrally. The management of the Group monitors the planned cash inflow and outflow.

Important factor in the Group's liquidity risk management is an access to a wide range of funding through capital markets and banks. Management aims is to maintain flexibility in financing sources by having committed facilities available.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of 31 December 2017					
Short-term and long-term loans and borrowings and promissory notes	404,002	470,803	481,070	1,087,239	823,404
Accounts payable (excluding derivative financial instruments and provision under financial guarantees)	1,118,632	44,989	-	-	-
Financial guarantees	10,765	5,916	912	3,223	87,247
As of 31 December 2016					
Short-term and long-term loans and borrowings and promissory notes	348,178	247,864	829,565	1,172,128	1,022,573
Accounts payable (excluding derivative financial instruments and provision under financial guarantees)	907,675	71,449	-	-	-
Financial guarantees	7,162	7,528	8,877	13,147	8,043

The Group's borrowing facilities do not usually include financial covenants which could trigger accelerated reimbursement of financing facilities. For those borrowing facilities where the Group has financial covenants, the Group is in compliance. If the financial covenants are not met, the Group reclassifies long-term borrowing facilities into short-term.

37 FINANCIAL RISK FACTORS (continued)

Reconciliation of liabilities arising from financing activities

	Short-term and long-term debt	Dividends	Other liabilities from financing activities	Total
As of 31 December 2016	**2,829,623**	**3,029**	**43,051**	**2,875,703**
Cash flows, including:				
Proceeds from borrowings (net of costs directly related to the receipt)	1,008,563	-	-	1,008,563
Repayment of borrowings	(622,058)	-	(10,033)	(632,091)
Interest paid (in financing activities)	(33,757)	-	(539)	(34,296)
Dividends paid	-	(191,875)	-	(191,875)
Finance expense	37,063	-	539	37,602
Dividends declared	-	196,059	-	196,059
Change in fair value of cash flow hedges	-	-	(956)	(956)
Translation differences	25,103	-	-	25,103
Other non-cash movements	21,981	(2,114)	(997)	18,870
As of 31 December 2017	**3,266,518**	**5,099**	**31,065**	**3,302,682**

	Short-term and long-term debt	Dividends	Other liabilities from financing activities	Total
As of 31 December 2015	**3,442,215**	**4,969**	**79,722**	**3,526,906**
Cash flows, including:				
Proceeds from borrowings (net of costs directly related to the receipt)	673,406	-	-	673,406
Repayment of borrowings	(734,697)	-	(28,686)	(763,383)
Interest paid (in financing activities)	(48,528)	-	(2,307)	(50,835)
Dividends paid	-	(186,337)	-	(186,337)
Finance expense	59,366	-	2,307	61,673
Dividends declared	-	186,099	-	186,099
Change in fair value of cash flow hedges	-	-	(7,984)	(7,984)
Translation differences	(544,032)	-	(1)	(544,033)
Other non-cash movements	(18,107)	(1,702)	-	(19,809)
As of 31 December 2016	**2,829,623**	**3,029**	**43,051**	**2,875,703**

Capital risk management

The Group considers equity and debt to be the principal elements of capital management. The Group's objectives when managing capital are to safeguard the Group's position as a leading global energy company by further increasing the reliability of natural gas supplies and diversifying activities in the energy sector, both in the domestic and foreign markets.

In order to maintain or adjust the capital structure, the Group may revise its investment program, attract new or repay existing loans and borrowings or sell certain non-core assets.

The Group considers its target debt to equity ratio at the level of not more than 40 %.

On the Group level capital is monitored on the basis of the net debt to adjusted EBITDA ratio. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt (short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable) less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

Adjusted EBITDA is calculated as operating profit less depreciation and less provision for impairment of assets and other provisions (excluding allowance for impairment of accounts receivable).

37 FINANCIAL RISK FACTORS (continued)

The net debt to adjusted EBITDA ratios at 31 December 2017 and 31 December 2016 were as follows:

	31 December	
	2017	**2016**
Total debt	3,266,518	2,829,623
Less: cash and cash equivalents	(869,007)	(896,728)
Net debt	2,397,511	1,932,895
Adjusted EBITDA	1,466,910	1,322,199
Net debt / Adjusted EBITDA ratio	**1.63**	**1.46**

PJSC Gazprom has an investment grade credit rating of BB+ (stable outlook) by Standard & Poor's and BBB- (stable outlook) by Fitch Ratings as of 31 December 2017.

38 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

a) Financial instruments in Level 1

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

b) Financial instruments in Level 2

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

c) Financial instruments in Level 3

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

Long-term accounts receivables are fair valued at Level 3 (see Note 16), long-term borrowings – Level 2 (see Note 21).

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

		31 December 2017			
Notes		**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**	**Total**
9	**Financial assets held for trading:**				
	Bonds	30,758	-	-	30,758
	Equity securities	206	-	-	206
9	**Available-for-sale financial assets:**				
	Promissory notes	-	93	-	93
	Total short-term financial assets	**30,964**	**93**	**-**	**31,057**
17	**Available-for-sale financial assets:**				
	Equity securities	215,733	43,594	8,856	268,183
	Promissory notes	-	249	-	249
	Total available-for-sale long-term financial assets	**215,733**	**43,843**	**8,856**	**268,432**
23	Derivative financial instruments	11,946	60,854	1,977	74,777
	Total assets	**258,643**	**104,790**	**10,833**	**374,266**
23	Derivative financial instruments	7,258	82,317	2,474	92,049
	Total liabilities	**7,258**	**82,317**	**2,474**	**92,049**

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Notes		31 December 2016			
		Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
9	**Financial assets held for trading:**				
	Bonds	10,976	-	-	10,976
	Equity securities	387	-	-	387
9	**Available-for-sale financial assets:**				
	Promissory notes	-	118	-	118
	Total short-term financial assets	**11,363**	**118**	**-**	**11,481**
17	**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**
23	Derivative financial instruments	16,931	81,110	3,545	101,586
	Total assets	**275,160**	**122,123**	**10,129**	**407,412**
23	Derivative financial instruments	11,922	135,648	2,819	150,389
	Total liabilities	**11,922**	**135,648**	**2,819**	**150,389**

The derivative financial instruments include natural gas purchase and sale contracts and are categorised in Levels 1, 2 and 3 of the fair value hierarchy. The contracts in Level 1 are valued using active market price of identical assets and liabilities. Due to absence of quoted prices or other observable, market-corroborated data the contracts in Level 2 are valued using models internally developed by the Group. These models include inputs such as: quoted forward prices, time value, volatility factors, current market prices, contractual prices and expected volumes of the underlying instruments. Where necessary, the price curves are extrapolated to the expiry of the contracts using all available external pricing information, historic and long-term pricing relationships. These valuations are categorised in Level 3.

Foreign currency hedge contracts are categorised in Level 2. The Group uses estimation of fair value of foreign currency hedge contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Group management. No significant ineffectiveness occurred during the reporting year.

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the period. For the year ended 31 December 2017 and 31 December 2016 the Group did not write off any losses incurred as a result of a decrease in the 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.

39 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In connection with its derivative activities, the Group generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Group with the right to, in the event of a default by the counterparty (such as bankruptcy), net counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty.

The following financial assets and liabilities are subject to offsetting, enforceable master netting agreements and similar agreements:

	Gross amounts before offsetting	Amounts offset	Net amounts after offsetting in the consolidated balance sheet	Amounts subject to netting agreements
As of 31 December 2017				
Financial assets				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,535,132	332,367	1,202,765	64,696
Derivative financial instruments	364,018	289,241	74,777	1,010
Financial liabilities				
Accounts payable (excluding derivative financial instruments)	1,495,988	332,367	1,163,621	64,696
Derivative financial instruments	381,290	289,241	92,049	1,010
As of 31 December 2016				
Financial assets				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,495,199	309,718	1,185,481	41,835
Derivative financial instruments	580,355	478,769	101,586	60,855
Financial liabilities				
Accounts payable (excluding derivative financial instruments)	1,292,269	309,718	982,551	41,835
Derivative financial instruments	629,158	478,769	150,389	60,855

40 POST BALANCE SHEET EVENTS

Borrowings

In January 2018 the Group obtained a long-term loan from UniCredit S.p.A. in the amount of EUR 300 million at an interest rate of EURIBOR + 1.95 % due in 2022 under the agreement concluded in November 2017.

In January 2018 the Group obtained long-term loans in the amount of RUB 51,250 million due in 2023.

In February 2018 the Group issued Russian bonds in the amount of RUB 30,000 million at an interest rate of 7.15 % due in 2025.

In March 2018 the Group issued Loan Participation Notes in the amount of 750 million of Swiss Francs at an interest rate of 1.45 % due in 2023 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In March 2018 the Group issued Russian bonds in the amount of RUB 25,000 million at an interest rate of 7.2 % due in 2024.

In March 2018 the Group issued Loan Participation Notes in the amount of EUR 750 million at an interest rate of 2.5 % due in 2026 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In March 2018 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 404 million, within the terms of the long-term financing agreement, signed between the parties in April 2017.

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PJSC GAZPROM

IFRS CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

31 December 2016

Moscow | 2017

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Independent auditor's report

To the Shareholders and the Board of Directors
of PJCS Gazprom

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Revenue recognition

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

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

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

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

Impairment assessment of non-current assets

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

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

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

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

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

Impairment of accounts receivable

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

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

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

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

Estimated and contingent liabilities in respect of litigations

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

- proceedings on the claim of NJSC Naftogaz of Ukraine, dated 16 June 2014, seeking, specifically, a retroactive revision of the price, cancellation of a contractual provision for the supply of natural gas which prevents the re-export of natural gas outside Ukraine;
- proceedings on the claim of NJSC Naftogaz of Ukraine, dated 13 October 2014, seeking, specifically, to enforce PJSC Gazprom to reimburse NJSC Naftogaz of Ukraine for the volumes of gas not supplied for transit purpose;
- proceedings on the claim of the Antimonopoly Committee of Ukraine, dated 25 January 2016, that made a ruling to impose a fine on PJSC Gazprom for violating economic competition.

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

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

President of FBK, LLC

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

Engagement partner

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

Date of Independent auditor's report
April 27, 2017

Audited entity
Public Joint Stock Company (PJSC Gazprom).

Place of business:
16, Nametkina str., Moscow, Russian Federation 117997.

Official registration:
State registration certificate No. 002.726, issued by Moscow Registration Chamber on 25 February 1993.
The registration entry was made in the Unified State Register of Legal Entities on 2 August 2002 under principal state registration number 1027700070518.

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

Place of business:
44/1, 2AB, Myasnitskaya St, Moscow, Russian Federation, 101990.

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

Membership in self-regulatory organisation of auditors:
Self-regulatory organization of auditors Association "Sodruzhestvo".

Number in the register of auditors of the self-regulatory organisation of auditors:
Certificate of membership in the Self-regulatory organization of auditors Association "Sodruzhestvo" No. 7198, ORNZ 11506030481.

PJSC GAZPROM
CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2016
(in millions of Russian Rubles)

Notes		31 December 2016	31 December 2015
	Assets		
	Current assets		
8	Cash and cash equivalents	896,728	1,359,095
	Restricted cash	3,471	1,815
9	Short-term financial assets	11,481	12,570
10	Accounts receivable and prepayments	1,084,967	1,114,207
11	Inventories	711,199	804,364
	VAT recoverable	195,033	229,626
12	Other current assets	331,467	472,045
		3,234,346	**3,993,722**
	Non-current assets		
13	Property, plant and equipment	11,502,747	11,003,881
14	Goodwill	105,330	107,467
15	Investments in associates and joint ventures	730,149	808,246
16	Long-term accounts receivable and prepayments	710,747	599,848
17	Available-for-sale long-term financial assets	294,345	235,607
12	Other non-current assets	341,274	303,269
		13,684,592	**13,058,318**
	Total assets	**16,918,938**	**17,052,040**
	Liabilities and equity		
	Current liabilities		
18	Accounts payable, accruals and provisions for liabilities and charges	1,197,005	1,298,006
	Current profit tax payable	62,479	11,929
19	Other taxes payable	215,244	168,394
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	447,080	646,372
		1,921,808	**2,124,701**
	Non-current liabilities		
21	Long-term borrowings, promissory notes	2,382,543	2,795,843
24	Provisions for liabilities and charges	406,234	435,438
22	Deferred tax liabilities	688,503	618,404
	Other non-current liabilities	78,011	163,032
		3,555,291	**4,012,717**
	Total liabilities	**5,477,099**	**6,137,418**
	Equity		
25	Share capital	325,194	325,194
25	Treasury shares	(235,919)	(103,919)
25	Retained earnings and other reserves	11,005,256	10,368,311
		11,094,531	**10,589,586**
33	Non-controlling interest	347,308	325,036
	Total equity	**11,441,839**	**10,914,622**
	Total liabilities and equity	**16,918,938**	**17,052,040**

A.B. Miller
Chairman of the Management Committee
27 April 2017

E.A. Vasilieva
Chief Accountant
27 April 2017

The accompanying notes on pages 14 to 78 are an integral part of these consolidated financial statements.

PJSC GAZPROM
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(in millions of Russian Rubles)

Notes		Year ended 31 December 2016	2015
26	Sales	6,111,051	6,073,318
	Net gain from trading activity	3,382	3,704
27	Operating expenses	(5,244,983)	(4,635,502)
27	Charge for impairment and other provisions	(143,870)	(213,219)
	Operating profit	**725,580**	**1,228,301**
28	Finance income	1,018,997	990,346
28	Finance expense	(543,370)	(1,409,087)
15	Share of net income of associates and joint ventures	82,872	106,560
	Gain on disposal of available-for-sale financial assets	1,059	9,121
	Profit before profit tax	**1,285,138**	**925,241**
	Current profit tax expense	(218,113)	(102,223)
	Deferred profit tax expense	(69,921)	(17,819)
22	Profit tax	(288,034)	(120,042)
	Profit for the year	**997,104**	**805,199**
	Other comprehensive income (loss):		
	Items that will not be reclassified to profit or loss:		
24	Remeasurements of post-employment benefit obligations	33,118	(169,059)
	Total items that will not be reclassified to profit or loss	**33,118**	**(169,059)**
	Items that may be reclassified subsequently to profit or loss:		
	Gain arising from change in fair value of available-for-sale financial assets, net of tax	62,133	43,172
	Share of other comprehensive (loss) income of associates and joint ventures	(6,397)	28,699
	Translation differences	(297,703)	282,924
	Gain (loss) from cash flow hedges, net of tax	49,196	(22,862)
	Total items that may be reclassified subsequently to profit or loss	**(192,771)**	**331,933**
	Other comprehensive (loss) income for the year, net of tax	**(159,653)**	**162,874**
	Total comprehensive income for the year	**837,451**	**968,073**
	Profit for the year attributable to:		
	Owners of PJSC Gazprom	951,637	787,056
33	Non-controlling interest	45,467	18,143
		997,104	**805,199**
	Total comprehensive income for the year attributable to:		
	Owners of PJSC Gazprom	806,903	938,591
	Non-controlling interest	30,548	29,482
		837,451	**968,073**
30	**Basic and diluted earnings per share for profit attributable to the owners of PJSC Gazprom (in Russian Rubles)**	**42.19**	**34.29**

A.B. Miller
Chairman of the Management Committee
27 April 2017

E.A. Vasilieva
Chief Accountant
27 April 2017

The accompanying notes on pages 14 to 78 are an integral part of these consolidated financial statements.

PJSC GAZPROM
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(in millions of Russian Rubles)

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

A.B. Miller
Chairman of the Management Committee
27 April 2017

E.A. Vasilieva
Chief Accountant
27 April 2017

The accompanying notes on pages 14 to 78 are an integral part of these consolidated financial statements.

PJSC GAZPROM
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(in millions of Russian Rubles)

Notes		Number of shares outstanding (billions)	Attributable to the owners of PJSC Gazprom: Share capital	Treasury shares	Retained earnings and other reserves	Total	Non-controlling interest	Total equity
	Balance as of 31 December 2014	**23.0**	**325,194**	**(103,919)**	**9,595,283**	**9,816,558**	**303,463**	**10,120,021**
33	Profit for the year	-	-	-	787,056	787,056	18,143	805,199
	Other comprehensive income (loss):							
24, 33	Remeasurements of post-employment benefit obligations	-	-	-	(168,899)	(168,899)	(160)	(169,059)
33	Gain (loss) arising from changes in fair value of available-for-sale financial assets, net of tax	-	-	-	43,179	43,179	(7)	43,172
	Share of other comprehensive income of associates and joint ventures	-	-	-	28,699	28,699	-	28,699
25, 33	Translation differences	-	-	-	271,015	271,015	11,909	282,924
33	Loss from cash flow hedges, net of tax	-	-	-	(22,459)	(22,459)	(403)	(22,862)
	Total comprehensive income for the year ended 31 December 2015	**-**	**-**	**-**	**938,591**	**938,591**	**29,482**	**968,073**
33	Change in non-controlling interest in subsidiaries	-	-	-	(281)	(281)	(1,535)	(1,816)
25	Return of social assets to governmental authorities	-	-	-	(35)	(35)	-	(35)
25, 33	Dividends declared	-	-	-	(165,247)	(165,247)	(6,374)	(171,621)
	Balance as of 31 December 2015	**23.0**	**325,194**	**(103,919)**	**10,368,311**	**10,589,586**	**325,036**	**10,914,622**
33	Profit for the year	-	-	-	951,637	951,637	45,467	997,104
	Other comprehensive income (loss):							
24, 33	Remeasurements of post-employment benefit obligations	-	-	-	33,110	33,110	8	33,118
33	Gain arising from changes in fair value of available-for-sale financial assets, net of tax	-	-	-	62,132	62,132	1	62,133
	Share of other comprehensive loss of associates and joint ventures	-	-	-	(6,397)	(6,397)	-	(6,397)
25, 33	Translation differences	-	-	-	(281,414)	(281,414)	(16,289)	(297,703)
33	Gain from cash flow hedges, net of tax	-	-	-	47,835	47,835	1,361	49,196
	Total comprehensive income for the year ended 31 December 2016	**-**	**-**	**-**	**806,903**	**806,903**	**30,548**	**837,451**
33	Change in non-controlling interest in subsidiaries	-	-	-	4,437	4,437	3,451	7,888
25	Return of social assets to governmental authorities	-	-	-	(23)	(23)	-	(23)
25, 35	Treasury shares	(0.9)	-	(132,000)	-	(132,000)	-	(132,000)
25, 33	Dividends declared	-	-	-	(174,372)	(174,372)	(11,727)	(186,099)
	Balance as of 31 December 2016	**22.1**	**325,194**	**(235,919)**	**11,005,256**	**11,094,531**	**347,308**	**11,441,839**

A.B. Miller
Chairman of the Management Committee
27 April 2017

E.A. Vasilieva
Chief Accountant
27 April 2017

The accompanying notes on pages 14 to 78 are an integral part of these consolidated financial statements.

1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

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

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

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

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

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

- as of 31 December 2016 – 60.6569;
- as of 31 December 2015 – 72.8827 (as of 31 December 2014 – 56.2584).

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

- as of 31 December 2016 – 63.8111;
- as of 31 December 2015 – 79.6972 (as of 31 December 2014 – 68.3427).

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

3 BASIS OF PRESENTATION

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

The consolidated financial statements of the Group are prepared under the historical cost convention except for certain financial instruments as described in Note 5. The principal accounting policies applied in the

3 BASIS OF PRESENTATION (continued)

preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

4 SCOPE OF CONSOLIDATION

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

Asset swap with Wintershall Holding GmbH

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

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

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

Prior to the swap transaction the Group held an equity interest of 49.98 % in W & G Beteiligungs-GmbH & Co. KG[1] and of 50 % in WIEH GmbH. These subgroups were accounted for using the equity method. In addition at the acquisition date the Group held an equity interest of 33.33 % in WINGAS Storage UK Ltd., in which W & G Beteiligungs-GmbH & Co. KG held an equity interest of 50 %.

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

The acquired 50 % interests in Wintershall Noordzee B.V. and Wintershall Services B.V. are accounted for using the equity method since the acquisition date (see Note 34).

Acquisition of Shtokman Development AG

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

The Group acquired remaining 25 % of the shares of Shtokman Development AG from Total Shtokman B.V. for 25 thousand Swiss Franc (RUB 2 million) according to the terms of the Shareholder Agreement. The payment was made by the cash (see Note 34).

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Group accounting

Subsidiaries

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has

[1] In August 2016 W & G Beteiligungs-GmbH & Co. KG was merged with WIBG GmbH.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

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

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

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

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

Goodwill and non-controlling interest

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

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

Joint arrangements

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

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

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

Associates

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

5.2 Financial instruments

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

Accounting for financial guarantee contracts

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

Fair value disclosure

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

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

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

5.3 Derivative financial instruments

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

changes in fair value recognised in "Profit (loss) from derivative financial instruments" of the consolidated statement of comprehensive income.

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

5.4 Hedge accounting

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

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

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

5.5 Non-derivative financial assets

The Group classifies its financial assets in the following categories:

(a) financial assets at fair value through profit or loss;

(b) available-for-sale financial assets; and

(c) loans and receivables.

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

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

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

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

(b) Available-for-sale financial assets

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(c) Loans and receivables

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

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

Impairment of financial assets

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

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

5.6 Options on purchase or sale of financial assets

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

5.7 Cash and cash equivalents and restricted cash

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.8 Value added tax

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

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

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

5.9 Mineral extraction tax

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

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

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

1) the base rate of RUB 35 per thousand cubic meters of natural fuel gas;

2) the base value of a unit of fuel equivalent calculated, based on various macroeconomic indicators, including oil and gas prices;

3) the coefficient representing the degree of difficulty of extracting natural fuel gas and (or) gas condensate from raw hydrocarbon deposits;

4) the indicator representing the transportation costs of natural fuel gas.

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

1) the base rate of RUB 42 per ton for extracted gas condensate;

2) the base value of a unit of fuel equivalent, calculated taking into account various macroeconomic indicators including oil and gas prices;

3) the coefficient representing the degree of difficulty of extracting natural fuel gas and (or) gas condensate from raw hydrocarbon deposits;

4) the adjustment coefficient.

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

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

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

MET is included in operating expenses.

5.10 Customs duties

The export of hydrocarbons, including natural gas and crude oil, outside of the Customs union, which includes the Russian Federation, Belarus and Kazakhstan, is subject to export customs duties. According to the Decree of the Government of the Russian Federation No.754 dated 30 August 2013 export of natural gas

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

outside the boundaries of the Customs union is subject to a fixed 30 % export customs duty rate levied on the customs value of the exported natural gas.

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

Revenues are recognised net of the amount of custom duties.

5.11 Excise tax

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

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

5.12 Inventories

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

5.13 Property, plant and equipment

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

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

5.14 Impairment of non-current non-financial assets

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

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

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

5.15 Borrowings

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

5.16 Deferred tax

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5.17 Foreign currency transactions

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

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

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

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

5.18 Provisions for liabilities and charges

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

5.19 Equity

Treasury shares

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

Dividends

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

5.20 Revenue recognition

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

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

Prices for natural gas and tariffs for transportation of gas to final consumers in the Russian Federation are regulated by the Federal Antimonopoly Service ("FAS"). Until 21 July 2015, these functions were performed

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

by the Federal Tariff Service ("FTS"). Prices for gas sold to European countries are mainly calculated by a formula based on the number of oil product prices, in accordance with the terms of long-term contracts. Gas prices that are being implemented in countries of the former Soviet Union are defined in various ways, including using formulas similar to those used in contracts with European buyers.

Net gain (loss) from trading activity

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

5.21 Interest

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

5.22 Research and development

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

5.23 Employee benefits

Pension and other post-retirement benefits

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

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Social expenses

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

5.24 Recent accounting pronouncements

Application of new IFRSs

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

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

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 to exchange rates that should be used on initial recognition of payment made or received in advance.
- The amendments to IFRS 9 Financial Instruments (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). IFRS 9 Financial Instruments replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification and measurement of financial assets. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 Financial Instruments or continuing to apply IAS 39 Financial Instruments: Recognition and Measurement to all hedging instruments because the standard currently does not address accounting for macro hedging.
- The amendments to IAS 7 Cash Flow Statements (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The revised standard requires disclosing a reconciliation of movements for obligations arising from financing activities.
- The amendments to IAS 12 Income Taxes in the recognition of deferred tax assets for unrealised losses (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).
- The amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IFRS 4 Insurance Contracts (issued in September 2016 and effective for annual periods beginning on or after 1 January 2018) concern the issues of the application of IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments at one time.
- The amendments to IAS 40 Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify the requirements on transfers to, or from, investment properties.

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

6 CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

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

6.1 Consolidation of subsidiaries

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

6 CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

6.2 Tax legislation and uncertain tax positions

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

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

6.3 Assumptions to determine amount of provisions

Impairment allowance for accounts receivable

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

Impairment of Property, plant and equipment and Goodwill

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

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

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

Accounting for provisions

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

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

6.4 Site restoration and environmental costs

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

6 CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

6.5 Useful lives of Property, plant and equipment

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

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

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

6.6 Fair value estimation for financial instruments

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

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

6.7 Fair value estimation for acquisitions

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

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

6.8 Accounting for plan assets and pension liabilities

Pension plan liabilities are estimated using actuarial techniques and assumptions (see Note 24). Actual results may differ from the estimates, and the Group's estimates can be revised in the future based on changes in economic and financial conditions. In addition, certain plan assets included in NPF GAZFOND are estimated using the fair value estimation techniques. Management makes judgements with respect to the selection of valuation model applied, the amount and timing of cash flow forecasts or other assumptions such as discount rates. The recognition of plan assets is limited to the estimated present value of future benefits which are available to the Group in relation to this plan. These benefits are determined using actuarial techniques and assumptions. The impact of the change in the limitation of the plan assets in accordance with IAS 19 Employee Benefits is disclosed in Note 24. The value of plan assets and the limit are subject to revision in the future.

6 CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

6.9 Joint Arrangements

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

7 SEGMENT INFORMATION

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

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

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

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

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

The inter-segment sales mainly consist of:

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

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

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

7 SEGMENT INFORMATION (continued)

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

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

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

[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 statement of comprehensive income is provided as follows:

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

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

7 SEGMENT INFORMATION (continued)

	Production of gas	Transpor-tation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
As of 31 December 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	231,530	406,828	41,785	35,542	316,823	193,243	63,485	54,926	1,344,162
As of 31 December 2015									
Segment assets	2,357,813	6,119,073	1,677,460	348,857	2,183,335	1,260,557	850,658	885,287	15,683,040
Investments in associates and joint ventures	19,434	152,954	45,580	1,958	467,626	20,124	1,453	99,117	808,246
Capital additions	220,214	420,874	25,962	48,486	324,330	136,299	98,963	69,701	1,344,829

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

Notes		31 December 2016	31 December 2015
	Segment assets for reportable segments	15,760,518	14,797,753
	Other segments' assets	937,460	885,287
	Total segment assets	**16,697,978**	**15,683,040**
	Differences in property, plant and equipment, net[1]	(2,361,075)	(1,778,015)
13	Loan interest capitalised	623,101	645,109
	Decommissioning costs	63,639	74,290
8	Cash and cash equivalents	896,728	1,359,095
	Restricted cash	3,471	1,815
9	Short-term financial assets	11,481	12,570
	VAT recoverable	195,033	229,626
	Other current assets	331,467	472,045
17	Available-for-sale long-term financial assets	294,345	235,607
14	Goodwill	105,330	107,467
	Other non-current assets	341,274	303,269
	Inter-segment assets	(597,369)	(598,040)
	Other	313,535	304,162
	Total assets per the consolidated balance sheet	**16,918,938**	**17,052,040**

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

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

Segment liabilities:

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

7 SEGMENT INFORMATION (continued)

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

Notes		31 December 2016	31 December 2015
	Segment liabilities for reportable segments	1,681,020	1,688,305
	Other segments' liabilities	131,731	220,394
	Total segment liabilities	**1,812,751**	**1,908,699**
	Current profit tax payable	62,479	11,929
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	447,080	646,372
21	Long-term borrowings, promissory notes	2,382,543	2,795,843
24	Provisions for liabilities and charges	406,234	435,438
22	Deferred tax liabilities	688,503	618,404
	Other non-current liabilities	78,011	163,032
	Dividends	3,029	4,969
	Inter-segment liabilities	(597,369)	(598,040)
	Other	193,838	150,772
	Total liabilities per the consolidated balance sheet	**5,477,099**	**6,137,418**

8 CASH AND CASH EQUIVALENTS

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

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

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

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

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

9 SHORT-TERM FINANCIAL ASSETS

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

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

9 SHORT-TERM FINANCIAL ASSETS (continued)

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

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

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

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

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

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

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

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

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

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

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

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

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

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

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

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

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

[1] The accrual and release of allowance for impaired receivables have been included in the line "Charge for impairment and other provisions" in the consolidated statement of comprehensive income.
[2] If there is no probability of cash receipt for the impaired accounts receivable which were previously provided for, the amount of respective accounts receivable is written-off by means of that allowance.

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

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

11 INVENTORIES

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

12 OTHER CURRENT AND NON-CURRENT ASSETS

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

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

13 PROPERTY, PLANT AND EQUIPMENT

Notes		Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
	As of 31 December 2014								
	Cost	3,415,966	1,478,790	3,652,413	3,036,673	566,905	94,965	2,110,422	14,356,134
	Accumulated depreciation	(1,249,246)	(515,682)	(1,465,882)	(932,067)	(207,452)	(35,596)	-	(4,405,925)
	Net book value as of 31 December 2014	**2,166,720**	**963,108**	**2,186,531**	**2,104,606**	**359,453**	**59,369**	**2,110,422**	**9,950,209**
	Depreciation	(85,564)	(60,517)	(240,979)	(109,983)	(23,341)	(2,625)	-	(523,009)
	Additions	1,237	59,096	50,266	36,864	926	257	1,466,103	1,614,749
	Acquisition of subsidiaries	-	-	29,709	3,681	-	-	12,110	45,500
	Translation differences	5,478	35,665	36,851	12,005	16,943	3	37,701	144,646
	Transfers	201,954	76,229	451,227	252,687	13,144	1,972	(997,213)	-
	Disposals	(663)	(5,199)	(42,756)	(8,737)	(222)	(874)	(40,281)	(98,732)
27	Increase for impairment allowance	-	(57,259)	-	-	-	-	(72,223)	(129,482)
	Net book value as of 31 December 2015	**2,289,162**	**1,011,123**	**2,470,849**	**2,291,123**	**366,903**	**58,102**	**2,516,619**	**11,003,881**
	As of 31 December 2015								
	Cost	3,623,972	1,587,322	4,177,710	3,333,173	597,696	96,323	2,516,619	15,932,815
	Accumulated depreciation	(1,334,810)	(576,199)	(1,706,861)	(1,042,050)	(230,793)	(38,221)	-	(4,928,934)
	Net book value as of 31 December 2015	**2,289,162**	**1,011,123**	**2,470,849**	**2,291,123**	**366,903**	**58,102**	**2,516,619**	**11,003,881**
	Depreciation	(88,376)	(64,499)	(282,495)	(119,411)	(13,466)	(2,614)	-	(570,861)
	Additions	48	51,071	20,819	10,862	28,259	199	1,348,489	1,459,747
	Acquisition of subsidiaries	-	-	-	-	-	-	-	-
	Translation differences	(5,582)	(45,420)	(33,945)	(27,067)	(13,006)	(101)	(52,349)	(177,470)
	Transfers	134,715	176,390	449,665	330,898	1,249	1,933	(1,094,850)	-
	Disposals	(1,279)	(14,660)	(13,646)	(22,468)	(571)	(3,125)	(77,438)	(133,187)
27	Increase for impairment allowance	-	(14,763)	-	-	(1,975)	-	(62,625)	(79,363)
	Net book value as of 31 December 2016	**2,328,688**	**1,099,242**	**2,611,247**	**2,463,937**	**367,393**	**54,394**	**2,577,846**	**11,502,747**
	As of 31 December 2016								
	Cost	3,751,874	1,739,940	4,600,603	3,625,398	611,652	95,229	2,577,846	17,002,542
	Accumulated depreciation	(1,423,186)	(640,698)	(1,989,356)	(1,161,461)	(244,259)	(40,835)	-	(5,499,795)
	Net book value as of 31 December 2016	**2,328,688**	**1,099,242**	**2,611,247**	**2,463,937**	**367,393**	**54,394**	**2,577,846**	**11,502,747**

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

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

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

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

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

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RUB 200 million and RUB 260 million as of 31 December 2016 and 31 December 2015, respectively.

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

13 PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

14 GOODWILL

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

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

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

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

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

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

[1] In September 2015 the Group acquired the 50 % interests in Wintershall Noordzee B.V. are accounted for using the equity method since the acquisition date (see Note 34).
[2] In January 2016 PJSC Gazprom has sold its equity interest of 25 % in Gasum Oy to the Government of Finland for EUR 251 million.
[3] In September 2015 W & G Beteiligungs-GmbH & Co. KG and its subsidiaries became the Group subsidiaries (see Note 34).

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

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

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

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

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Significant associates and joint ventures

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

[1] Cumulative share of Group companies in charter capital of investees.
[2] Investments in companies continue to be accounted under the equity method of accounting, as the Group did not obtain control due to its corporate governance structure.
[3] LLC Yamal razvitie is a holder of 51 % share in LLC SeverEnergiya. In August 2015 with the aim to simplify the ownership structure and achieve parity shareholdings in LLC SeverEnergiya the Group made an additional contribution to equity of LLC Yamal razvitie in the amount of RUB 14,922 million. The payment was performed by converting long-term loans. PJSC NOVATEK made an additional contribution to equity of LLC Yamal razvitie transferring 6.4 % Arctic Russia B.V. shares, as well as RUB 2,512 million by converting long-term loans. As a result the effective Group's share in LLC SeverEnergiya increased from 43.15 % to 44.65 %.

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

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

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

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

	OJSC NGK Slavneft and its subsidiaries	Gazprombank (Joint-stock Company) and its subsidiaries[1]	Sakhalin Energy Investment Company Ltd.
As of and for the year ended 31 December 2016			
Cash and cash equivalents	4,333	570,459	23,400
Other current assets (excluding cash and cash equivalents)	22,505	1,083,850	63,540
Other non-current assets	404,873	3,103,394	919,405
Total assets	**431,711**	**4,757,703**	**1,006,345**
Current financial liabilities (excluding trade payables)	24,614	3,252,183	47,517
Other current liabilities (including trade payables)	47,481	126,121	74,752
Non-current financial liabilities	42,876	984,595	203,553
Other non-current liabilities	54,975	21,826	310,498
Total liabilities	**169,946**	**4,384,725**	**636,320**
Net assets (including non-controlling interest)	261,765	372,978	370,025
Percent of ordinary shares held	50 %	37 %	50 %
Carrying value	**129,082**	**77,109**	**185,013**
Revenue	214,509	213,948	304,810
Depreciation	(40,564)	(45,247)	(146,400)
Interest income	1,652	380,096	1,064
Interest expense	(6,593)	(258,049)	(13,596)
Profit tax expense	(6,224)	(24,403)	(27,502)
Profit for the year	**22,269**	**31,151**	**57,670**
Other comprehensive (loss) income for the year	**(403)**	**(18,585)**	**1,950**
Total comprehensive income for the year	**21,866**	**12,566**	**59,620**
Dividends received from associates and joint ventures	**-**	**-**	**(31,490)**
As of and for the year ended 31 December 2015			
Cash and cash equivalents	8,078	708,846	42,766
Other current assets (excluding cash and cash equivalents)	15,830	2,342,873	74,421
Other non-current assets	378,633	1,948,877	1,191,957
Total assets	**402,541**	**5,000,596**	**1,309,144**
Current financial liabilities (excluding trade payables)	26,986	3,433,715	56,520
Other current liabilities (including trade payables)	41,056	147,348	129,944
Non-current financial liabilities	54,562	973,550	295,369
Other non-current liabilities	48,145	37,134	375,537
Total liabilities	**170,749**	**4,591,747**	**857,370**
Net assets (including non-controlling interest)	**231,792**	**408,849**	**451,774**
Percent of ordinary shares held	50 %	37 %	50 %
Carrying value	**118,704**	**80,800**	**240,831**
Revenue	224,224	201,120	380,823
Depreciation	(40,383)	(40,264)	(114,649)
Interest income	2,074	370,945	1,017
Interest expense	(5,279)	(274,886)	(13,759)
Profit tax (expense) income	(6,486)	5,673	(58,234)
Profit (loss) for the year	**11,352**	**(57,117)**	**122,579**
Other comprehensive (loss) income for the year	**(512)**	**16,763**	**1,265**
Total comprehensive income (loss) for the year	**10,840**	**(40,354)**	**123,844**
Dividends received from associates and joint ventures	**-**	**-**	**(23,449)**

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

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

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

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

16 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

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

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

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

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

16 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

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

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

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

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

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

17 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

	31 December	
	2016	2015
Equity securities[1]	294,034	235,436
Debt instruments	311	171
	294,345	**235,607**

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

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

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

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

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

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

18 ACCOUNTS PAYABLE AND ACCRUED CHARGES

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

[1] As of 31 December 2016 and 31 December 2015 provision under financial guarantees includes accrual related to financial guarantee contract issued to Gazprombank (Joint-stock Company) for Ostchem Holding Limited (see Note 27 and 36).
[2] As of 31 December 2016 and 31 December 2015 other payables include RUB 112,256 million and RUB 102,134 million of accruals for probable price adjustments related to natural gas deliveries made from 2013 to 2016, respectively.

Fair values of these liabilities approximate the carrying values.

19 OTHER TAXES PAYABLE

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

20 SHORT-TERM BORROWINGS, PROMISSORY NOTES AND CURRENT PORTION OF LONG-TERM BORROWINGS

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

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

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

Fair values of these liabilities approximate the carrying values.

21 LONG-TERM BORROWINGS, PROMISSORY NOTES

	Currency	Final maturity	31 December 2016	2015
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009[1]	US Dollar	2019	138,863	166,851
Bank of China Limited, London branch	Euro	2021	126,414	-
Mizuho Bank Ltd.[2]	US Dollar	2019	93,228	156,821
China Construction Bank Corporation, Beijing branch[2]	US Dollar	2020	92,627	111,077
Loan participation notes issued in September 2012[3]	US Dollar	2022	92,102	110,666
Loan participation notes issued in July 2012[1]	Euro	2017	92,019	114,928
Loan participation notes issued in November 2013[3]	US Dollar	2023	91,485	109,925
Loan participation notes issued in October 2007[1]	Euro	2018	81,035	101,209
Loan participation notes issued in March 2007[1]	US Dollar	2022	80,480	96,701
Loan participation notes issued in August 2007[1]	US Dollar	2037	77,893	93,593
Loan participation notes issued in April 2004[1]	US Dollar	2034	73,886	88,779
Loan participation notes issued in April 2008[1]	US Dollar	2018	67,930	81,622
Loan participation notes issued in March 2013[1]	Euro	2020	65,512	81,821
Loan participation notes issued in October 2015[1]	Euro	2018	64,434	80,475
Loan participation notes issued in November 2016[1]	Euro	2023	63,353	-
Loan participation notes issued in July 2012[1]	US Dollar	2022	62,008	74,506
Loan participation notes issued in July 2013[1]	Euro	2018	58,361	72,891
Loan participation notes issued in February 2013[1]	US Dollar	2028	55,680	66,902
Loan participation notes issued in February 2014[1]	Euro	2021	49,317	61,595
Loan participation notes issued in February 2013[1]	US Dollar	2020	49,278	59,210
Loan participation notes issued in April 2013[3]	Euro	2018	48,817	60,967
PJSC Sberbank	US Dollar	2018	46,099	56,231
Loan participation notes issued in September 2013[1]	British Pound Sterling	2020	38,593	48,201
Loan participation notes issued in November 2011[1]	US Dollar	2021	37,353	44,881
Loan participation notes issued in November 2006[1]	Euro	2017	33,185	41,447
Loan participation notes issued in March 2013[1]	Euro	2025	32,997	41,211
Loan participation notes issued in March 2007[1]	Euro	2017	32,191	40,205
Loan participation notes issued in October 2013[1]	Swiss Franc	2019	29,863	36,957
PJSC VTB Bank	Russian Ruble	2021	29,800	-
Loan participation notes issued in March 2016[1]	Swiss Franc	2018	29,513	-
Loan participation notes issued in November 2016[1]	Swiss Franc	2021	29,492	-
Alfa-Bank (Joint-stock Company)	US Dollar	2019	24,271	29,160
Commerzbank International S.A.	US Dollar	2018	24,265	43,730
Gazprombank (Joint-stock Company)	US Dollar	2018	21,836	26,238
Gazprombank (Joint-stock Company)	US Dollar	2018	20,017	24,051
PJSC Sberbank	Russian Ruble	2017	19,802	19,802
UniCredit Bank Austria AG	Euro	2021	19,172	-
J.P. Morgan Europe Limited[2]	US Dollar	2018	18,962	36,694
Gazprombank (Joint-stock Company)	US Dollar	2019	18,804	22,594
Banc of America Securities Limited	US Dollar	2018	18,368	22,041
BNP Paribas S.A.[2]	Euro	2022	15,644	22,802
PJSC Sberbank	Euro	2020	15,373	19,203
Russian bonds issued in March 2016[3]	Russian Ruble	2046	15,344	-
Russian bonds issued in November 2013[4]	Russian Ruble	2043	15,111	15,246
Russian bonds issued in November 2013[4]	Russian Ruble	2043	15,111	15,246
PJSC Sberbank	Russian Ruble	2021	15,068	-
PJSC Sberbank	Russian Ruble	2021	15,067	-
UniCredit Bank Austria AG	Euro	2019	14,745	23,940
PJSC VTB Bank	Russian Ruble	2021	14,654	-
PJSC Sberbank	Euro	2017	14,388	17,971
PJSC Sberbank	Russian Ruble	2019	12,511	12,514
PJSC Sberbank	Russian Ruble	2019	12,511	12,514
UniCredit Bank Austria AG	US Dollar	2018	12,135	14,581
Bank of America Securities Limited	Euro	2017	11,541	14,420

21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	31 December 2016	31 December 2015
Russian bonds issued in March 2016[3]	Russian Ruble	2046	10,378	-
Russian bonds issued in February 2011[3]	Russian Ruble	2021	10,368	10,363
Russian bonds issued in August 2016[3]	Russian Ruble	2046	10,317	-
Russian bonds issued in February 2013[5]	Russian Ruble	2017	10,279	10,275
Russian bonds issued in April 2009[3]	Russian Ruble	2019	10,182	10,177
Russian bonds issued in December 2012[3]	Russian Ruble	2022	10,075	10,070
Russian bonds issued in June 2016[3]	Russian Ruble	2046	10,062	-
Citibank International plc[2]	US Dollar	2021	10,042	14,734
PJSC Sberbank	Russian Ruble	2019	10,009	10,011
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2017	10,000	10,000
HSBC Bank plc	Euro	2022	9,880	14,394
Gazprombank (Joint-stock Company)	Russian Ruble	2022	9,809	6,187
BNP Paribas S.A.	Euro	2023	9,451	13,559
Bank of America Merrill Lynch International Limited	US Dollar	2018	9,157	21,960
Banca Intesa a.d. Beograd	US Dollar	2019	9,114	10,947
PJSC Sberbank	US Dollar	2018	9,113	10,947
PJSC VTB Bank	Russian Ruble	2018	8,250	8,250
PJSC Sberbank	Euro	2022	7,713	-
PJSC Credit Bank of Moscow	US Dollar	2018	7,582	5,831
PJSC Sberbank	Russian Ruble	2025	7,221	7,220
Intesa Sanpaolo S.p.A.	Euro	2019	6,848	11,957
PJSC VTB Bank	Euro	2020	6,761	8,449
PJSC VTB Bank	Russian Ruble	2019	6,510	-
Alfa-Bank (Joint-stock Company)	Russian Ruble	2019	6,509	-
GC Vnesheconombank	Russian Ruble	2025	6,500	7,852
PJSC Sberbank	US Dollar	2018	6,493	-
BNP Paribas S.A.[2]	Euro	2022	5,904	8,650
Credit Agricole CIB	Euro	2024	5,691	8,018
PJSC Sberbank	Russian Ruble	2026	5,670	-
Sberbank Serbia a.d.	US Dollar	2019	5,469	6,568
Russian bonds issued in August 2016[3]	Russian Ruble	2046	5,158	-
PJSC VTB Bank	Russian Ruble	2021	5,151	-
Russian bonds issued in February 2013[5]	Russian Ruble	2018	5,140	5,137
Russian bonds issued in November 2015[6]	Russian Ruble	2020	5,061	5,058
Russian bonds issued in November 2015[6]	Russian Ruble	2020	5,061	5,058
Alfa-Bank (Joint-stock Company)	Russian Ruble	2019	5,008	5,011
JSC BANK ROSSIYA	Russian Ruble	2019	4,920	-
Banca Intesa a.d. Beograd	Euro	2018	4,617	5,754
Gazprombank (Joint-stock Company)	Russian Ruble	2017	3,220	9,750
Loan participation notes issued in November 2006[1]	US Dollar	2016	-	99,054
Loan participation notes issued in November 2011[1]	US Dollar	2016	-	73,264
JSC Rosselkhozbank	Russian Ruble	2016	-	30,029
Deutsche Bank AG	US Dollar	2016	-	29,690
Intesa Sanpaolo S.p.A.	Euro	2016	-	28,028
Sumitomo Mitsui Banking Corporation Europ Limited[2]	US Dollar	2016	-	25,537
PJSC Promsvyazbank	US Dollar	2016	-	25,509
Sumitomo Mitsui Finance Dublin Limited	US Dollar	2016	-	23,392
Bank of Tokyo-Mitsubishi UFJ Ltd.	US Dollar	2016	-	21,891
Russian bonds issued in February 2013[5]	Russian Ruble	2016	-	15,410
UniCredit Bank AG[2, 7]	US Dollar	2016	-	14,377
Bank of Tokyo-Mitsubishi UFJ Ltd.[2]	US Dollar	2016	-	13,754
Banc of America Securities Limited	US Dollar	2016	-	13,126
PJSC Sberbank	Russian Ruble	2016	-	12,400
PJSC VTB Bank	US Dollar	2016	-	12,104
UniCredit Bank AG[2, 7]	Euro	2016	-	11,297

21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	31 December 2016	2015
Russian bonds issued in February 2011[3]	Russian Ruble	2016	-	10,259
Russian bonds issued in February 2011[3]	Russian Ruble	2016	-	10,228
PJSC Sberbank	Russian Ruble	2016	-	8,300
Gazprombank (Joint-stock Company)	US Dollar	2016	-	8,017
Sberbank Serbia a.d.	US Dollar	2016	-	5,483
JSC BANK ROSSIYA	Russian Ruble	2016	-	5,000
UniCredit Bank AG[2, 7]	Russian Ruble	2016	-	1,894
Russian bonds issued in February 2012[3]	Russian Ruble	2016	-	452
Other long-term borrowings, promissory notes	Various	Various	115,790	127,112
Total long-term borrowings, promissory notes			**2,768,991**	**3,390,213**
Less: current portion of long-term borrowings			(386,448)	(594,370)
			2,382,543	**2,795,843**

[1] Issuer of these bonds is Gaz Capital S.A.
[2] Loans received from consortiums of banks, named lender is the bank-agent.
[3] Issuer of these bonds is PJSC Gazprom Neft.
[4] Issuer of these bonds is PJSC Gazprom.
[5] Issuer of these bonds is Gazprom capital LLC.
[6] Issuer of these bonds is PJSC WGC-2.
[7] Loans were obtained for development of Yuzhno-Russkoye oil and gas field.

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

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

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

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,086,181 million and RUB 2,431,823 million and fair value of RUB 2,209,883 million and RUB 2,480,142 million as of 31 December 2016 and 31 December 2015, respectively.

All other long-term liabilities have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 682,810 million and RUB 958,390 million and fair value is RUB 702,251 million and RUB 948,744 million as of 31 December 2016 and 31 December 2015, respectively.

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

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

As of 31 December 2015 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoe oil and gas field with the group of international financial institutions with UniCredit Bank AG acting as a facility agent, ordinary shares of OJSC Severneftegazprom with the pledge value of RUB 16,968 million and fixed assets with the pledge value of RUB 26,210 million were pledged to ING Bank N.V. (London branch) up to the date of full redemption of the liabilities on this

21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

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

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

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

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

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

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

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

The Group has no subordinated debt and no debt that may be converted into an equity interest of the Group (see Note 25).

22 PROFIT TAX

Profit before profit tax for financial reporting purposes is reconciled to profit tax expense as follows:

Notes		Year ended 31 December 2016	2015
	Profit before profit tax	1,285,138	925,241
	Theoretical tax charge calculated at applicable tax rates	(257,028)	(185,048)
	Tax effect of items which are not deductible or assessable for taxation purposes:		
	Non-deductible expenses, including:		
	Tax losses for which no deferred tax asset was recognised	(1,659)	(23,092)
	Impairment in the "South Stream" project	(395)	(11,269)
24, 27	Provision for post-employment benefit obligations	(10,192)	(7,111)
13	Impairment of assets under construction	(12,525)	(3,176)
	Other non-deductible expenses	(26,846)	(19,415)
15	Non-taxable profits of associates and joint ventures	16,574	21,312
	Changes in tax policy regarding making of impairment allowance of accounts receivable	-	71,406
	Other non-taxable income	4,037	36,351
	Profit tax expense	**(288,034)**	**(120,042)**

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the applicable statutory rates, including the prevailing rate of 20 % in the Russian Federation.

22 PROFIT TAX (continued)

	Tax effects of taxable and deductible temporary differences:						
	Property, plant and equipment	Financial assets	Inven-tories	Tax losses carry forward	Retroactive gas price adjustments	Other deductible temporary differences	Total net deferred tax liabilities
31 December 2014	**(620,754)**	**(7,328)**	**(8,377)**	**20,121**	**11,671**	**10,569**	**(594,098)**
Differences recognition and reversals recognised in profit or loss	(65,316)	10,737	(6,366)	(1,765)	8,929	35,962	(17,819)
Differences recognition and reversals recognised in other comprehensive income	-	(3,032)	-	-	-	(3,455)	(6,487)
31 December 2015	**(686,070)**	**377**	**(14,743)**	**18,356**	**20,600**	**43,076**	**(618,404)**
Differences recognition and reversals recognised in profit or loss	(64,303)	3,020	3,124	(12,697)	2,157	(1,222)	(69,921)
Differences recognition and reversals recognised in other comprehensive income	-	(1,461)	-	-	-	1,283	(178)
31 December 2016	**(750,373)**	**1,936**	**(11,619)**	**5,659**	**22,757**	**43,137**	**(688,503)**

Taxable temporary differences recognised for the years ended 31 December 2016 and 31 December 2015 include the effect of depreciation premium on certain property, plant and equipment. As a result a deferred tax liability related to property, plant and equipment was recognised in the amount of RUB 14,742 million and RUB 35,052 million, respectively, with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the years ended 31 December 2016 and 31 December 2015.

The temporary differences associated with undistributed earnings of subsidiaries and associates amount to RUB 694,414 million and RUB 570,402 million as of 31 December 2016 and 31 December 2015, respectively. A deferred tax liability on these temporary differences was not recognised, because management controls the timing of the reversal of the temporary differences and believes that they will not reversed in the foreseeable future.

Effective 1 January 2012, 55 major Russian subsidiaries of PJSC Gazprom formed a consolidated group of taxpayers ("CGT") with PJSC Gazprom acting as the responsible tax payer. During 2013, additional nine Russian subsidiaries of PJSC Gazprom joined the CGT. During 2014, four Russian subsidiaries of PJSC Gazprom left the CGT. During 2015, additional two Russian subsidiaries of PJSC Gazprom joined the CGT. During 2016 there was no change in the CGT. In accordance with the Russian tax legislation, tax deductible losses can be offset against taxable profits among the companies within the CGT to the extent those losses and profits are recognised for tax purposes in the reporting year and, thus, are included into the tax base of the CGT. Tax assets recognised on losses prior to the formation of the CGT are written off.

23 DERIVATIVE FINANCIAL INSTRUMENTS

The Group has outstanding commodity contracts measured at fair value. The fair value of derivatives is based on market quotes on measurement date or calculation using an agreed price formula.

Where appropriate, in order to manage currency risk the Group uses foreign currency derivatives.

The following table provides an analysis of the Group's position and fair value of derivatives outstanding as of the end of the reporting year. Fair values of derivatives are reflected at their gross value included in other assets and other liabilities in the consolidated balance sheet.

Fair value	31 December	
	2016	2015
Assets		
Commodity contracts	100,021	175,517
Foreign currency derivatives and currency and interest rate swaps	1,565	4,123
	101,586	**179,640**
Liabilities		
Commodity contracts	100,111	195,267
Foreign currency derivatives and currency and interest rate swaps	46,330	82,719
Other derivatives	3,948	1,322
	150,389	**279,308**

23 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivative financial instruments are mainly denominated in US dollars, Euros and Pounds sterling.

24 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December	
	2016	**2015**
Provision for post-employment benefit obligations	236,852	233,077
Provision for decommissioning and site restoration costs	161,764	160,648
Other	7,618	41,713
Total provisions for liabilities and charges	**406,234**	**435,438**

Provision for decommissioning and site restoration costs changed due to decrease in discount rate from 9.39 % to 8.54 % as of 31 December 2015 and 31 December 2016, respectively, and change in other estimations.

The Group operates post-employment benefits, which are recorded in the consolidated financial statements under IAS 19 Employee Benefits. Defined benefit plan covers the majority employees of the Group. The retirement benefit plan includes benefits of the following types: pension benefits paid to former employees through the non-state pension fund "GAZFOND" ("NPF GAZFOND") and financial aid to pensioners provided by the Group.

The amount of benefits depends on the period of the employees' service (years of service), salary level at retirement, predetermined fixed amount or a combination of these factors.

Principal actuarial assumptions used:

	31 December	
	2016	**2015**
Discount rate (nominal)	8.5 %	9.5 %
Future salary and pension increases (nominal)	6.0 %	7.0 %
Retirement ages, years	females 55, males 58	females 55, males 58
Turnover ratio p.a.	Age-related curve, 3.8 % pa on average	

Weighted-average duration of obligations is 12 years.

The assumptions relating to life expectancy at expected pension age were 19.3 years for a 58 year old man and 28.5 years for a 55 year old woman in 2016 and 2015.

The amounts associated with post-employment benefit obligations recognised in the consolidated balance sheet are as follows:

	31 December 2016		31 December 2015	
	Funded benefits - provided through NPF GAZFOND	**Unfunded liabilities - other benefits**	**Funded benefits - provided through NPF GAZFOND**	**Unfunded liabilities – other benefits**
Present value of benefit obligations	(372,845)	(236,852)	(356,565)	(226,097)
Fair value of plan assets	393,344	-	349,585	-
Net balance asset (liability)	**20,499**	**(236,852)**	**(6,980)**	**(226,097)**

The net pension assets related to benefits provided by the pension plan NPF GAZFOND in the amount of RUB 20,499 million as of 31 December 2016 are included within other non-current assets.

The net pension liabilities related to benefits provided by the pension plan NPF GAZFOND in the amount of RUB 6,980 million as of 31 December 2015 are included within provisions for liabilities and charges.

Changes in the present value of the defined benefit obligations and fair value of plan assets for the years ended 31 December 2016 and 31 December 2015 are as follows:

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

	Funded liabilities - benefits provided through NPF GAZFOND	Fair value of plan asset	Net (asset) liability	Unfunded liabilities–other post-employment benefits
Opening balance as of 31 December 2015	**356,565**	**(349,585)**	**6,980**	**226,097**
Current service cost	12,496	-	12,496	11,810
Past service cost	1,203	-	1,203	3,713
Net interest expense (income)	33,868	(33,385)	483	21,256
Total expenses included in staff costs	**47,567**	**(33,385)**	**14,182**	**36,779**
Remeasurements:				
Actuarial gains arising from changes in financial assumptions	(719)	-	(719)	(583)
Actuarial losses arising from changes in demographic assumptions	58	-	58	134
Actuarial gains - experience	(17,901)	-	(17,901)	(6,771)
Return on assets excluding amounts included in net interest expense	-	(6,702)	(6,702)	-
Exchange differences	-	-	-	(626)
Total recognised in other comprehensive income	**(18,562)**	**(6,702)**	**(25,264)**	**(7,846)**
Benefits paid	(12,725)	12,725	-	(18,178)
Contributions by employer	-	(16,397)	(16,397)	-
Closing balance as of 31 December 2016	**372,845**	**(393,344)**	**(20,499)**	**236,852**

	Funded liabilities - benefits provided through NPF GAZFOND	Fair value of plan asset	Net (asset) liability	Unfunded liabilities–other post-employment benefits
Opening balance as of 31 December 2014	**279,485**	**(391,227)**	**(111,742)**	**171,275**
Current service cost	11,371	-	11,371	10,020
Past service cost	3,869	-	3,869	871
Net interest expense (income)	34,927	(49,135)	(14,208)	21,416
Total expenses included in staff cost	**50,167**	**(49,135)**	**1,032**	**32,307**
Remeasurements:				
Actuarial losses arising from changes in financial assumptions	54,041	-	54,041	36,609
Actuarial gains arising from changes in demographic assumptions	(3,433)	-	(3,433)	(3,336)
Actuarial (gains) losses - experience	(12,080)	-	(12,080)	2,574
Return on assets excluding amounts included in net interest expense	-	94,479	94,479	-
Exchange differences	-	-	-	205
Total recognised in other comprehensive loss	**38,528**	**94,479**	**133,007**	**36,052**
Benefits paid	(11,615)	11,615	-	(15,755)
Contributions by employer	-	(15,317)	(15,317)	-
Business combinations	-	-	-	2,218
Closing balance as of 31 December 2015	**356,565**	**(349,585)**	**6,980**	**226,097**

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The major categories of plan assets as a fair value and percentage of total plan assets are as follows:

	31 December 2016		31 December 2015	
	Fair value	Percent in plan assets, %	Fair value	Percent in plan assets, %
Quoted plan asset, including	**185,271**	**47.1 %**	**159,946**	**45.8 %**
Mutual funds	57,579	14.6 %	75,409	21.6 %
Bonds	49,065	12.5 %	51,812	14.8 %
Shares	78,627	20.0 %	32,725	9.4 %
Unquoted plan asset, including	**208,073**	**52.9 %**	**189,639**	**54.2 %**
Shares	171,949	43.7 %	158,334	45.3 %
Deposits	16,541	4.2 %	13,785	3.9 %
Mutual funds	17,553	4.5 %	12,178	3.5 %
Other securities	2,030	0.5 %	5,342	1.5 %
Total plan assets	**393,344**	**100 %**	**349,585**	**100 %**

The amount of ordinary shares of PJSC Gazprom included in the fair value of plan assets comprises RUB 38,599 million and RUB 16,702 million as of 31 December 2016 and 31 December 2015, respectively.

Non-quoted equities within plan assets are mostly represented by Gazprombank (Joint-stock Company) shares which are measured at fair value (Level 2) using market approach valuation techniques based on available market data.

For the years ended 31 December 2016 and 31 December 2015 actual return on plan assets was a gain of RUB 40,087 million and loss of RUB 45,344 million primarily caused by the change of the fair value of plan assets.

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2016 is presented below:

	Increase (decrease) of defined benefit obligation	Increase (decrease) of defined benefit obligation, %
Mortality rates lower by 20 %	24,348	4.07 %
Mortality rates higher by 20 %	(20,316)	(3.39 %)
Discount rate lower by 1 pp	59,273	9.90 %
Discount rate higher by 1 pp	(50,155)	(8.38 %)
Benefit growth lower by 1 pp	(51,692)	(8.64 %)
Benefit growth higher by 1 pp	60,179	10.05 %
Staff turnover lower by 1 pp for all ages	28,061	4.69 %
Staff turnover higher by 1 pp for all ages	(24,579)	(4.11 %)
Retirement ages lower by 1 year	25,478	4.26 %
Retirement ages higher by 1 year	(25,709)	(4.29 %)

The Group expects to contribute RUB 37,400 million to the defined benefit plans in 2017.

Retirement benefit plan parameters and related risks

As a rule, the above benefits are indexed in line with inflation rate or salary growth for benefits that depend on salary level. All retirement benefit plans of the Group are exposed to inflation risk.

In addition to the inflation risk, the pension plan of the Group is exposed to mortality risk.

25 EQUITY

Share capital

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

Dividends

In 2016 PJSC Gazprom declared and paid dividends in the nominal amount of 7.89 Russian Rubles per share for the year ended 31 December 2015. In 2015 PJSC Gazprom declared and paid dividends in the nominal amount of 7.20 Russian Rubles per share for the year ended 31 December 2014.

25 EQUITY (continued)

Treasury shares

As of 31 December 2016 and 31 December 2015 subsidiaries of PJSC Gazprom held 1,573 million and 723 million ordinary shares of PJSC Gazprom, respectively, which are accounted for as treasury shares.

On 15 July 2016 the Group acquired from Vnesheconombank 211 million PJSC Gazprom's ordinary shares and American depositary receipts representing 639 million PJSC Gazprom's ordinary shares.

Shares of PJSC Gazprom held by the subsidiaries represent 6.6 % and 3.1 % of PJSC Gazprom shares as of 31 December 2016 and 31 December 2015, respectively.

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

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Russian Ruble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29 Financial Reporting in Hyperinflation Economies. Also, retained earnings and other reserves include translation differences arising on the translation of the net assets of foreign subsidiaries, associates and joint arrangements in the amount of RUB 617,922 million and RUB 899,336 million as of 31 December 2016 and 31 December 2015, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of these assets to governmental authorities and this process may continue. Social assets with a net book value of RUB 35 million and RUB 23 million have been transferred to governmental authorities during the years ended 31 December 2015 and 31 December 2016, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with Russian Accounting Rules. For the year ended 31 December 2016 the statutory profit of the parent company was RUB 411,425 million. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

26 SALES

	Year ended 31 December 2016	2015
Gas sales gross of excise tax and customs duties to customers in:		
Russian Federation	819,924	805,615
Former Soviet Union (excluding Russian Federation)	340,437	480,204
Europe and other countries	2,685,551	2,776,860
	3,845,912	4,062,679
Customs duties	(537,059)	(582,023)
Excise tax	(39,258)	(79,881)
Retroactive gas price adjustments[1]	33,175	26,482
Total gas sales	3,302,770	3,427,257
Sales of refined products to customers in:		
Russian Federation	980,352	981,792
Former Soviet Union (excluding the Russian Federation)	88,883	105,335
Europe and other countries	428,327	468,464
Total sales of refined products	1,497,562	1,555,591
Sales of crude oil and gas condensate to customers in:		
Russian Federation	81,302	77,519
Former Soviet Union (excluding the Russian Federation)	23,528	27,580
Europe and other countries	307,128	155,509
Total sales of crude oil and gas condensate	411,958	260,608
Electric and heat energy sales:		
Russian Federation	461,908	403,084
Former Soviet Union (excluding the Russian Federation)	2,458	2,524
Europe and other countries	17,350	19,057
Total electric and heat energy sales	481,716	424,665
Gas transportation sales:		
Russian Federation	192,649	191,648
Former Soviet Union (excluding the Russian Federation)	2,689	2,302
Europe and other countries	3,633	15
Total gas transportation sales	198,971	193,965
Other revenues:		
Russian Federation	174,378	182,594
Former Soviet Union (excluding the Russian Federation)	5,858	6,497
Europe and other countries	37,838	22,141
Total other revenues	218,074	211,232
Total sales	**6,111,051**	**6,073,318**

[1] Retroactive gas price adjustments relate to gas deliveries in 2013-2015 for which a discount has been agreed or is in the process of negotiations. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made. The effects of retroactive gas price adjustments on sales for the years ended 31 December 2016 and 31 December 2015 was an increase of RUB 33,175 million and RUB 26,482 million, respectively. The effects increasing sales are due to recognition of adjustments increasing gas prices for the past periods and due to reverse of related accruals following agreements reached prior to the issuance of the respective consolidated financial statements.

27 OPERATING EXPENSES

	Year ended 31 December	
	2016	2015
Purchased gas and oil	1,157,585	1,048,472
Taxes other than on income	900,397	805,132
Staff costs	641,036	590,981
Transit of gas, oil and refined products	610,275	534,503
Depreciation	571,564	515,200
Materials	288,497	299,182
Cost of goods for resale, including refined products	185,441	193,348
Repairs and maintenance	147,608	161,578
Electricity and heating expenses	98,992	91,822
Foreign exchange rate differences on operating items	52,880	(25,581)
Social expenses	35,516	32,485
Rental expenses	30,152	35,600
Insurance expenses	29,967	27,214
Research and development expenses	28,990	30,588
Transportation services	28,923	32,218
Processing services	15,568	18,810
Derivatives losses (gains)	9,863	(88)
Other	414,638	365,847
	5,247,892	**4,757,311**
Changes in inventories of finished goods, work in progress and other effects	(2,909)	(121,809)
Total operating expenses	**5,244,983**	**4,635,502**

Gas purchase expenses included within purchased gas and oil amounted to RUB 872,892 million and RUB 819,327 million for the years ended 31 December 2016 and 31 December 2015, respectively.

Staff costs include RUB 50,961 million and RUB 35,557 million of expenses associated with post-employment benefit obligations for the years ended 31 December 2016 and 31 December 2015, respectively (see Note 24).

Taxes other than on income consist of:

	Year ended 31 December	
	2016	2015
MET	613,662	591,336
Excise tax	144,648	88,580
Property tax	127,053	112,568
Other taxes	15,034	12,648
Total taxes other than on income	**900,397**	**805,132**

The charge for impairment and other provisions is presented below.

		Year ended 31 December	
Notes		2016	2015
13	Charge for allowance for impairment of property, plant and equipment	79,363	129,482
	Charge for allowance for accounts receivable	118,815	81,994
	Charge for allowance for investments	(596)	1,454
11	Charge for allowance for inventory obsolescence	(2,976)	289
18, 36	Charge for provision under financial guarantees	(50,736)	-
	Total charge for impairment and other provisions	**143,870**	**213,219**

28 FINANCE INCOME AND EXPENSE

	Year ended 31 December	
	2016	2015
Foreign exchange gains	925,503	878,181
Interest income	93,494	112,165
Total finance income	**1,018,997**	**990,346**
Foreign exchange losses	471,814	1,342,230
Interest expense	71,556	66,857
Total finance expense	**543,370**	**1,409,087**

Total interest paid amounted to RUB 183,312 million and RUB 168,311 million for the years ended 31 December 2016 and 31 December 2015, respectively.

Foreign exchange gains and losses for the years ended 31 December 2016 and 31 December 2015 were recognised as a result of the change of US Dollar and Euro exchange rates against the Russian Ruble. Gains and losses primarily relate to revaluation of borrowings denominated in foreign currencies.

29 RECONCILIATION OF PROFIT, DISCLOSED IN CONSOLIDATED STATEMENT OF FINANCIAL RESULTS, PREPARED IN ACCORDANCE WITH RUSSIAN ACCOUNTING RULES (RAR) TO PROFIT DISCLOSED IN IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2016	2015
RAR profit for the year per consolidated statutory accounts	**666,912**	**304,804**
Effects of IFRS adjustments:		
Classification of revaluation of available-for-sale financial assets	(62,132)	(43,179)
Difference in share of net income of associates and joint ventures	(24,157)	(9,166)
Differences in depreciation of property, plant and equipment	370,692	388,723
Reversal of goodwill amortisation	62,787	62,184
Loan interest and foreign exchange losses capitalized	93,256	177,736
Impairment and other provisions, including provision for pension obligations and unused vacations	(113,994)	(48,406)
Accounting for finance leases	552	887
Write-off of research and development expenses capitalized for RAR purposes	(5,488)	(6,956)
Fair value adjustment on derivatives	70	88
Differences in fixed assets disposal	1,103	(1,975)
Differences in financial results from acquisition of subsidiaries	-	31,674
Other effects	7,503	(51,215)
IFRS profit for the year	**997,104**	**805,199**

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

Earnings per share attributable to owners of PJSC Gazprom have been calculated by dividing the profit for the year, attributable to the owners of PJSC Gazprom by the annual weighted average number of shares outstanding, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 25).

There were 22.6 billion and 23.0 billion weighted average shares outstanding for the years ended 31 December 2016 and 31 December 2015, respectively.

There are no dilutive financial instruments outstanding in the Group.

31 NET CASH PROVIDED BY OPERATING ACTIVITIES

Notes		Year ended 31 December 2016	2015
	Profit before profit tax	**1,285,138**	**925,241**
	Adjustments to profit before profit tax for:		
27	Depreciation	571,564	515,200
28	Net finance (income) expense	(475,627)	418,741
15	Share of net income of associates and joint ventures	(82,872)	(106,560)
27	Charge for provisions	194,831	248,776
27	Derivatives losses (gains)	9,863	(88)
	Gain on disposal of available-for-sale financial assets	(1,059)	(9,121)
	Other	(12,393)	(6,952)
	Total effect of adjustments	204,307	1,059,996
	Cash flows from operating activities before working capital changes	1,489,445	1,985,237
	Decrease in non-current assets	3,541	1,088
	Decrease in non-current liabilities	(8,821)	(7,481)
		1,484,165	1,978,844
	Changes in working capital:		
	Increase in accounts receivable and prepayments	(98,791)	(732)
	Decrease (increase) in inventories	96,578	(78,157)
	Decrease in other current assets	159,473	297,491
	Decrease in accounts payable and accrued charges, excluding interest, dividends and capital construction	(33,497)	(67,769)
	Settlements on taxes payable (other than profit tax)	59,923	5,195
	(Increase) decrease in available-for-sale financial assets and financial assets held for trading	(952)	784
	Total effect of working capital changes	182,734	156,812
	Profit tax paid	(95,576)	(104,729)
	Net cash from operating activities	**1,571,323**	**2,030,927**

Total taxes and other similar payments paid in cash during 2015-2016:

	Year ended 31 December 2016	2015
Customs duties	617,788	693,746
Mineral extraction tax	601,985	599,433
Excise	236,892	219,105
Property tax	120,391	110,123
Insurance contributions to non-budget funds	117,503	108,151
Profit tax	95,576	104,729
Personal income tax	63,000	57,911
VAT	53,771	27,586
Other taxes	59,545	25,880
Total taxes paid	**1,966,451**	**1,946,664**

32 SUBSIDIARIES

Significant subsidiaries

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December[1] 2016	2015
LLC Aviapredpriyatie Gazprom avia	Russia	100	100
WIBG GmbH[2]	Germany	100	100
OJSC Vostokgazprom	Russia	100	100
GAZPROM Schweiz AG	Switzerland	100	100
CJSC Gazprom Armenia	Armenia	100	100
LLC Gazprom VNIIGAZ	Russia	100	100
JSC Gazprom gazoraspredelenie	Russia	100	100
JSC Gazprom gazoraspredelenie Sever	Russia	73	96
LLC Gazprom geologorazvedka	Russia	100	100
LLC Gazprom georesurs	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Gerosgaz Holdings B.V.	Netherlands	100	100

32 SUBSIDIARIES (continued)

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December[1] 2016	2015
Gazprom Global LNG Ltd.	United Kingdom	100	100
LLC Gazprom dobycha Astrakhan	Russia	100	100
LLC Gazprom dobycha Krasnodar	Russia	100	100
LLC Gazprom dobycha Nadym	Russia	100	100
LLC Gazprom dobycha Noyabrsk	Russia	100	100
LLC Gazprom dobycha Orenburg	Russia	100	100
LLC Gazprom dobycha Urengoy	Russia	100	100
LLC Gazprom dobycha shelf Yuzhno-Sakhalinsk	Russia	100	100
LLC Gazprom dobycha Yamburg	Russia	100	100
LLC Gazprom invest	Russia	100	100
LLC Gazprom invest Vostok	Russia	100	100
LLC Gazprom invest RGK	Russia	100	100
CJSC Gazprom invest Yug	Russia	100	100
LLC Gazprom investholding	Russia	100	100
Gazprom International Germany GmbH	Germany	100	100
LLC Gazprom inform	Russia	100	100
LLC Gazprom komplektatciya	Russia	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
LLC Gazprom mezhregiongaz	Russia	100	100
LLC Gazprom neftekhim Salavat	Russia	100	100
PJSC Gazprom neft	Russia	96	96
LLC Gazpromneft-Orenburg[3]	Russia	100	100
Gazprom Neft Trading GmbH[3]	Austria	100	100
LLC Gazprom neft shelf[3]	Russia	100	100
LLC Gazprom pererabotka	Russia	100	100
LLC Gazprom podzemremont Orenburg	Russia	100	100
LLC Gazprom podzemremont Urengoy	Russia	100	100
LLC Gazprom PKhG	Russia	100	100
Gazprom Sakhalin Holdings B.V.	Netherlands	100	100
LLC Gazprom torgservis	Russia	100	100
OJSC Gazprom transgaz Belarus	Belorussia	100	100
LLC Gazprom transgaz Volgograd	Russia	100	100
LLC Gazprom transgaz Ekaterinburg	Russia	100	100
LLC Gazprom transgaz Kazan	Russia	100	100
LLC Gazprom transgaz Krasnodar	Russia	100	100
LLC Gazprom transgaz Makhachkala	Russia	100	100
LLC Gazprom transgaz Moskva	Russia	100	100
LLC Gazprom transgaz Nizhny Novgorod	Russia	100	100
LLC Gazprom transgaz Samara	Russia	100	100
LLC Gazrpom transgaz Saint-Petersburg	Russia	100	100
LLC Gazprom transgaz Saratov	Russia	100	100
LLC Gazprom transgaz Stavropol	Russia	100	100
LLC Gazprom transgaz Surgut	Russia	100	100
LLC Gazprom transgaz Tomsk	Russia	100	100
LLC Gazprom transgaz Ufa	Russia	100	100
LLC Gazprom transgaz Ukhta	Russia	100	100
LLC Gazprom transgaz Tchaikovsky	Russia	100	100
LLC Gazprom transgaz Yugorsk	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
LLC Gazprom tsentrremont	Russia	100	100
LLC Gazprom export	Russia	100	100
LLC Gazprom energo	Russia	100	100
LLC Gazprom energoholding	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
LLC Gazpromneft-Vostok[3]	Russia	100	100
JSC Gazpromneft - MNPZ[3]	Russia	100	100

32 SUBSIDIARIES (continued)

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December[1] 2016	2015
JSC Gazpromneft-Noyabrskneftegaz[3]	Russia	100	100
JSC Gazpromneft-Omsk[3]	Russia	100	100
JSC Gazpromneft-ONPZ[3]	Russia	100	100
JSC Gazpromneft-Severo-Zapad[3]	Russia	100	100
LLC GPN-Finans[3]	Russia	100	100
LLC Gazpromneft-Khantos[3]	Russia	100	100
LLC Gazpromneft-Centr[3]	Russia	100	100
LLC Gazpromtrans	Russia	100	100
OJSC Gazpromtrubinvest	Russia	100	100
LLC Gazprom flot	Russia	100	100
JSC Daltransgaz	Russia	100	100
LLC Zapolyarneft[3]	Russia	100	100
PJSC Krasnoyarskgazprom	Russia	100	75
PJSC MIPC	Russia	90	90
PJSC Mosenergo	Russia	53	53
Naftna Industrija Srbije a.d.[3]	Serbia	56	56
LLC Novourengoysky GCC	Russia	100	100
PJSC WGC-2	Russia	77	77
CJSC Purgaz	Russia	51	51
OJSC Regiongazholding	Russia	57	57
CJSC Rosshelf	Russia	57	57
South Stream Transport B.V.	-	100	100
OJSC Severneftegazprom[4]	Russia	50	50
LLC Sibmetakhim	Russia	100	100
PJSC Gazprom spetsgazavtotrans	Russia	51	51
PJSC TGC-1	Russia	52	52
JSC Teploset Sankt-Peterburga	Russia	75	75
OJSC Tomskgazprom	Russia	100	100
LLC Faktoring-Finance	Russia	100	90
JSC Tsentrgaz	Russia	100	100
JSC Gazprom centrenergogaz	Russia	66	66
JSC Yuzhuralneftegaz[3]	Russia	88	88
LLC Yamalgazinvest	Russia	100	100

[1] Cumulative share of the Group in charter capital of investees.
[2] On 30 September 2015 in accordance with the Swap Agreement with Wintershall Holding GmbH the Group acquired the 100 % of the interest in WIBG GmbH (see Note 34).
[3] Subsidiaries of PJSC Gazprom neft.
[4] Group's portion of voting shares.

33 NON-CONTROLLING INTEREST

	Year ended 31 December	
	2016	**2015**
Non-controlling interest at the beginning of the year	**325,036**	**303,463**
Non-controlling interest share of net profit of subsidiaries[1]	45,467	18,143
Changes in interest in JSC Gazprom gazoraspredelenie Sever	2,644	-
Changes in interest in PJSC WGC-2	131	136
Changes in the non-controlling interest as a result of other acquisitions and disposals	676	(1,671)
Gain (loss) from cash flow hedges	1,361	(403)
Gain (loss) arising from change in fair value of available-for-sale financial assets	1	(7)
Remeasurements of post-employment benefit obligations	8	(160)
Dividends	(11,727)	(6,374)
Translation differences	(16,289)	11,909
Non-controlling interest at the end of the year	**347,308**	**325,036**

[1] Non-controlling interest share of net profit (loss) of subsidiaries includes share in impairment of assets in the amount of RUB 5,365 million and RUB 2,034 million for the years ended 31 December 2016 and 31 December 2015, respectively.

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

	Country of primary operation	Percent of share capital held by non-controlling interest[1]	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
As of and for the year ended 31 December 2016					
Gazprom neft Group[2]	Russia	4 %	20,412	114,916	1,377
Naftna Industrija Srbije a.d. Group	Serbia	46 %	4,183	62,044	1,049
Mosenergo Group	Russia	46 %	6,398	88,296	1,039
TGC-1 Group	Russia	48 %	4,088	62,701	452
WGC-2 Group	Russia	19 %	200	29,558	117
As of and for the year ended 31 December 2015					
Gazprom neft Group[2]	Russia	4 %	9,201	110,396	3,342
Naftna Industrija Srbije a.d. Group	Serbia	46 %	3,262	75,485	1,700
Mosenergo Group	Russia	46 %	4,741	82,529	184
TGC-1 Group	Russia	48 %	3,497	58,941	419
WGC-2 Group	Russia	19 %	472	29,367	167

[1] Effective share held by non-controlling interest in charter capital of investments.
[2] Including non-controlling interest in Naftna Industrija Srbije a.d. Group.

The summarised financial information of these subsidiaries before inter-company eliminations was as follows:

	Gazprom neft Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
As of and for the year ended 31 December 2016					
Current assets	396,286	48,388	84,809	24,233	29,375
Non-current assets	2,357,154	195,271	197,654	155,517	220,817
Current liabilities	290,940	35,641	45,264	20,945	49,695
Non-current liabilities	864,337	57,136	32,914	33,552	60,053
Revenue	1,545,608	189,781	191,466	79,228	134,537
Profit for the year	201,763	7,483	13,884	8,453	809
Total comprehensive income for the year	187,873	7,483	13,191	8,065	527
Net cash from (used in):					
operating activities	397,128	22,896	31,690	14,162	24,266
investing activities	(382,981)	(15,894)	(23,668)	(8,949)	(14,064)
financing activities	(86,500)	(4,914)	(3,581)	(3,386)	(13,097)

33 NON-CONTROLLING INTEREST (continued)

	Gazprom neft Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
As of and for the year ended 31 December 2015					
Current assets	511,348	56,620	67,777	19,673	34,896
Non-current assets	2,180,933	243,131	193,364	151,250	218,397
Current liabilities	346,534	43,006	23,725	20,617	49,652
Non-current liabilities	938,860	76,400	57,890	32,637	60,493
Revenue	1,467,943	183,022	171,932	69,585	112,465
Profit for the year	80,455	7,071	6,533	6,586	2,961
Total comprehensive income for the year	115,253	7,071	6,469	6,440	2,665
Net cash from (used in):					
operating activities	366,747	27,267	21,924	10,332	9,400
investing activities	(431,349)	(18,379)	(25,028)	(9,687)	(25,915)
financing activities	119,240	(2,481)	(921)	(1,201)	10,784

The rights of the non-controlling shareholders of the presented subgroups are determined by the respective laws of country of incorporation and the charter documents of the subsidiaries.

34 ACQUISITION OF SUBSIDIARIES

Asset swap with Wintershall Holding GmbH

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

According to the Swap Agreement 25.01 % of interest in the capital of LLC Achim Development and 9.00 % of ordinary shares, one class A preference share and one class B preference share of JSC Achim Trading which were recognised under other non-current assets in the consolidated financial statements of the Group have been transferred to Wintershall Holding GmbH in return for the 100.00 % of the interest in WIBG GmbH and for 50.00 % of the interest in Wintershall Noordzee B.V. and Wintershall Services B.V. WIBG GmbH holds an equity interest of 50.02 % and 50.00 % in W & G Beteiligungs-GmbH & Co. KG and in WIEH GmbH, respectively.

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

Prior to the swap transaction the Group held an equity interest of 49.98 % in W & G Beteiligungs-GmbH & Co. KG and of 50.00 % in WIEH GmbH. These subgroups were accounted for using the equity method. In addition at the acquisition date the Group held an equity interest of 33.33 % in WINGAS Storage UK Ltd., in which W & G Beteiligungs-GmbH & Co. KG held an equity interest of 50.00 %.

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

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

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

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

In accordance with IFRS 3 Business combinations the Group measured shares of LLC Achim Development and JSC Achim Trading at fair value evaluated by an independent appraiser CJSC Deloitte & Touche CIS at the acquisition date. On 31 December 2015 the Group recognised the gain from the revaluation of disposed investments to their fair value in the amount of RUB 20,137 million in the consolidated financial statements of comprehensive income within other operating expenses.

34 ACQUISITION OF SUBSIDIARIES (continued)

Previously held by the Group investments in W & G Beteiligungs-GmbH & Co. KG, WIEH GmbH and WINGAS Storage UK Ltd. were measured at fair value at the acquisition date. On 31 December 2015 the gain from the revaluation of investments accounted for using the equity method to fair value is recognised in the consolidated financial statement of comprehensive income within other operating expenses in the amount of RUB 18,087 million.

In connection with derecognition of equity-accounted investments the Group recognised the loss in profit and loss within other operating expenses in the amount of RUB 9,034 million previously recognised in other comprehensive loss arising mainly from hedge transactions.

In accordance with IFRS 3 Business Combinations, the Group recognised the acquired assets and liabilities based upon their fair values.

Fair value of assets acquired and liabilities assumed is as follows:

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

Result of the asset swap is as follows:

	31 December 2015
Fair value of transferred assets including compensation payments	87,774
Non-controlling interest measured at its proportionate share of the acquirees's net assets	262
Fair value of acquired assets	97,905
Gain from a bargain purchase	**9,869**

The gain from a bargain purchase identified as the excess of the fair value of assets acquired and liabilities assumed over the fair value of transferred assets is mainly related to the decrease of the energy market prices since the conception of the transaction. The gain from a bargain purchase is recognised in other operating income in the consolidated financial statement of comprehensive income for the year ended 31 December 2015.

Fair value of acquired accounts receivable amounted to RUB 157,589 million at the acquisition date. The amount of accounts receivable at the acquisition date amounts to RUB 75,517 million. The best estimate of cash flows, that are expected not to be recovered, amounts to RUB 1,729 million at the acquisition date.

At the acquisition date contingencies related to judicial proceedings with fair value of RUB 2,707 million are accounted for within current provisions for liabilities and chargers. The probability of unfavorable outcome of filed claim is estimated as medium.

34 ACQUISITION OF SUBSIDIARIES (continued)

If the acquisition occurred as of 1 January 2015 sales of the Group and the Group's profit before profit tax for the year ended 31 December 2015 would be higher by RUB 395,732 million and RUB 7,034 million, respectively.

Acquisition of Shtokman Development AG

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

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

According to IFRS 3 Business combinations the Group recognised the acquired assets and liabilities assumed based upon their provisional fair values.

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

Fair value of acquired assets and liabilities assumed of Shtokman Development AG is as follows.

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

35 RELATED PARTIES

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

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

Government (Russian Federation)

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

As of 31 December 2016 38.373 % of PJSC Gazprom's issued shares are directly owned by the Government. Another 11.859 % are owned JSC Rosneftegaz and OJSC Rosgazifikatsiya controlled by Government.

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

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

Parties under control of the Government

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

As of 31 December 2016 prices of natural gas sales, gas transportation and electricity tariffs in Russia are regulated by the FAS. Until 21 July 2015 these functions were performed by the FTS.

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

As of 31 December 2016 and 31 December 2015 and for the years ended 31 December 2016 and 31 December 2015, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	As of 31 December 2016		Year ended 31 December 2016	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
Current profit tax	11,608	56,695	-	199,675
Insurance contributions to non-budget funds	720	7,795	-	96,693
VAT recoverable / payable	322,643	72,557	-	-
Customs duties	16,183	-	-	-
Other taxes	2,457	116,769	-	763,267
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	76,955	-
Electricity and heating sales	-	-	217,445	-
Gas transportation sales	-	-	46,849	-
Other services sales	-	-	3,842	-
Accounts receivable	49,091	-	-	-
Oil and refined products transportation expenses	-	-	-	117,045
Accounts payable	-	13,800	-	-
Borrowings	-	345,604	-	-
Interest expense	-	-	-	11,467
Short-term financial assets	10,136	-	-	-
Available-for-sale long-term financial assets	8,087	-	-	-

35 RELATED PARTIES (continued)

	As of 31 December 2015		Year ended 31 December 2015	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
Current profit tax	78,678	3,816	-	85,542
Insurance contributions to non-budget funds	688	7,369	-	126,042
VAT recoverable / payable	400,295	54,990	-	-
Customs duties	46,446	-	-	-
Other taxes	2,411	85,132	-	800,605
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	70,439	-
Electricity and heating sales	-	-	190,891	-
Gas transportation sales	-	-	42,445	-
Other services sales	-	-	3,581	-
Accounts receivable	40,431	-	-	-
Oil and refined products transportation expenses	-	-	-	118,161
Accounts payable	-	14,062	-	-
Borrowings	-	300,003	-	-
Interest expense	-	-	-	17,205
Short-term financial assets	9,859	-	-	-
Available-for-sale long-term financial assets	6,485	-	-	-

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

In the normal course of business the Group incurs electricity and heating expenses (see Note 27). A part of these expenses relates to purchases from the entities under Government control. Due to the specifics of the electricity market in the Russian Federation, these purchases can not be accurately separated from the purchases from private companies.

See the consolidated statement of changes in equity for returns of social assets to governmental authorities during the years ended 31 December 2016 and 31 December 2015. See Note 13 for net book values as of 31 December 2016 and 31 December 2015 of social assets vested to the Group at privatisation.

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

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RUB 4,685 million and RUB 4,801 million for the years ended 31 December 2016 and 31 December 2015, respectively.

Government officials, who are directors, do not receive remuneration from the Group.

The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

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

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

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

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

Associates and joint ventures

For the years ended 31 December 2016 and 31 December 2015 and as of 31 December 2016 and

35 RELATED PARTIES (continued)

31 December 2015 the Group had the following significant transactions and balances with associates and joint ventures.

	Year ended 31 December	
	2016	2015
	Revenues	
Gas sales		
Panrusgaz Gas Trading Plc	38,041	69,345
JSV Moldovagaz	24,849	31,950
VEMEX s.r.o. and its subsidiaries	16,046	7,166
Bosphorus Gaz Corporation A.S.	15,376	19,735
KazRosGaz LLP	10,509	3,598
JSC Latvijas Gaze	10,237	13,338
CJSC Gazprom YRGM Trading[1]	7,917	17,312
JSC Gazprom YRGM Development[1]	7,137	12,366
SGT EuRoPol GAZ S.A.	4,759	5,927
PremiumGas S.p.A	4,702	638
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries[2]	-	123,156
WIEH GmbH[2]	-	109,935
Gasum Oy[3]	-	24,999
Overgaz Inc. AD	-	4,944
WIEE AG[2]	-	1,344
Gas transportation sales		
CJSC Gazprom YRGM Trading[1]	11,453	23,641
JSC Gazprom YRGM Development[1]	10,323	16,886
KazRosGaz LLP	2,688	2,299
Gas condensate, crude oil and refined products sales		
OJSC NGK Slavneft and its subsidiaries	38,445	44,075
CJSC SOVEKS	3,696	4,674
LLC NPP Neftekhimia	2,379	3,054
Sakhalin Energy Investment Company Ltd.	2,054	2,233
Poliom Ltd.	1,800	2,744
Operator services sales and other services sales		
JSC Messoyakhaneftegaz	4,538	31,142
Gas refining services sales		
KazRosGaz LLP	8,169	5,940
	Expenses	
Purchased gas		
LLC SeverEnergiya and its subsidiaries	49,393	48,714
KazRosGaz LLP	32,567	44,624
CJSC Gazprom YRGM Trading[1]	24,566	62,560
JSC Gazprom YRGM Development[1]	22,089	44,708
Sakhalin Energy Investment Company Ltd.	11,811	20,226
CJSC Northgas	8,512	8,819
VEMEX s.r.o. and its subsidiaries	3,885	1,512
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries[2]	-	57,182
Purchased transit of gas		
Nord Stream AG	79,002	73,966
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	38,035	24,386
SGT EuRoPol GAZ S.A.	16,613	17,881
JSV Moldovagaz	3,587	3,027
Purchased crude oil and refined products		
OJSC NGK Slavneft and its subsidiaries	91,524	95,752
Sakhalin Energy Investment Company Ltd.	19,090	9,140

35 RELATED PARTIES (continued)

	Year ended 31 December	
	2016	2015
Purchased services of gas and gas condensate extraction		
JSC Achimgaz	27,994	28,798
Purchased processing services		
OJSC NGK Slavneft and its subsidiaries	13,313	14,179

[1] CJSC Gazprom YRGM Trading and JSC Gazprom YRGM Development are not associates and joint ventures.
[2] In September 2015 W&G Beteiligungs-GmbH & Co. KG and its subsidiaries, WIEH GmbH (formerly WIEH GmbH & Co. KG), WIEE AG (formerly Wintershall Erdgas Handelshaus Zug AG) became subsidiaries of the Group (see Note 34). In August 2016 W & G Beteiligungs-GmbH & Co. KG was merged with WIBG GmbH.
[3] In January 2016 PJSC Gazprom has sold its equity interest of 25 % in Gasum Oy to the Government of Finland for EUR 251 million.

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

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
JSC Messoyakhaneftegaz	40,530	-	19,742	-
Gazprombank (Joint-stock Company) and its subsidiaries	14,306	-	35,831	-
OJSC NGK Slavneft and its subsidiaries	8,286	-	8,415	-
Wintershall Noordzee B.V.	5,811	-	-	-
KazRosGaz LLP	3,287	-	842	-
Panrusgas Gas Trading Plc	3,175	-	7,434	-
Sakhalin Energy Investment Company Ltd.	2,733	-	1,149	-
Wintershall AG	2,125	-	3,064	-
VEMEX s.r.o. and its subsidiaries	1,518	-	1,790	-
CJSC Gazprom YRGM Trading	1,167	-	2,756	-
JSC Gazprom YRGM Development	1,052	-	1,968	-
Overgaz Inc. AD[1]	-	-	8,813	-
JSV Moldovagaz[2]	-	-	4,435	-
Gasum Oy	-	-	2,579	-
Cash balances				
Gazprombank (Joint-stock Company) and its subsidiaries	518,084	-	883,194	-
Other current assets				
Gazprombank (Joint-stock Company) and its subsidiaries	100,015	-	16,467	-
OJSC Belgazprombank	968	-	11,827	-
Other non-current assets				
Gazprombank (Joint-stock Company) and its subsidiaries	42,230	-	-	-
Long-term accounts receivable and prepayments				
JSC Messoyakhaneftegaz	18,962	-	15,172	-
LLC Yamal razvitie	15,722	-	1,460	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	12,757	-	15,933	-
OJSC Belgazprombank	4,957	-	4,957	-
Etzel-Kavernenbetriebsgesellschaft mbH & Co. KG	-	-	4,695	-
Wintershall Noordzee B.V.	-	-	3,742	-
Short-term accounts payable				
Nord Stream AG	-	5,723	-	7,170
CJSC Gazprom YRGM Trading	-	4,490	-	7,739
KazRosGaz LLP	-	4,186	-	3,370
OJSC NGK Slavneft and its subsidiaries	-	4,094	-	1,510
JSC Messoyakhaneftegaz	-	3,694	-	-
JSC Gazprom YRGM Development	-	3,682	-	5,690
LLC SeverEnergia and its subsidiaries	-	3,436	-	5,755

35 RELATED PARTIES (continued)

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
JSC Achimgaz	-	3,025	-	4,506
Sakhalin Energy Investment Company Ltd.	-	2,948	-	854
SGT EuRoPol GAZ S.A.	-	2,100	-	2,710
JSC Latvijas Gaze	-	92	-	1,806
Gasum Oy	-	-	-	2,260
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint-stock Company) and its subsidiaries	-	31,797	-	15,635
Long-term borrowings				
Gazprombank (Joint-stock Company) and its subsidiaries	-	88,850	-	114,793

[1] Net of impairment allowance on accounts receivable in the amount of RUB 6,380 million and nil million as of 31 December 2016 and 31 December 2015, respectively.
[2] Net of impairment allowance on accounts receivable in the amount of RUB 342,765 million and RUB 380,942 million as of 31 December 2016 and 31 December 2015, respectively.

Investments in associates and joint ventures are disclosed in Note 15.

Financial guarantees issued by the Group for the associates and joint ventures are disclosed in Note 36.

36 COMMITMENTS AND CONTINGENCIES

Financial guarantees

Notes		31 December 2016	2015
	Outstanding guarantees issued for:		
	Blackrock Capital Investments Limited	4,968	9,946
18, 27	Ostchem Holding Limited	3,427	61,404
	Other	36,362	36,001
	Total financial guarantees	**44,757**	**107,351**

In 2016 and 2015 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 87 million and USD 1,018 million as of 31 December 2016 and 31 December 2015, respectively, as well as amounts denominated in Euros of EUR 66 million and EUR 72 million as of 31 December 2016 and 31 December 2015, respectively.

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) in respect of bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by SGT EuRoPol GAZ S.A. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. In December 2015 loans issued by EM Interfinance Limited were redeemed. As a result as of 31 December 2016 and 31 December 2015 the guarantees issued for Blackrock Capital Investments Limited amounted to RUB 4,968 million (USD 82 million) and RUB 9,946 million (USD 136 million), respectively.

In December 2014 the Group provided a guarantee to Gazprombank (Joint-stock Company) related to debts from Ostchem Holding Limited under the credit facility for financing of operating activities. As of 31 December 2016 and 31 December 2015 the above guarantee amounted to RUB 3,427 million and RUB 61,404 million (USD 843 million), respectively, and was fully provided. In June 2016 the Group signed an amendment agreement with Gazprombank (Joint-stock Company) according to which the amount of the guarantee was converted into Russian Rubles at the conversion rate agreed between the parties. The change in the amount of guarantee as of 31 December 2016 is mainly due to the partial assignment of Gazprombank (Joint-stock company) to RUB 54,099 million of the principal debt of the borrower under a loan agreement to a third party in December 2016.

36 COMMITMENTS AND CONTINGENCIES (continued)

Other

The Group has transportation agreements with certain of its associates and joint ventures (see Note 35).

Capital commitments

The total investment program related to gas, oil and power assets for 2017 is RUB 1,798,705 million.

Operating lease commitments

As of 31 December 2016 and 31 December 2015 the Group does not have significant liabilities related to operating leases.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2016 no loss is expected to result from these long-term commitments.

37 OPERATING RISKS

Operating environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. Due to the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings of the Group.

The future economic prospects of the Russian Federation is largely dependent upon the world economic situation, effectiveness of economic, financial and monetary measures undertaken by the Government of the Russian Federation, together with tax, legal, regulatory, and political developments.

Taxation

The tax, currency and customs legislation in the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 31 December 2016 is appropriate and all of the Group's material tax, currency and customs positions will be sustainable.

Legal proceedings

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

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

On 21 July 2014 both cases were consolidated. Oral hearings of the case were held, the parties provided post-hearing statements on 11 November 2016. The arbitration panel is expected to deliver its ruling on 30 June 2017.

37 OPERATING RISKS (continued)

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

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

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

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

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

On 28 November 2014 PJSC Gazprom filed its response to the request of arbitration. On 11 December 2014 the arbitration panel was formed. On 28 January 2015 the arbitration court made a decision not to combine the case with the above ones. On 30 April 2015 NJSC Naftogaz of Ukraine filed a claim, significantly increasing the amount of the claims, according to various estimates, up to USD 11,000-16,000 million. Oral hearings of the case were held, the parties provided post-hearing statements on 11 November 2016. The arbitration panel is expected to deliver its ruling on 30 June 2017.

On 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders' agreement with AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5,000 million compensation (at the exchange rate as of 31 December 2016 – RUB 92,405 million). PJSC Gazprom did not agree to the claims and on 9 November 2012, filed with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, response to the request for arbitration. Arbitration panel was formed and hearing on the merits took place from 1 to 9 July 2015. On 30 September 2015 the parties submitted additional written opinions based on the analysis of the hearing materials including witness statement and expert statement.

On 22 June 2016 the arbitration court made a final decision which rejects all claims raised by the Ministry of Energy of the Republic of Lithuania, including claims on unfair pricing of gas which PJSC Gazprom supplied to Lithuania in 2006-2015. On 22 September 2016 it became known that the Ministry of Energy of the Republic of Lithuania has filed appeal with the Court of Appeal of Stockholm, Sweden, to cancel the Final arbitration decision of 22 June 2016. On 4 April 2017 PJSC Gazprom officially received this appeal and is preparing a statement to contest it.

In August 2012 the European Commission launched a formal stage of investigation into a potential breach of the EU antitrust law by PJSC Gazprom. In April 2015 the European Commission adopted a Statement of Objections in the course of the ongoing antitrust investigation of PJSC Gazprom activity in the EU. The European Commission extended the deadline for providing a formal response to the Statement of objections until September 2015. In September 2015 PJSC Gazprom filed its proposal of antitrust investigation settlement to the European Commission. In December 2015 PJSC Gazprom's representatives and the European Commission took part in closed-door oral hearings where PJSC Gazprom provided arguments which rendered the raised claims groundless. An oral hearing is just one of the stages of the ongoing antitrust investigation. On 27 December 2016 PJSC Gazprom forwarded to the European Commission a formal proposal for the settlement of the investigation (commitments). On 13 March 2017 the European Commission launched a market test process of the commitments upon which it will be able to rightfully accept the commitments and close the investigation without recognising the Gazprom Group guilty of violating the antitrust law of the European Union. The period for the market testing procedure established by the European Commission is seven weeks. Currently it's impossible to assess a potential negative impact of this ongoing investigation on activity of PJSC Gazprom in Europe and on financial position of PJSC Gazprom as a whole.

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

37 OPERATING RISKS (continued)

compensation for the work performed reimbursements for the expenses incurred and for the termination of the agreement in the amount of about EUR 760 million plus interest (at the exchange rate as of 31 December 2016 – RUB 48,496 million). On 16 February 2016 South Stream Transport B.V. sent a response to the notice of arbitration of Saipem S.p.A., where it rejected all the claims raised by Saipem S.p.A. and declared its intention to file a counterclaim. On 30 September 2016 Saipem S.p.A. submitted its claim in its entirety with all attachments. The amount of claim of Saipem S.p.A. was reduced to the amount of EUR 679 million (at the exchange rate as of 31 December 2016 – RUB 43,328 million). On 10 March 2017 South Stream Transport B.V. filed a defense on the claim along with testimony and experts' opinions which underpin the respondent's argument, and a counter-claim in the amount of about EUR 730 million (at the exchange rate as of 31 December 2016 – RUB 46,582 million). The parties are currently undergoing a mutual information disclosure procedure. The hearings are scheduled for May 2018.

On 25 January 2016 the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of Ukrainian hryvnia 85,966 million (at the exchange rate as of 31 December 2016 – RUB 192,414 million) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed an action with the Kiev Economic Court against the decision of the Antimonopoly Committee of Ukraine. On 13 April 2016 the action was returned unconsidered on formal grounds. On 4 May 2016 PJSC Gazprom filed an appeal with the Kiev Economic Court of Appeal which left the primary court's award unchanged based on the decision of 18 May 2016. On 7 June 2016 PJSC Gazprom filed a cassation appeal with the Ukraine's Higher Economic Court. On 13 July 2016 the Ukraine's Higher Economic Court dismissed the appeal of PJSC Gazprom and affirmed the ruling of the court of first appearance and the decision of appeals instance. On 2 September 2016 PJSC Gazprom filed with the Supreme Court of Ukraine a petition to review the judgements in the case delivered by the lower-level courts.

On 13 September 2016 the Supreme Court of Ukraine rejected to move the petition forward to review the judgements delivered in the case by the lower-level courts. On 7 October 2016 the Kiev Economic Court determined to initiate proceedings in the case in view of the application filed by the Antimonopoly Committee of Ukraine along with a claim to impose a penalty in the amount of about USD 3,300 million on PJSC Gazprom, a fine in the amount of about USD 3,300 million and a demand to enforce PJSC Gazprom to fulfil a portion of its decision which pertains to the performance of the terms and conditions to the fullest extent of Contract No. TKGU regarding the volumes of gas intended for transit purposes. On 5 December 2016 the Court satisfied the claims of the Antimonopoly Committee of Ukraine to the fullest extent. On 22 February 2017 the Court dismissed the appeal of PJSC Gazprom keeping the first-instance court's decision in force. On 14 March 2017 PJSC Gazprom filed with the Ukraine's Higher Economic Court a cassation appeal on the decision of the Kiev Economic Court dated 5 December 2016 and the ruling of the Kiev Economic Court of Appeal dated 22 February 2017. Management of the Group believes that the charges are not founded.

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

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

1) applying unfair pricing policy with respect to PGNiG S.A.;

2) preventing cross-border gas sale;

3) tying commercial issues with infrastructure.

Based on the complaint, the European Commission registered case No. AT.40497. The commencement of the case does not necessarily entail formal proceedings and recognise PJSC Gazprom guilty of violation of the antitrust law of the European Union. It is currently impossible to assess a potential negative impact of this

37 OPERATING RISKS (continued)

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.

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

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

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

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

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

4) providing after 12 September 2014 directly or indirectly or being part of any arrangement to make new loans or credit with a maturity of more than 30 days to a number of Russian companies (including PJSC Gazprom Neft and Gazprombank (Joint-stock Company) but excluding PJSC Gazprom), except for loans

37 OPERATING RISKS (continued)

or credit that have a specific and documented objective to provide financing for non-prohibited imports or exports of goods and non-financial services between the EU and the Russian Federation or for loans that have a specific and documented objective to provide emergency funding to meet solvency and liquidity criteria for legal entities established in the EU, whose proprietary rights are owned for more than 50 percent by any entity referred to above.

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

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

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

38 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

Risks are managed centrally and to some extent at the level of subsidiaries in accordance with Group policies.

Market risk

Market risk is a risk that changes in market prices, such as foreign currency exchange rates, interest rates, commodity prices and prices of marketable securities, will affect the Group's financial results or the value of its holdings of financial instruments.

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The carrying amounts of the Group's financial instruments are denominated in the following currencies.

38 FINANCIAL RISK FACTORS (continued)

Notes		Russian Ruble	US dollar	Euro	Other	Total
	As of 31 December 2016					
	Financial assets					
	Current					
8	Cash and cash equivalents	539,158	249,143	90,458	17,969	896,728
9	Short-term financial assets (excluding equity securities)	11,094	-	-	-	11,094
10	Trade and other accounts receivable	506,332	187,767	216,638	97,249	1,007,986
	Non-current					
16	Long-term accounts receivable (excluding prepayments)	130,556	6,573	39,068	1,298	177,495
17	Available-for-sale long-term financial assets (excluding equity securities)	311	-	-	-	311
	Total financial assets	**1,187,451**	**443,483**	**346,164**	**116,516**	**2,093,614**
	Financial liabilities					
	Current					
18	Accounts payable and accrued charges (excluding derivative financial instruments)	692,907	126,497	96,091	67,056	982,551
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	113,841	108,334	224,400	505	447,080
	Non-current					
21	Long-term borrowings, promissory notes	357,525	1,192,238	743,887	88,893	2,382,543
	Total financial liabilities	**1,164,273**	**1,427,069**	**1,064,378**	**156,454**	**3,812,174**

Notes		Russian Ruble	US dollar	Euro	Other	Total
	As of 31 December 2015					
	Financial assets					
	Current					
8	Cash and cash equivalents	660,664	468,936	170,407	59,088	1,359,095
9	Short-term financial assets (excluding equity securities)	10,089	146	-	-	10,235
10	Trade and other accounts receivable	467,587	217,425	216,775	105,198	1,006,985
	Non-current					
16	Long-term accounts receivable (excluding prepayments)	123,506	10,060	66,856	12,704	213,126
17	Available-for-sale long-term financial assets (excluding equity securities)	171	-	-	-	171
	Total financial assets	**1,262,017**	**696,567**	**454,038**	**176,990**	**2,589,612**
	Financial liabilities					
	Current					
18	Accounts payable and accrued charges (excluding derivative financial instruments)	713,374	121,705	128,627	60,224	1,023,930
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	92,676	461,694	91,793	209	646,372
	Non-current					
21	Long-term borrowings,promissory notes	282,490	1,569,153	907,203	36,997	2,795,843
	Total financial liabilities	**1,088,540**	**2,152,552**	**1,127,623**	**97,430**	**4,466,145**

See discussion of derivative financial instruments in Note 23.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in selected foreign currencies.

As of 31 December 2016, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 195,208 million, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. As of 31 December 2015, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 291,197 million, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. The effect of related Russian Ruble strengthening against the US dollar would have been approximately the same amount with opposite impact.

38 FINANCIAL RISK FACTORS (continued)

As of 31 December 2016, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 145,508 million, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. As of 31 December 2015, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 134,717 million, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. The effect of related Russian Ruble strengthening against the Euro would have been approximately the same amount with opposite impact.

(b) Cash flow and fair value interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group's interest rate risk primarily arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The table below summarises the balance between long-term borrowings at fixed and at variable interest rates:

Notes	Long-term borrowings and promissory notes	31 December	
		2016	2015 года
21	At fixed rate	2,086,181	2,431,823
21	At variable rate	682,810	958,390
		2,768,991	**3,390,213**

The Group does not have a formal policy of determining how much the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether obtaining financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

During the years ended 31 December 2016 and 31 December 2015 the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2016, if benchmark interest rates on borrowings had been 5 % higher with all other variables held constant, profit before profit tax would have been lower by RUB 34,141 million for 2016, mainly as a result of higher interest expense on floating rate borrowings. As of 31 December 2015, if benchmark interest rates on borrowings had been 5 % higher with all other variables held constant, profit before profit tax would have been lower by RUB 47,920 million for 2015, mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in benchmark interest rates is approximately equal and opposite.

(c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows.

The Group's overall strategy in production and sales of natural gas, crude oil and related products is centrally managed. Natural gas export prices to Europe and other countries are generally based on a formula linked to oil product prices, which in turn are linked to crude oil prices.

The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2016, if the average gas prices related to the export market had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 248,285 million for 2016. As of 31 December 2015, if the average gas prices related to the export market had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 262,164 million for 2015.

The Russian gas tariffs are regulated by the FAS and are as such less subject to significant price fluctuations.

The Group assesses on regular basis the potential scenarios of future fluctuation in commodity prices and their impacts on operational and investment decisions. However, in the current environment management estimates may materially differ from actual impact on the Group's financial position.

38 FINANCIAL RISK FACTORS (continued)

(d) Securities price risk

The Group is exposed to movements in the equity securities prices because of financial assets held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss (see Notes 9 and 17).

As of 31 December 2016 and 31 December 2015, if London Stock Exchange equity index, which affects the major part of Group's equity securities, had decreased by 20 % with all other variables held constant, assuming the Group's equity instruments moved according to the historically high correlation with the index, Group's total comprehensive income for the year would have been RUB 58,743 million and RUB 47,016 million lower, respectively.

The Group is also exposed to equity securities prices used to assess the fair value of pension plan assets held by NPF GAZFOND (see Note 24).

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations. The maximum exposure to credit risk is the value of the assets which might be lost.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable. Credit risks related to accounts receivable are systematically monitored, taking into account customer's financial position, past experience and other factors.

Management systematically reviews ageing analysis of receivables and uses this information for calculation of impairment provision (see Note 10, 16). Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customers default risk and country risk. Group operates with various customers and substantial part of sales relates to major customers.

Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash and cash equivalents are deposited only with banks that are considered by the Group to have a minimal risk of default.

The Group's maximum exposure to credit risk is presented in the table below.

Notes		31 December	
		2016	2015
8	Cash and cash equivalents	896,728	1,359,095
9	Debt securities	11,094	10,235
10, 16	Long-term and short-term trade and other accounts receivable	1,185,481	1,223,088
36	Financial guarantees	44,757	107,351
	Total maximum exposure to credit risk	**2,138,060**	**2,699,769**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group liquidity is managed centrally. The management of the Group monitors the planned cash inflow and outflow.

Important factor in the Group's liquidity risk management is an access to a wide range of funding through capital markets and banks. Management aims is to maintain flexibility in financing sources by having committed facilities available.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

38 FINANCIAL RISK FACTORS (continued)

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of 31 December 2016					
Short-term and long-term loans and borrowings and promissory notes	348,178	247,864	829,565	1,172,128	1,022,573
Accounts payable and accrued charges (excluding derivative financial instruments and provision under financial guarantees)	907,675	71,449	-	-	-
Financial guarantees	7,162	7,528	8,877	13,147	8,043
As of 31 December 2015					
Short-term and long-term loans and borrowings and promissory notes	437,493	389,112	627,330	1,726,618	1,285,790
Accounts payable and accrued charges (excluding derivative financial instruments and provision under financial guarantees)	875,809	86,717	-	-	-
Financial guarantees	69,090	2,229	5,915	14,927	15,190

The Group's borrowing facilities do not usually include financial covenants which could trigger accelerated reimbursement of financing facilities. For those borrowing facilities where the Group has financial covenants, the Group is in compliance. If the financial covenants are not met, the Group reclassifies long-term borrowing facilities into short-term.

Capital risk management

The Group considers equity and debt to be the principal elements of capital management. The Group's objectives when managing capital are to safeguard the Group's position as a leading global energy company by further increasing the reliability of natural gas supplies and diversifying activities in the energy sector, both in the domestic and foreign markets.

In order to maintain or adjust the capital structure, the Group may revise its investment program, attract new or repay existing loans and borrowings or sell certain non-core assets.

The Group considers its target debt to equity ratio at the level of not more than 40 %.

On the Group level capital is monitored on the basis of the net debt to adjusted EBITDA ratio. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt (short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable) less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

Adjusted EBITDA is calculated as operating profit less depreciation and less provision for impairment of assets and other provisions (excluding provisions for accounts receivable and prepayments).

The net debt to adjusted EBITDA ratios at 31 December 2016 and 31 December 2015 were as follows:

	31 December	
	2016	2015
Total debt	2,829,623	3,442,215
Less: cash and cash equivalents	(896,728)	(1,359,095)
Net debt	1,932,895	2,083,120
Adjusted EBITDA	1,322,199	1,874,726
Net debt / Adjusted EBITDA ratio	**1.46**	**1.11**

PJSC Gazprom has an investment grade credit rating of BB+ (stable outlook) by Standard & Poor's and BBB- (stable outlook) by Fitch Ratings as of 31 December 2016.

39 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

a) Financial instruments in Level 1

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

b) Financial instruments in Level 2

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

c) Financial instruments in Level 3

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

Long-term accounts receivables are fair valued at Level 3 (see Note 16), long-term borrowings – Level 2 (see Note 21).

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

		31 December 2016			
Notes		Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
9	**Financial assets held for trading:**				
	Bonds	10,976	-	-	10,976
	Equity securities	387	-	-	387
9	**Available-for-sale financial assets:**				
	Promissory notes	-	118	-	118
	Total short-term financial assets	**11,363**	**118**	**-**	**11,481**
17	**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**
23	Derivative financial instruments	16,931	81,110	3,545	101,586
	Total assets	**275,160**	**122,123**	**10,129**	**407,412**
23	Derivative financial instruments	11,922	135,648	2,819	150,389
	Total liabilities	**11,922**	**135,648**	**2,819**	**150,389**

39 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

The derivative financial instruments include natural gas purchase and sale contracts and are categorised in Levels 1, 2 and 3 of the fair value hierarchy. The contracts in Level 1 are valued using active market price of identical assets and liabilities. Due to absence of quoted prices or other observable, market-corroborated data the contracts in Level 2 are valued using models internally developed by the Group. These models include inputs such as: quoted forward prices, time value, volatility factors, current market prices, contractual prices and expected volumes of the underlying instruments. Where necessary, the price curves are extrapolated to the expiry of the contracts using all available external pricing information, historic and long-term pricing relationships. These valuations are categorised in Level 3.

Foreign currency hedge contracts are categorised in Level 2. The Group uses estimation of fair value of foreign currency hedge contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Group management. No significant ineffectiveness occurred during the reporting year.

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the period. For the year ended 31 December 2016 and 31 December 2015 the Group has reclassified available-for-sale investments losses from other comprehensive income into the profit or loss in the amount of RUB nil million and RUB 37 million, respectively.

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

40 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In connection with its derivative activities, the Group generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Group with the right to, in the event of a default by the counterparty (such as bankruptcy), net counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty.

The following financial assets and liabilities are subject to offsetting, enforceable master netting agreements and similar agreements:

40 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

	Gross amounts before offsetting	Amounts offset	Net amounts after offsetting in the consolidated balance sheet	Amounts subject to netting agreements
As of 31 December 2016				
Financial assets				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	2,152,468	309,718	1,842,750	41,835
Derivative financial instruments	580,355	478,769	101,586	60,855
Financial liabilities				
Accounts payable and accrued charges (excluding derivative financial instruments)	703,739	309,718	394,021	41,835
Derivative financial instruments	629,158	478,769	150,389	60,855
As of 31 December 2015				
Financial assets				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,377,852	156,312	1,221,540	-
Derivative financial instruments	733,689	554,049	179,640	26,284
Financial liabilities				
Accounts payable and accrued charges (excluding derivative financial instruments)	1,180,319	156,312	1,024,007	-
Derivative financial instruments	833,357	554,049	279,308	26,284

41 POST BALANCE SHEET EVENTS

Borrowings

In February 2017 the Group obtained a long-term loan from a consortium of banks in the total amount of EUR 800 million at an interest rate of EURIBOR + 2.6 % due in 2020 under the agreement concluded in December 2016. J.P. Morgan Europe Limited was appointed as a bank agent.

In February 2017 the Group issued Russian bonds in the total amount of RUB 30,000 million at an interest rate of 9.10 % due in 2024.

In March 2017 the Group obtained a long-term loan from Credit Agricole CIB in the amount of EUR 700 million at an interest rate of EURIBOR + 2.5 % due in 2022.

In March 2017 the Group obtained a long-term loan from Gazprombank (Joint-stock Company) in the amount of RUB 15,000 million at an interest rate of 10.25 % due in 2021.

In March 2017 the Group issued Loan Participation Notes in the amount of USD 750 million at an interest rate of 4.95 % due in 2027 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In April 2017 the Group issued Loan Participation Notes in the amount of 850 million of British Pounds Sterling at an interest rate of 4.25 % due in 2024 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In April 2017 the Group issued Russian bonds in the amount of RUB 15,000 million at an interest rate of 8.70 % due in 2022.

The Company may be contacted at its registered office:

PJSC Gazprom
Nametkina Str., 16
V-420, GSP-7, 117997, Moscow
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Telephone: +7 (812) 609-41-29
Facsimile: +7 (812) 609-43-34
www.gazprom.ru (in Russian)
www.gazprom.com (in English)

APPENDIX A

CERTAIN EXPLORATION AND PRODUCTION INFORMATION OF THE GROUP

Exploration activities

The following table sets forth the key figures of our geological exploration activities in Russia (excluding UGSFs wells drilling) for the periods indicated, excluding our joint operations:

	For the year ended December 31,		
	2017	**2016**	**2015**
Exploration drilling, thousand meters	85.9	111.6	143.6
Completed exploration wells, units	36	40	43
including successful wells	31	34	38
Seismic exploration 2D, thousand line km	—	1.1	0.3
Seismic exploration 3D, thousand km2	18.7	20.6	20.0

The following table sets forth the key figures of our joint operations' geological exploration activities in Russia (in the portion of 100%) for the periods indicated:

	For the year ended December 31,		
	2017	**2016**	**2015**
Exploration drilling, thousand meters	12.8	7.4	3.2
Completed exploration wells, units	4	2	1
including successful wells	4	1	1
Seismic exploration 2D, thousand km2	—	—	—
Seismic exploration 3D, thousand km2	0.2	0.1	0.5

The following table sets forth the key figures of our geological exploration activities outside Russia (excluding UGSFs wells drilling) with regard to the projects where we act as operator or exercise control for the periods indicated:

	For the year ended December 31,		
	2017	**2016**	**2015**
Exploration drilling, thousand meters	18.4	9.7	28.3
Completed exploration wells, units	8	8	4
including successful wells	5	7	2
Seismic exploration 2D, thousand line km	—	1.5	—
Seismic exploration 3D, thousand km2	1.2	0.8	1.4

Development activities

The following table sets forth the key figures of our geological development drilling in Russia (excluding UGSFs wells drilling) for the periods indicated, excluding our joint operations:

	For the year ended December 31,		
	2017	**2016**	**2015**
Constructed production wells, units			
Natural gas	116	64	73
Crude oil	660	725	802
Total	**776**	**789**	**875**
Penetration in production drilling, thousand m			
Natural gas	240.8	227.2	153.2
Crude oil	2,559.5	2,735.8	3,163.0
Total	**2,800.3**	**2,963.0**	**3,316.2**

The following table sets forth the key figures of our joint operations' geological development drilling in Russia (in the portion of 100%) for the periods indicated:

	For the year ended December 31,		
	2017	**2016**	**2015**
Constructed production wells, units			
Crude oil	236	231	206
Penetration in production drilling, thousand m			

Crude oil	784	785	789

The following table sets forth the key figures of our geological development drilling outside Russia (excluding UGSFs wells drilling) with regard to the projects where we act as operator or exercise control for the periods indicated:

	For the year ended December 31,		
	2017	**2016**	**2015**
Constructed production wells, units			
Natural gas	—	2	—
Crude oil	51	38	35
Total	**51**	**40**	**35**
Penetration in production drilling, thousand m			
Natural gas	2.1	1.6	—
Crude oil	67.5	40.9	75.0
Total	**69.6**	**42.5**	**75.0**

Production assets

The following table sets forth the key figures of our production assets in Russia for the periods indicated, excluding our joint operations:

	As of December 31,		
	2017	**2016**	**2015**
Producing fields, units	**154**	**151**	**146**
Gas production wells, units	**7,945**	**7,916**	**7,881**
including those in operation	7,438	7,441	7,358
Oil production wells, units	**7,944**	**9,316**	**9,058**
including those in operation	7,358	8,681	8,461

The following table sets forth the key figures of our joint operations' production assets (in the portion of 100%) for the periods indicated:

	As of December 31,		
	2017	**2016**	**2015**
Producing fields, units	**41**	**42**	**41**
Gas production wells, units	**7**	**7**	**7**
including those in operation	1	3	3
Oil production wells, units	**3,810**	**3,733**	**3,768**
including those in operation	3,472	3,379	3,163

The following table sets forth the key figures of our production assets outside Russia with regard to the projects where we act as operator or exercise control, for the periods indicated:

	As of December 31,		
	2017	**2016**	**2015**
Producing fields, units	**48**	**47**	**53**
Gas production wells, units	**163**	**172**	**168**
including those in operation	81	81	74
Oil production wells, units	**946**	**931**	**963**
including those in operation	737	681	661

Appendix B

DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

January 25, 2019

PJSC Gazprom
16A, Nametkina Street
117997, Moscow B-420
Russian Federation

Ladies and Gentlemen:

Pursuant to your request, we have prepared estimates, as of December 31, 2017, of the extent and value of the proved and probable gas, oil, condensate, gas liquids, sulfur, and helium reserves owned or controlled by PJSC Gazprom (Gazprom) through its subsidiaries and associations. These estimates are presented in our "Report as of December 31, 2017 on Reserves and Revenue owned or controlled by PJSC Gazprom in Certain Fields in the Russian Federation PRMS Case Executive Summary" (the Gazprom Report) and our "Report as of December 31, 2017 on Reserves and Revenue in Certain Fields owned by PJSC Gazprom Neft PRMS Case" (the Gazprom Neft Report). Gazprom and PJSC Gazprom Neft (Gazprom Neft) are referred to collectively herein as the "Gazprom Group." The fields evaluated are located in eastern Siberia, western Siberia, the Barents Sea, the Pechora Sea, the Tomsk region, offshore Sakhalin Island, and the Volga-Ural Province of the Russian Federation.

Gazprom has represented that it owns a 49-percent interest in and controls the management of the producing company CJSC Purgaz, which owns 100 percent of the license of the Gubkinskoye field. Gazprom also has represented that it owns a 40-percent interest in and controls the management of the producing company OJSC Severneftegazprom, which owns 100 percent of the license of the Yuzhno Russkoye field. As a result, 100 percent of the reserves of the Gubkinskoye and Yuzhno Russkoye fields, including those portions not owned by Gazprom, are reported herein as Gazprom net reserves. A detailed discussion of the Gazprom net reserves and associated values attributable to Gazprom is included in the Gazprom Report.

Gazprom has represented that it owns a 95.68-percent interest in and controls the management of Gazprom Neft. Gazprom Neft owns interests in certain fields either directly or through various subsidiary enterprises. All fields are held at 100 percent by the respective subsidiary enterprise. Gazprom Neft's ownership in all the subsidiary enterprises ranges between 87.5 and 100 percent, and Gazprom Neft controls the management of these subsidiaries. A detailed discussion of the reserves and associated values attributable to Gazprom Neft is included in the Gazprom Neft Report. The estimated Gazprom Neft reserves and associated values attributable to Gazprom Group are reported herein at 100 percent. The estimated Gazprom Neft reserves and values attributable to Gazprom Group through its relationship with Gazprom Neft are presented separately in the tables included herein.

The estimated proved and probable gas, oil, and gas liquids reserves owned or controlled by Gazprom Group, as of December 31, 2017, in the fields evaluated in the Gazprom Report, expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3), or thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt), are summarized by subsidiary in the following tables. Estimates of sulfur reserves, expressed in thousands of United States tons (10^3U.S.t) and thousands of metric tons (10^3mt), are shown in Attachment I. Estimates of helium reserves, expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3), are also shown in Attachment I.

Subsidiary	English Units Gazprom Net Separator Gas Reserves Total Proved ($10^6 ft^3$)	Probable ($10^6 ft^3$)	Proved plus Probable ($10^6 ft^3$)
LLC Gazprom dobycha Urengoi	78,644,334	15,544,315	94,188,649
LLC Gazprom dobycha Yamburg	93,304,592	17,399,587	110,704,179
LLC Gazprom dobycha Nadym	208,218,981	35,908,858	244,127,839
LLC Gazprom dobycha Noyabrsk	9,431,786	2,703,967	12,135,753
OJSC Severneftegazprom	14,474,902	4,430,237	18,905,139
LLC Gazprom dobycha Orenburg	5,301,583	4,632,280	9,933,863
LLC Gazprom dobycha Astrakhan	12,555,548	1,924,365	14,479,913
LLC Gazprom dobycha Kuznetsk	469,307	389,910	859,217
PJSC Gazprom	207,272,669	116,543,473	323,816,142
CJSC Purgaz	3,876,389	454,920	4,331,309
OJSC Tomskgazprom	323,689	483,162	806,851
Total	**633,873,780**	**200,415,074**	**834,288,854**

Subsidiary	Metric Units Gazprom Net Separator Gas Reserves Total Proved ($10^6 m^3$)	Probable ($10^6 m^3$)	Proved plus Probable ($10^6 m^3$)
LLC Gazprom dobycha Urengoi	2,226,958	440,165	2,667,123
LLC Gazprom dobycha Yamburg	2,642,090	492,699	3,134,789
LLC Gazprom dobycha Nadym	5,896,100	1,016,824	6,912,924
LLC Gazprom dobycha Noyabrsk	267,078	76,567	343,645
OJSC Severneftegazprom	409,883	125,451	535,334
LLC Gazprom dobycha Orenburg	150,123	131,173	281,296
LLC Gazprom dobycha Astrakhan	355,533	54,492	410,025
LLC Gazprom dobycha Kuznetsk	13,290	11,041	24,331
PJSC Gazprom	5,869,301	3,300,140	9,169,441
CJSC Purgaz	109,767	12,882	122,649
OJSC Tomskgazprom	9,166	13,681	22,847
Total	**17,949,289**	**5,675,115**	**23,624,404**

Notes:
1. Probable reserves have not been risk adjusted to make them comparable to proved reserves.
2. Reserves estimates for CJSC Purgaz include those reserves attributable to the 51-percent interest in CJSC Purgaz not owned by Gazprom.
3. Reserves estimates for OJSC Severneftegazprom include those reserves attributable to the 60-percent interest in OJSC Severneftegazprom not owned by Gazprom.

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The estimated proved and probable gas, oil, and gas liquids reserves owned or controlled by Gazprom Group, as of December 31, 2017, in the fields evaluated in the Gazprom Report, expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3), or thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt), are summarized by subsidiary in the following tables. Estimates of sulfur reserves, expressed in thousands of United States tons (10^3U.S.t) and thousands of metric tons (10^3mt), are shown in Attachment I. Estimates of helium reserves, expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3), are also shown in Attachment I.

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LLC Gazprom dobycha Noyabrsk	267,078	76,567	343,645
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LLC Gazprom dobycha Orenburg	150,123	131,173	281,296
LLC Gazprom dobycha Astrakhan	355,533	54,492	410,025
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Notes:
1. Probable reserves have not been risk adjusted to make them comparable to proved reserves.
2. Reserves estimates for CJSC Purgaz include those reserves attributable to the 51-percent interest in CJSC Purgaz not owned by Gazprom.
3. Reserves estimates for OJSC Severneftegazprom include those reserves attributable to the 60-percent interest in OJSC Severneftegazprom not owned by Gazprom.

Subsidiary	English Units Gazprom Net Oil Reserves Total Proved (10^3bbl)	Probable (10^3bbl)	Proved plus Probable (10^3bbl)
LLC Gazprom dobycha Urengoi	0	0	0
LLC Gazprom dobycha Yamburg	797	12,085	12,882
LLC Gazprom dobycha Nadym	0	0	0
LLC Gazprom dobycha Noyabrsk	0	0	0
OJSC Severneftegazprom	0	0	0
LLC Gazprom dobycha Orenburg	5,483	227,408	232,891
LLC Gazprom dobycha Astrakhan	0	0	0
LLC Gazprom dobycha Kuznetsk	0	0	0
PJSC Gazprom	111,702	103,511	215,213
CJSC Purgaz	0	0	0
OJSC Tomskgazprom	0	0	0
Total	**117,982**	**343,004**	**460,986**

Subsidiary	Metric Units Gazprom Net Oil Reserves Total Proved (10^3mt)	Probable (10^3mt)	Proved plus Probable (10^3mt)
LLC Gazprom dobycha Urengoi	0	0	0
LLC Gazprom dobycha Yamburg	112	1,703	1,815
LLC Gazprom dobycha Nadym	0	0	0
LLC Gazprom dobycha Noyabrsk	0	0	0
OJSC Severneftegazprom	0	0	0
LLC Gazprom dobycha Orenburg	732	30,371	31,103
LLC Gazprom dobycha Astrakhan	0	0	0
LLC Gazprom dobycha Kuznetsk	0	0	0
PJSC Gazprom	15,628	14,482	30,110
CJSC Purgaz	0	0	0
OJSC Tomskgazprom	0	0	0
Total	**16,472**	**46,556**	**63,028**

Note: Probable reserves have not been risk adjusted to make them comparable to proved reserves.

Subsidiary	English Units Gazprom Net Oil Reserves Total Proved (10^3bbl)	Probable (10^3bbl)	Proved plus Probable (10^3bbl)
LLC Gazprom dobycha Urengoi	0	0	0
LLC Gazprom dobycha Yamburg	797	12,085	12,882
LLC Gazprom dobycha Nadym	0	0	0
LLC Gazprom dobycha Noyabrsk	0	0	0
OJSC Severneftegazprom	0	0	0
LLC Gazprom dobycha Orenburg	5,483	227,408	232,891
LLC Gazprom dobycha Astrakhan	0	0	0
LLC Gazprom dobycha Kuznetsk	0	0	0
PJSC Gazprom	111,702	103,511	215,213
CJSC Purgaz	0	0	0
OJSC Tomskgazprom	0	0	0
Total	**117,982**	**343,004**	**460,986**

Subsidiary	Metric Units Gazprom Net Oil Reserves Total Proved (10^3mt)	Probable (10^3mt)	Proved plus Probable (10^3mt)
LLC Gazprom dobycha Urengoi	0	0	0
LLC Gazprom dobycha Yamburg	112	1,703	1,815
LLC Gazprom dobycha Nadym	0	0	0
LLC Gazprom dobycha Noyabrsk	0	0	0
OJSC Severneftegazprom	0	0	0
LLC Gazprom dobycha Orenburg	732	30,371	31,103
LLC Gazprom dobycha Astrakhan	0	0	0
LLC Gazprom dobycha Kuznetsk	0	0	0
PJSC Gazprom	15,628	14,482	30,110
CJSC Purgaz	0	0	0
OJSC Tomskgazprom	0	0	0
Total	**16,472**	**46,556**	**63,028**

Note: Probable reserves have not been risk adjusted to make them comparable to proved reserves.

Subsidiary	English Units Gazprom Net Gas Liquids Reserves Total Proved (10^3bbl)	Probable (10^3bbl)	Proved plus Probable (10^3bbl)
LLC Gazprom dobycha Urengoi	2,720,076	327,687	3,047,763
LLC Gazprom dobycha Yamburg	739,579	148,357	887,936
LLC Gazprom dobycha Nadym	374,064	322,290	696,354
LLC Gazprom dobycha Noyabrsk	0	0	0
OJSC Severneftegazprom	0	0	0
LLC Gazprom dobycha Orenburg	124,367	101,623	225,990
LLC Gazprom dobycha Astrakhan	1,352,839	210,102	1,562,941
LLC Gazprom dobycha Kuznetsk	0	0	0
PJSC Gazprom	1,185,724	1,386,555	2,572,279
CJSC Purgaz	0	0	0
OJSC Tomskgazprom	2,934	5,174	8,108
Total	**6,499,583**	**2,501,788**	**9,001,371**

Subsidiary	Metric Units Gazprom Net Gas Liquids Reserves Total Proved (10^3mt)	Probable (10^3mt)	Proved plus Probable (10^3mt)
LLC Gazprom dobycha Urengoi	328,907	39,677	368,584
LLC Gazprom dobycha Yamburg	90,159	17,960	108,119
LLC Gazprom dobycha Nadym	45,663	39,240	84,903
LLC Gazprom dobycha Noyabrsk	0	0	0
OJSC Severneftegazprom	0	0	0
LLC Gazprom dobycha Orenburg	15,027	12,280	27,307
LLC Gazprom dobycha Astrakhan	166,045	25,788	191,833
LLC Gazprom dobycha Kuznetsk	0	0	0
PJSC Gazprom	142,716	167,876	310,592
CJSC Purgaz	0	0	0
OJSC Tomskgazprom	354	626	980
Total	**788,871**	**303,447**	**1,092,318**

Note: Probable reserves have not been risk adjusted to make them comparable to proved reserves.

The estimated proved and probable gas, oil, and condensate reserves owned or controlled by Gazprom Group, as of December 31, 2017, in the fields evaluated in the Gazprom Neft Report, expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3), or thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt), are summarized as follows:

	English Units		
	Gazprom Neft Net Reserves		
	Total Proved	Probable	Proved plus Probable
Sales Gas, $10^6 ft^3$	9,584,930	6,707,746	16,292,676
Oil and Condensate, $10^3 bbl$	4,715,116	3,816,413	8,531,529

	Metric Units		
	Gazprom Neft Net Reserves		
	Total Proved	Probable	Proved plus Probable
Sales Gas, $10^6 m^3$	271,408	189,941	461,349
Oil and Condensate, $10^3 mt$	639,258	514,016	1,153,274

Notes:
1. Probable reserves have not been risk adjusted to make them comparable to proved reserves.
2. Reserves estimates for Gazprom Neft include those reserves attributable to the 4.32-percent interest in Gazprom Neft not owned by Gazprom.

The estimated Gazprom Group future net revenue and present worth to be derived from the production and sale of the proved and proved-plus-probable reserves owned or controlled by Gazprom Group in the fields evaluated in the Gazprom Report, as of December 31, 2017, are summarized below, expressed in thousands of United States dollars (10^3U.S.$). Values were estimated in United States dollars using the exchange rate of 60.3149 Russian rubles (₽) per U.S.$1.00. The values shown include the value of sulfur and helium reserves estimated for LLC Gazprom dobycha Orenburg, LLC Gazprom dobycha Astrakhan, and PJSC Gazprom in the Orenburg, Astrakhan, and Chayandinskoye fields, respectively, as shown in Attachment I.

	Gazprom			
	Future Net Revenue		Present Worth at 10 Percent	
Subsidiary	Total Proved (10^3U.S.$)	Proved plus Probable (10^3U.S.$)	Total Proved (10^3U.S.$)	Proved plus Probable (10^3U.S.$)
LLC Gazprom dobycha Urengoi	68,264,266	80,009,642	21,139,787	22,806,230
LLC Gazprom dobycha Yamburg	67,945,410	78,952,824	29,742,507	31,444,044
LLC Gazprom dobycha Nadym	122,735,456	141,935,282	30,853,258	32,094,273
LLC Gazprom dobycha Noyabrsk	6,077,937	8,085,265	3,091,979	3,577,396
OJSC Severneftegazprom	9,396,809	12,107,326	3,846,079	3,975,749
LLC Gazprom dobycha Orenburg	1,740,957	5,769,976	773,642	1,171,287
LLC Gazprom dobycha Astrakhan	21,282,310	24,958,359	3,962,810	4,027,560
LLC Gazprom dobycha Kuznetsk	83,469	358,024	(27,315)	58,680
PJSC Gazprom	273,871,238	430,824,905	6,206,950	14,182,767
CJSC Purgaz	3,038,515	3,432,360	1,558,028	1,589,951
OJSC Tomskgazprom	280,395	714,667	199,395	336,325
Total	**574,716,762**	**787,148,630**	**101,347,120**	**115,264,262**

Notes:

1. Values for probable reserves have not been risk adjusted to make them comparable to values for proved reserves.
2. Future net revenue and present worth include the value of sulfur and helium reserves from the Astrakhan, Chayandinskoye, and Orenburg fields, as shown in Attachment I.
3. The values shown for CJSC Purgaz include revenues attributable to the 51-percent interest in CJSC Purgaz not owned by Gazprom.
4. The values shown for OJSC Severneftegazprom include revenues attributable to the 60-percent interest in OJSC Severneftegazprom not owned by Gazprom.
5. In preparation of these estimates, future income tax expenses have been taken into account at the field level and for transportation of gas for export.

The estimated Gazprom Group future net revenue and present worth to be derived from the production and sale of the proved and proved-plus-probable reserves owned or controlled by Gazprom Group in the fields evaluated in the Gazprom Neft Report, as of December 31, 2017, are summarized below, expressed in thousands of United States dollars (10^3U.S.$). Values were estimated in United States dollars using an exchange rate of ₽61.000 per U.S.$1.00 in 2018, ₽58.000 per U.S.$1.00 in 2019, ₽55.500 per U.S.$1.00 in 2020, and ₽53.0000 per U.S.$1.00 in 2021 and thereafter.

Gazprom Neft			
Future Net Revenue		Present Worth at 10 Percent	
Total Proved (10^3U.S.$)	Proved plus Probable (10^3U.S.$)	Total Proved (10^3U.S.$)	Proved plus Probable (10^3U.S.$)
68,335,851	111,208,351	30,587,130	41,211,696

Notes:
1. Values for probable reserves have not been risk adjusted to make them comparable to values for proved reserves.
2. The values shown for Gazprom Neft include revenues attributable to the 4.32-percent interest in Gazprom Neft not owned by Gazprom.
3. In preparation of these estimates, future income tax expenses have been taken into account at the field level and for transportation of gas for export.

The estimates of Gazprom Group reserves, future net revenue, and present worth of future net revenue summarized are subject to the definitions, assumptions, qualifications, explanations, and conclusions expressed in the Gazprom Report and the Gazprom Neft Report. These summaries should be considered in view of the two reports and are susceptible to being misunderstood apart from these reports.

Very truly yours,

/s/ DeGolyer and MacNaughton

DeGOLYER and MacNAUGHTON
Texas Registered Engineering Firm F-716

Attachment

/s/ Gary L. McKenzie

Gary L. McKenzie, P.E.
[SEAL] Senior Vice President
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ATTACHMENT I
ESTIMATES
of
SULFUR and HELIUM RESERVES and REVENUE
owned by
PJSC GAZPROM
as of
DECEMBER 31, 2017

	Gazprom Net Sulfur Reserves		Gazprom Net Helium Reserves	
	English Units (10^3U.S.t)	Metric Units (10^3mt)	English Units (10^6ft^3)	Metric Units (10^6m^3)
Total Proved	243,900	221,265	39,411	1,116
Probable	40,564	36,799	67,506	1,912
Proved plus Probable	**284,464**	**258,064**	**106,917**	**3,028**

	Gazprom Sulfur and Helium Revenue	
	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
LLC Gazprom dobycha Astrakhan		
Total Proved	708,672	150,360
Probable	108,556	1,735
Proved plus Probable	**817,228**	**152,095**
LLC Gazprom dobycha Orenburg		
Total Proved	314,308	150,983
Probable	175,391	26,623
Proved plus Probable	**489,699**	**177,606**
PJSC Gazprom		
Total Proved	1,313,686	305,016
Probable	2,341,243	295,432
Proved plus Probable	**3,654,929**	**600,448**
Grand Totals		
Total Proved	**2,336,666**	**606,359**
Probable	**2,625,190**	**323,790**
Proved plus Probable	**4,961,856**	**930,149**

Notes:
1. Sulfur reserves are expressed as thousands of United States tons (10^3U.S.t) and thousands of metric tons (10^3mt).
2. All sulfur reserves are located in the Astrakhan and Orenburg fields.
3. Helium reserves are expressed as millions of cubic feet (10^6ft^3) and in millions of cubic meters (10^6m^3).
4. All helium reserves are located in the Chayandinskoye, Kovyktinskoye, and Orenburg fields.
5. Probable reserves and values for probable reserves have not been risk adjusted to make them comparable to proved reserves and values for proved reserves.
6. Reference our "Report as of December 31, 2017 on Reserves and Revenue owned or controlled by PJSC Gazprom in Certain Fields in the Russian Federation PRMS Case Executive Summary."

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