

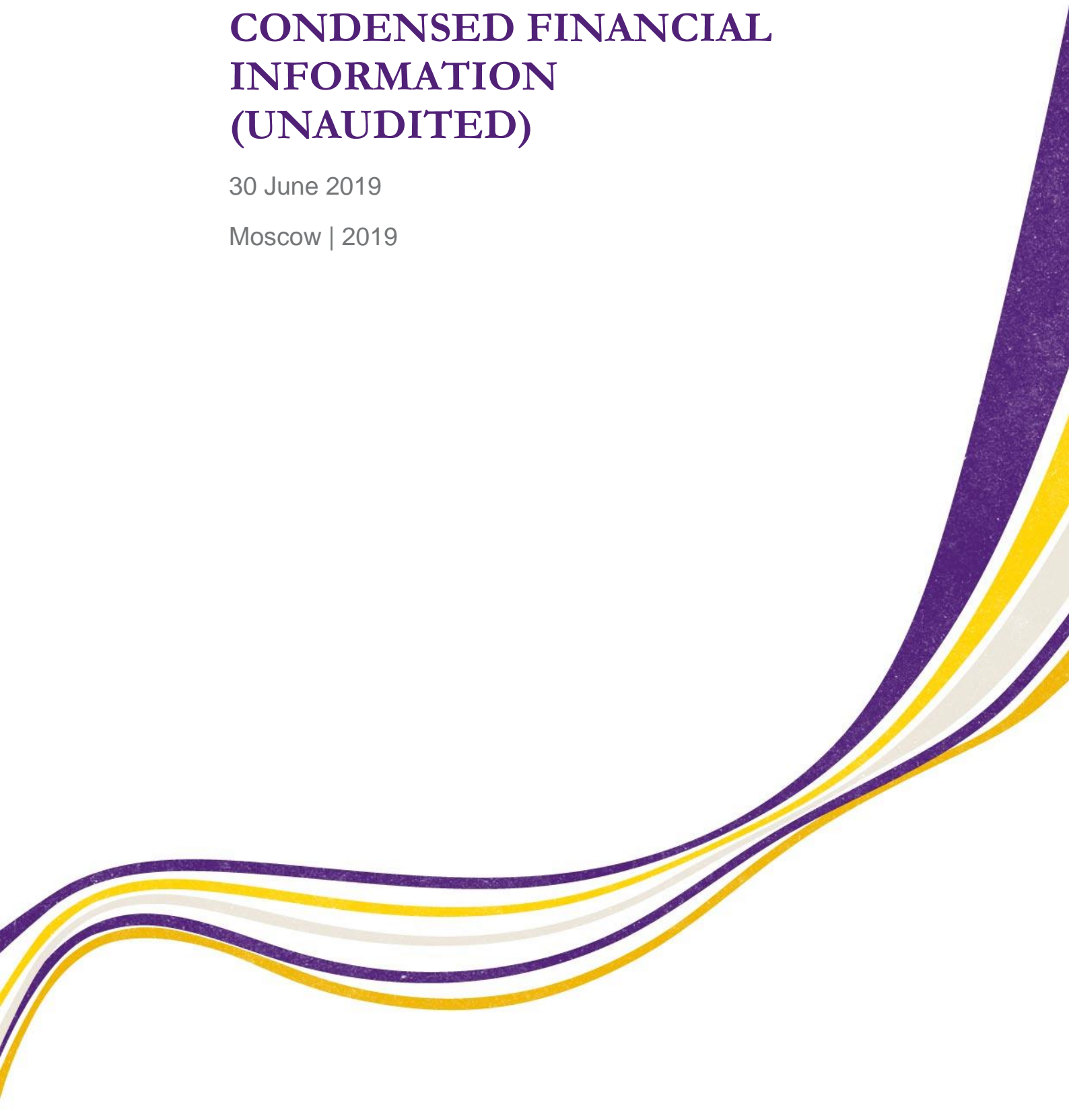
ФБК

PJSC GAZPROM

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

30 June 2019

Moscow | 2019



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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 June 2019 and the related consolidated interim condensed statement of comprehensive income for the three and six months ended 30 June 2019, consolidated interim condensed statements of cash flows and changes in equity for the six months ended 30 June 2019, 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 of interim financial information 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.

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

1 GENERAL INFORMATION

Public Joint Stock Company Gazprom (PJSC Gazprom) and its subsidiaries (the “Group” or “Gazprom Group”) operate one of the largest gas pipeline systems in the world, provide for the major part of natural gas production and high pressure gas transportation in the Russian Federation. The Group is also a major supplier of gas to European countries. The Group is engaged in oil production, oil refining, electric and heat energy generation. The 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, other works and rendering of other services.

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

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

The political and economic instability, the situation in Ukraine, the current situation with sanctions, uncertainty and volatility of financial and trade markets and other risks have had and may continue to have 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 June 2019 – 63.0756 (of 30 June 2018 – 62.7565);
- as of 31 December 2018 – 69.4706 (as of 31 December 2017 – 57.6002).

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 June 2019 – 71.8179 (as of 30 June 2018 – 72.9921);
- as of 31 December 2018 – 79.4605 (as of 31 December 2017 – 68.8668).

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. The 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 situation and the regulatory environment and their impact on the Group’s operations may differ from management’s current expectations.

3 BASIS OF PRESENTATION

This consolidated interim condensed financial information has been prepared in accordance with the 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 2018 prepared in accordance with International Financial Reporting Standards (“IFRS”).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL JUDGEMENTS AND ESTIMATES IN THEIR APPLICATION

The significant accounting policies followed by the Group and the critical accounting judgements and estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2018, except for the application of IFRS 16 Leases that became effective on 1 January 2019.

Profit tax for the interim periods is accrued using a tax rate that would be applicable to expected profit for the year.

Application of IFRS 16 Leases

The Group has applied IFRS 16 Leases since 1 January 2019. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases in financial statements.

The Group applied the retrospective approach, which means that the cumulative effect of initially applying IFRS 16 Leases was recognised at the date of initial application, i.e. 1 January 2019, without restatement of the comparative information.

The Group applied the following practical expedients:

- the standard was applied to contracts that had been previously identified as leases applying IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease and was not applied to contracts that had not been previously identified as containing a lease applying IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease;
- leases for which the lease term ends within 12 months of the date of initial application of the standard were recognised as short-term leases and expenses associated with those leases were included in the line “Rental expenses” within operating expenses in the consolidated interim condensed statement of comprehensive income;
- initial direct costs were excluded from the measurement of the right-of-use assets at the date of initial application;
- a single discount rate was applied to a portfolio of leases with similar characteristics.

The Group recognised lease liabilities at the date of initial application at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average incremental borrowing rate applied by the Group to lease liabilities at the date of initial application was 6.4 %.

For some leases the Group recognised right-of-use assets at the date of initial application at its carrying amount as if IFRS 16 Leases had been applied since the contract commencement date.

The difference between the carrying amount of assets and liabilities and their carrying amount at the date of initial application 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 2019.

The effect of the initial application of IFRS 16 Leases on the consolidated interim condensed balance sheet is provided in the table below.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL JUDGEMENTS AND ESTIMATES IN THEIR APPLICATION (continued)

Notes	31 December 2018	Effect of IFRS 16 Leases application	1 January 2019
Assets			
	1,222,735	17,046	1,239,781
9, 10	13,809,434	(41,082)	13,768,352
10	-	221,367	221,367
	<u>530,262</u>	<u>(15)</u>	<u>530,247</u>
	20,810,440	197,316	21,007,756
Liabilities and equity			
	1,522,101	32,339	1,554,440
15	748,751	(6,988)	741,763
	-	225,986	225,986
	<u>110,758</u>	<u>(23,835)</u>	<u>86,923</u>
	7,034,287	227,502	7,261,789
Equity			
	<u>13,210,734</u>	<u>(29,316)</u>	<u>13,181,418</u>
	13,300,009	(29,316)	13,270,693
	<u>476,144</u>	<u>(870)</u>	<u>475,274</u>
	13,776,153	(30,186)	13,745,967
	20,810,440	197,316	21,007,756

Accounting policy applied from 1 January 2019

At inception of a contract the Group estimates whether the contract contains a lease. A contract contains a lease if it contains enforceable rights and obligations under which the right to control the use of an identified asset is conveyed for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a lease liability at the commencement date – the date when the asset is available for use by the lessee.

Liabilities arising from a lease are initially measured at the present value of the lease payments that are not paid at that date. Lease liabilities include the value of the following payments:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate initially measured using the index or rate as of the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- penalties for early terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease payments are discounted using the Group's incremental borrowing rate, being the rate that as of the commencement date the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs;
- an estimate of costs of dismantling and removing the underlying asset, restoring the site on which it is located or the underlying asset.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL JUDGEMENTS AND ESTIMATES IN THEIR APPLICATION (continued)

The Group does not recognise a right-of-use asset and a lease liability for short-term leases, the term of which does not exceed 12 months, and for leased assets of low value.

A right-of-use asset is depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful life of an asset is determined on the same basis as of the fixed asset. In addition, the value of a right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

Application of Interpretations and Amendments to Standards

The following interpretation and amendments to current standards became effective after 1 January 2019:

- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual reporting 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 reporting 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 investments in the associate or joint venture should be accounted for in accordance with IFRS 9 Financial Instruments.
- The amendments to IFRS 9 Financial Instruments (issued in October 2017 and effective for annual reporting periods beginning on or after 1 January 2019). These amendments enable to measure at amortised cost some prepayable financial assets with negative compensation.
- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual reporting 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 reporting 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 12 Income Taxes (issued in December 2017 and effective for annual reporting periods beginning on or after 1 January 2019). These amendments clarify income tax consequences of payments on instruments classified as equity.
- The amendments to IAS 19 Employee Benefits (issued in February 2018 and effective for annual reporting periods beginning on or after 1 January 2019). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs.

The Group reviewed this interpretation and these amendments to standards while preparing the consolidated interim condensed financial information. The interpretation and amendments to standards have no significant impact on the Group's consolidated interim condensed financial information.

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

Certain amendments to standards have been issued that are mandatory for the annual periods beginning on or after 1 January 2020. In particular, the Group has not early adopted the following amendments to standards:

- The amendments to IFRS 3 Business Combinations (issued in October 2018 and effective for annual reporting 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.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL JUDGEMENTS AND ESTIMATES IN THEIR APPLICATION (continued)

- The amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (issued in October 2018 and apply for annual reporting periods beginning on or after 1 January 2020). The amendments clarify and bring into line the definition of the term “materiality”, as well as provide recommendations for improving the consistency in its application when referenced in IFRS.

The Group is currently assessing the impact of these amendments on its financial position and performance.

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”) make key decisions managing the Group’s activity, assess the performance and allocate resources using different internal financial information.

Based on that information the following reportable segments 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 gas 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 of the Group assess the performance, assets and liabilities of the reportable segments 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 reportable segments. Finance income and expense are not allocated to the reportable segments.

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5 SEGMENT INFORMATION (continued)

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Six months ended 30 June 2019									
Sales of segments	<u>537,552</u>	<u>555,312</u>	<u>2,281,529</u>	<u>27,415</u>	<u>804,293</u>	<u>1,047,505</u>	<u>277,895</u>	<u>161,315</u>	<u>5,692,816</u>
Inter-segment sales	525,190	445,158	154,297	25,275	421,346	4,134	-	-	1,575,400
External sales	12,362	110,154	2,127,232	2,140	382,947	1,043,371	277,895	161,315	4,117,416
Financial result of segments	42,848	37,283	502,495	3,172	192,126	34,790	41,974	(8,092)	846,596
Depreciation	87,766	241,367	9,193	14,075	72,869	28,667	29,522	24,602	508,061
Share of profit of associates and joint ventures	3,248	14,061	1,941	-	78,783	2,340	38	14,844	115,255
Six months ended 30 June 2018									
Sales of segments	<u>475,817</u>	<u>555,197</u>	<u>2,262,023</u>	<u>30,642</u>	<u>671,353</u>	<u>995,386</u>	<u>274,173</u>	<u>173,775</u>	<u>5,438,366</u>
Inter-segment sales	462,315	441,443	150,636	28,617	325,697	3,813	-	-	1,412,521
External sales	13,502	113,754	2,111,387	2,025	345,656	991,573	274,173	173,775	4,025,845
Financial result of segments	29,063	13,749	382,959	7,111	154,804	119,839	40,599	24,107	772,231
Depreciation	93,574	247,708	8,488	13,069	56,523	27,952	26,131	24,387	497,832
Share of profit (loss) of associates and joint ventures	3,636	12,325	(188)	-	68,321	2,303	82	5,104	91,583
Three months ended 30 June 2019									
Sales of segments	<u>255,750</u>	<u>284,716</u>	<u>886,455</u>	<u>14,793</u>	<u>405,041</u>	<u>538,310</u>	<u>104,482</u>	<u>78,437</u>	<u>2,567,984</u>
Inter-segment sales	249,409	230,063	57,025	13,812	212,483	1,848	-	-	764,640
External sales	6,341	54,653	829,430	981	192,558	536,462	104,482	78,437	1,803,344
Financial result of segments	20,029	30,954	159,380	2,245	95,421	25,369	8,999	(8,022)	334,375
Depreciation	43,857	120,456	5,152	6,510	36,330	16,682	12,142	12,576	253,705
Share of profit of associates and joint ventures	1,260	6,243	1,215	-	35,300	1,250	14	6,041	51,323
Three months ended 30 June 2018									
Sales of segments	<u>242,542</u>	<u>281,542</u>	<u>949,964</u>	<u>16,175</u>	<u>356,997</u>	<u>523,880</u>	<u>98,687</u>	<u>83,238</u>	<u>2,553,025</u>
Inter-segment sales	235,621	226,441	52,521	15,230	161,813	1,851	-	-	693,477
External sales	6,921	55,101	897,443	945	195,184	522,029	98,687	83,238	1,859,548
Financial result of segments	20,543	6,522	145,466	3,870	79,930	91,937	4,198	14,324	366,790
Depreciation	47,493	124,970	4,243	6,592	28,043	12,329	13,186	13,807	250,663
Share of profit (loss) of associates and joint ventures	1,941	6,582	947	-	40,201	1,541	19	(3,328)	47,903

Sales of Production of gas and Distribution of gas segments compose gas sales, sales of Gas storage segment are included in other sales.

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5 SEGMENT INFORMATION (continued)

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 June		Six months ended 30 June	
	2019	2018	2019	2018
	342,397	352,466	854,688	748,124
	(8,022)	14,324	(8,092)	24,107
	334,375	366,790	846,596	772,231
	78,482	90,402	160,186	179,285
	(1,855)	(4,980)	(1,198)	(7,816)
19	39,913	(118,850)	229,145	(134,893)
11	51,323	47,903	115,255	91,583
18	(2,987)	(3,703)	(10,051)	(16,155)
	(85,899)	(36,817)	(214,655)	(48,272)
	413,352	340,745	1,125,278	835,963

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 are not recorded in accounting reports under Russian statutory accounting.

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 June		Six months ended 30 June	
	2019	2018	2019	2018
External sales of reportable segments	1,724,907	1,776,310	3,956,101	3,852,070
External sales of other segments	78,437	83,238	161,315	173,775
Total external sales of segments	1,803,344	1,859,548	4,117,416	4,025,845
Differences in external sales ¹	(18,414)	(26,324)	(40,665)	(54,290)
Total sales in the consolidated interim condensed statement of comprehensive income	1,784,930	1,833,224	4,076,751	3,971,555

¹ The differences in external sales relate to adjustments of external 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. Assets of segments 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	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
As of 30 June 2019									
Assets of segments	2,710,920	6,978,295	1,560,545	383,920	2,972,111	2,226,992	889,554	1,382,699	19,105,036
Investments in associates and joint ventures	16,280	186,923	19,997	2	564,958	21,536	1,447	349,026	1,160,169
Capital expenditures ¹	97,292	191,304	8,233	5,655	118,150	147,831	26,144	62,573	657,182
As of 31 December 2018									
Assets of segments	2,743,944	7,023,399	1,719,640	393,700	2,898,071	2,059,715	911,036	1,428,467	19,177,972
Investments in associates and joint ventures	25,211	200,307	21,476	2	570,760	20,714	1,517	257,459	1,097,446
Capital expenditures ²	308,007	640,063	39,078	19,391	257,932	309,417	72,907	149,089	1,795,884

¹ Capital expenditures for the six months ended 30 June 2019.

² Capital expenditures for the year ended 31 December 2018.

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

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5 SEGMENT INFORMATION (continued)

Notes	30 June 2019	31 December 2018
Assets of reportable segments	17,722,337	17,749,505
Assets of other segments	<u>1,382,699</u>	<u>1,428,467</u>
Total assets of segments	19,105,036	19,177,972
Difference in property, plant and equipment, net ¹	(1,430,002)	(1,602,553)
Borrowing costs capitalised	876,202	808,251
6 Cash and cash equivalents	1,153,970	849,419
Short-term financial assets	51,717	26,859
VAT recoverable	134,277	150,425
13 Other current assets	792,793	1,053,115
Right-of-use assets	77,068	-
Goodwill	107,596	108,097
22 Long-term financial assets	464,423	416,666
13 Other non-current assets	483,762	530,262
Inter-segment assets	(810,175)	(956,216)
Other	<u>275,981</u>	<u>248,143</u>
Total assets in the consolidated interim condensed balance sheet	21,282,648	20,810,440

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 are not recorded in accounting reports under Russian statutory accounting.

Liabilities of segments 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, long-term and short-term promissory notes payable and other non-current liabilities are not allocated to the reportable segments and managed on a central basis.

	30 June 2019	31 December 2018
Distribution of gas	823,635	905,778
Refining	541,751	546,611
Production of crude oil and gas condensate	289,225	216,553
Production of gas	225,630	314,613
Transportation	161,163	305,569
Electric and heat energy generation and sales	97,576	96,869
Gas storage	20,691	25,250
All other segments	<u>294,977</u>	<u>325,644</u>
Total liabilities of segments	2,454,648	2,736,887

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

Notes	30 June 2019	31 December 2018
Liabilities of reportable segments	2,159,671	2,411,243
Liabilities of other segments	<u>294,977</u>	<u>325,644</u>
Total liabilities of segments	2,454,648	2,736,887
Short-term lease liabilities	13,164	-
Current profit tax payable	10,628	34,708
Short-term borrowings, promissory notes and current portion of long-term borrowings	475,197	569,061
14 Long-term borrowings, promissory notes	3,235,416	3,294,761
21 Long-term provisions (except for provision for decommissioning and site restoration)	283,348	239,523
15 Deferred tax liabilities	786,552	748,751
Long-term lease liabilities	56,754	-
Other non-current liabilities	69,633	110,758
Dividends	381,376	7,586
Inter-segment liabilities	(810,175)	(956,216)
Other	<u>243,347</u>	<u>248,468</u>
Total liabilities in the consolidated interim condensed balance sheet	7,199,888	7,034,287

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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 June 2019	31 December 2018
Cash on hand and bank balances payable on demand	659,876	531,432
Term deposits with original maturity of three months or less	<u>494,094</u>	<u>317,987</u>
Total cash and cash equivalents	<u>1,153,970</u>	<u>849,419</u>

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2019	31 December 2018
Trade accounts receivable	630,490	912,109
Advances paid and prepayments	111,686	80,241
Other accounts receivable	134,881	159,494
Loans receivable	<u>79,271</u>	<u>70,891</u>
Total accounts receivable and prepayments	<u>956,328</u>	<u>1,222,735</u>

Accounts receivable are presented net of allowance for expected credit losses in the amount of RUB 1,002,947 million and RUB 993,032 million, advances paid and prepayments are presented net of impairment allowance in the amount of RUB 12,531 million and RUB 12,314 million as of 30 June 2019 and 31 December 2018, respectively.

Accounts receivable due from NJSC Naftogaz Ukraine in relation to gas sales are RUB nil million as of 30 June 2019 and 31 December 2018 net of allowance for expected credit losses in the amount of RUB 161,669 million and RUB 147,241 million as of 30 June 2019 and 31 December 2018, respectively.

8 INVENTORIES

Inventories are presented net of allowance for obsolescence of RUB 5,471 million and RUB 5,572 million as of 30 June 2019 and 31 December 2018, respectively.

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9 PROPERTY, PLANT AND EQUIPMENT

Notes	Operating assets (including production licences)	Social assets	Assets under construction	Total
As of 31 December 2017				
Cost	15,164,745	96,791	3,384,995	18,646,531
Accumulated depreciation	<u>(6,058,116)</u>	<u>(43,336)</u>	-	<u>(6,101,452)</u>
Net book value as of 31 December 2017	9,106,629	53,455	3,384,995	12,545,079
Six months ended 30 June 2018				
Net book value as of 31 December 2017	9,106,629	53,455	3,384,995	12,545,079
Depreciation	(314,485)	(1,169)	-	(315,654)
Additions	42,440	-	717,786	760,226
Translation differences	42,175	50	33,884	76,109
Transfers	134,184	414	(134,598)	-
Disposals	(11,212)	(9,794)	(10,844)	(31,850)
Change in impairment allowance	-	-	<u>(4,322)</u>	<u>(4,322)</u>
Net book value as of 30 June 2018	8,999,731	42,956	3,986,901	13,029,588
Six months ended 31 December 2018				
Net book value as of 30 June 2018	8,999,731	42,956	3,986,901	13,029,588
Depreciation	(326,481)	(1,288)	-	(327,769)
Additions	9,958	-	1,181,108	1,191,066
Translation differences	54,582	110	64,851	119,543
Transfers	927,278	2,793	(930,071)	-
Disposals	(157,729)	(1,390)	(26,789)	(185,908)
Change in impairment allowance	<u>(26,291)</u>	-	9,205	<u>(17,086)</u>
Net book value as of 31 December 2018	9,481,048	43,181	4,285,205	13,809,434
As of 31 December 2018				
Cost	16,142,507	88,479	4,285,205	20,516,191
Accumulated depreciation	<u>(6,661,459)</u>	<u>(45,298)</u>	-	<u>(6,706,757)</u>
Net book value as of 31 December 2018	9,481,048	43,181	4,285,205	13,809,434
Six months ended 30 June 2019				
Net book value as of 31 December 2018	9,481,048	43,181	4,285,205	13,809,434
4 Reclassification to right-of-use assets	(41,082)	-	-	(41,082)
Net book value as of 1 January 2019	9,439,966	43,181	4,285,205	13,768,352
Depreciation	(333,085)	(1,212)	-	(334,297)
Additions	20,581	1	740,233	760,815
Translation differences	(56,835)	(171)	(87,018)	(144,024)
Transfers	303,867	1,385	(305,252)	-
Disposals	(25,377)	(380)	(12,744)	(38,501)
Change in impairment allowance	-	-	<u>(3,472)</u>	<u>(3,472)</u>
Net book value as of 30 June 2019	9,349,117	42,804	4,616,952	14,008,873
As of 30 June 2019				
Cost	16,190,075	88,133	4,616,952	20,895,160
Accumulated depreciation	<u>(6,840,958)</u>	<u>(45,329)</u>	-	<u>(6,886,287)</u>
Net book value as of 30 June 2019	9,349,117	42,804	4,616,952	14,008,873

Operating property, plant and equipment are presented net of allowance for impairment of RUB 205,004 million and RUB 214,222 million as of 30 June 2019 and 31 December 2018, respectively.

Assets under construction are presented net of allowance for impairment of RUB 185,819 million and RUB 191,326 million as of 30 June 2019 and 31 December 2018, respectively. The change in impairment allowance of assets under construction is mainly attributable to translation differences.

Included in the property, plant and equipment, social assets (rest houses, housing, schools and medical facilities) which were vested to the Group at privatisation have a net book value of RUB 59 million and RUB 69 million as of 30 June 2019 and 31 December 2018, respectively.

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10 RIGHT-OF-USE ASSETS

	<u>Operating assets</u>	<u>Social assets</u>	<u>Total</u>
Six months ended 30 June 2019			
Net book value as of 31 December 2018	-	-	-
Initial recognition	148,877	31,408	180,285
Reclassification from property, plant and equipment	<u>41,082</u>	<u>-</u>	<u>41,082</u>
Net book value as of 1 January 2019	189,959	31,408	221,367
Reclassification	25,992	(25,992)	-
Depreciation	(16,160)	(437)	(16,597)
Additions as a result of new leases	16,020	424	16,444
Effect of leases modification	2,624	(91)	2,533
Translation differences	<u>(5,435)</u>	<u>-</u>	<u>(5,435)</u>
Net book value as of 30 June 2019	213,000	5,312	218,312
As of 30 June 2019			
Cost	229,871	5,741	235,612
Accumulated depreciation	<u>(16,871)</u>	<u>(429)</u>	<u>(17,300)</u>
Net book value as of 30 June 2019	213,000	5,312	218,312

Right-of-use assets are mainly represented by leases of ships, used for transportation of condensed gas and oil products, and leases of properties and land occupied by operating assets.

The total cash outflow under lease agreements amounted to RUB 33,861 million for the six months ended 30 June 2019.

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11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Notes			Carrying value as of		Share of profit (loss) of associates and joint ventures for the six months ended	
			30 June 2019	31 December 2018	30 June 2019	30 June 2018
23, 24	Gazprombank (Joint-stock Company) and its subsidiaries	Associate	208,514	166,218	7,186	5,048
23, 24	Sakhalin Energy Investment Company Ltd.	Associate	194,601	196,679	33,066	30,493
23	PJSC NGK Slavneft and its subsidiaries	Joint venture	158,628	152,495	6,133	6,369
23	JSC Arcticgas ¹	Joint venture	124,019	146,246	20,107	17,653
23, 24	Nord Stream AG	Joint venture	84,122	100,138	9,424	8,771
23	WIGA Transport Beteiligungs- GmbH & Co. KG and its subsidiaries	Associate	54,690	55,867	4,474	3,009
23	JSC Messoyakhaneftegas	Joint venture	45,076	36,837	14,039	11,371
23	JSC Gazstroyprom	Associate	41,296	-	78	-
21, 23	JSC NPF GAZFOND ²	Associate	36,392	28,861	7,531	-
23	JSC Achimgaz	Joint venture	34,043	37,310	7,773	4,806
23	JSC EUROPOL GAZ	Associate	31,119	33,894	163	545
	Wintershall AG	Associate	16,204	18,026	(65)	145
23	KazRosGas LLP	Joint venture	12,335	11,758	1,682	(579)
23	CJSC Northgas	Joint venture	9,669	7,986	1,683	1,709
23	Wintershall Noordzee B.V.	Joint venture	7,458	8,125	75	75
	Other (net of allowance for investments impairment in the amount of RUB 23,548 million and RUB 26,092 million as of 30 June 2019 and 31 December 2018, respectively)		<u>102,003</u>	<u>97,006</u>	<u>1,906</u>	<u>2,168</u>
			1,160,169	1,097,446	115,255	91,583

¹ In January 2018 LLC Yamal razvitie and its subsidiary LLC SeverEnergy were reorganised by merging with JSC Arcticgas (a former subsidiary of LLC SeverEnergy).

² In December 2018 the Group as one of the founders of NPF GAZFOND became the owner of 31 % of ordinary registered shares of JSC NPF GAZFOND established as a result of the reorganisation of NPF GAZFOND from a non-profit organisation to a joint-stock company. The Group's share in JSC NPF GAZFOND voting shares became 42 %.

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.

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11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

This financial information may differ from the financial statements of an associate or a joint venture prepared and presented in accordance with IFRS due to adjustments required in application of the equity method, such as fair value adjustments to identifiable assets and liabilities at the date of acquisition and adjustments for differences in accounting policies.

	Ownership interest as of 30 June 2019, %	Country of primary operations	As of 30 June 2019		Six months ended 30 June 2019	
			Assets	Liabilities	Revenues	Profit (loss)
Gazprombank (Joint-stock Company) and its subsidiaries ^{1,2}	48	Russia	5,986,876	5,376,915	135,276	36,186
Sakhalin Energy Investment Company Ltd. ³	50	Russia	936,123	546,922	192,884	66,133
PJSC NGK Slavneft and its subsidiaries	50	Russia	587,826	269,891	157,300	12,800
JSC NPF GAZFOND ²	42	Russia	447,955	360,305	-	18,138
		Russia,				
Nord Stream AG ^{4,5}	51	Germany	423,502	258,555	39,621	18,478
JSC Arcticgas	50	Russia	413,581	185,746	99,655	40,213
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50	Germany	310,424	178,123	40,210	8,970
JSC Gazstroyprom	49	Russia	301,578	217,301	32,466	34
JSC Messoyakhaneftegas	50	Russia	226,878	137,145	68,932	28,078
JSC Achimgaz	50	Russia	103,627	35,541	32,026	15,544
Wintershall AG ⁶	49	Libya	70,118	46,626	3,963	(132)
JSC EUROPOL GAZ	48	Poland	66,769	1,939	8,515	345
CJSC Northgas	50	Russia	46,848	26,574	10,816	3,366
Wintershall Noordzee B.V.	50	Netherlands	46,797	33,600	4,618	149
KazRosGaz LLP	50	Kazakhstan	28,866	4,197	24,870	3,364

	Ownership interest as of 31 December 2018, %	Country of primary operations	As of 31 December 2018		Six months ended 30 June 2018	
			Assets	Liabilities	Revenues	Profit (loss)
Gazprombank (Joint-stock Company) and its subsidiaries ^{1,2}	48	Russia	6,437,702	5,915,343	124,767	24,246
Sakhalin Energy Investment Company Ltd. ³	50	Russia	1,102,931	709,575	192,448	60,986
PJSC NGK Slavneft and its subsidiaries	50	Russia	551,546	246,963	148,009	13,359
		Russia,				
Nord Stream AG ^{4,5}	51	Germany	489,723	293,372	38,682	17,197
JSC Arcticgas	50	Russia	439,148	168,497	94,019	36,226
JSC NPF GAZFOND ²	42	Russia	427,516	358,003	-	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50	Germany	321,523	188,493	30,445	6,137
JSC Messoyakhaneftegas	50	Russia	202,430	129,175	54,086	22,742
JSC Achimgaz	50	Russia	93,125	18,504	16,491	9,611
Wintershall AG ⁶	49	Libya	78,622	53,527	5,371	295
JSC EUROPOL GAZ	48	Poland	72,453	1,843	7,983	1,095
Wintershall Noordzee B.V.	50	Netherlands	54,408	39,943	6,625	150
CJSC Northgas	50	Russia	46,496	29,589	11,081	3,419
KazRosGaz LLP	50	Kazakhstan	27,622	4,106	22,601	(259)

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

² Share in voting shares.

³ Incorporated in Bermuda Islands.

⁴ Incorporated in Switzerland.

⁵ The investment in the entity is accounted for using the equity method, as the Group has no control over activities of the entity in accordance with provisions of its constituent documents.

⁶ Incorporated in Germany.

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12 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2019	31 December 2018
Advances for assets under construction	500,383	464,183
Long-term accounts receivable	340,887	151,131
Long-term prepayments	20,414	20,991
Sub-lease long-term accounts receivable	<u>16,029</u>	<u>-</u>
Total long-term accounts receivable and prepayments	877,713	636,305

Long-term accounts receivable are presented net of allowance for expected credit losses in the amount of RUB 10,289 million and RUB 12,031 million as of 30 June 2019 and 31 December 2018, respectively. Prepayments and advances paid for assets under construction are presented net of impairment allowance in the amount of RUB 8,019 million and RUB 7,868 million as of 30 June 2019 and 31 December 2018, respectively.

13 OTHER CURRENT AND NON-CURRENT ASSETS

Other current assets are provided in the table below.

Notes	30 June 2019	31 December 2018
Short-term deposits	486,569	796,140
Prepaid VAT	117,744	119,208
22 Derivative financial instruments	101,977	107,868
Prepaid profit tax	59,074	6,117
Other	<u>27,429</u>	<u>23,782</u>
Total other current assets	792,793	1,053,115

Other non-current assets are provided in the table below.

Notes	30 June 2019	31 December 2018
21 Net pension plan assets	102,498	140,878
Intangible assets	50,372	52,753
VAT related to assets under construction	39,521	41,905
22 Derivative financial instruments	26,932	37,393
Long-term deposits	185	1,432
Other	<u>264,254</u>	<u>255,901</u>
Total other non-current assets	483,762	530,262

14 LONG-TERM BORROWINGS, PROMISSORY NOTES

	Currency	Final maturity	30 June 2019	31 December 2018
Long-term borrowings, promissory notes:				
Gazprombank (Joint-stock Company)	Russian Ruble	2027	99,133	-
Loan participation notes issued in September 2012 ¹	US Dollar	2022	95,775	105,485
Loan participation notes issued in November 2013 ¹	US Dollar	2023	95,133	104,779
Intesa Sanpaolo Bank Luxembourg S.A.	Euro	2023	85,759	94,883
Loan participation notes issued in March 2007 ²	US Dollar	2022	83,689	92,174
Bank of China Limited, London branch	Euro	2021	82,073	113,580
Loan participation notes issued in August 2007 ²	US Dollar	2037	80,999	89,212
Loan participation notes issued in February 2019 ²	US Dollar	2026	79,681	-
J.P. Morgan Europe Limited ³	Euro	2023	78,692	87,087
Loan participation notes issued in April 2004 ²	US Dollar	2034	76,833	84,622
Loan participation notes issued in November 2016 ²	Euro	2023	72,759	79,268
Loan participation notes issued in March 2013 ²	Euro	2020	72,505	81,578
Loan participation notes issued in November 2018 ²	Euro	2024	72,093	79,045
J.P. Morgan Europe Limited ³	Euro	2022	71,402	78,987
	British Pound			
Loan participation notes issued in April 2017 ^{2, 4}	Sterling	2024	70,522	78,028
Loan participation notes issued in July 2012 ²	US Dollar	2022	64,481	71,018

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	Currency	Final maturity	30 June 2019	31 December 2018
Loan participation notes issued in February 2013 ²	US Dollar	2028	57,900	63,770
Intesa Sanpaolo Bank Luxembourg S.A. ³	Euro	2021	56,319	-
Loan participation notes issued in February 2014 ²	Euro	2021	54,527	61,412
Loan participation notes issued in November 2017 ²	Euro	2024	54,140	59,243
Loan participation notes issued in March 2018 ²	Euro	2026	53,752	60,239
Loan participation notes issued in February 2013 ²	US Dollar	2020	51,243	56,438
UniCredit S.p.A.	Euro	2025	50,085	55,427
UniCredit S.p.A.	Euro	2022	50,016	55,329
Loan participation notes issued in March 2018 ²	Swiss Franc	2023	48,419	53,161
Loan participation notes issued in March 2017 ²	US Dollar	2027	47,507	52,340
	British Pound			
Loan participation notes issued in September 2013 ^{2,4}	Sterling	2020	43,435	48,058
Credit Agricole CIB	Euro	2022	43,144	55,722
Credit Agricole CIB	Euro	2023	42,906	47,467
China Construction Bank Corporation, Beijing branch ³	US Dollar	2020	41,679	61,151
Loan participation notes issued in November 2011 ²	US Dollar	2021	38,842	42,780
Loan issued in December 2018 ⁵	Japanese yen	2028	37,570	40,411
Loan participation notes issued in March 2013 ²	Euro	2025	36,347	41,089
MUFG Bank Ltd.	Euro	2023	35,630	-
Natixis ³	Euro	2024	35,606	-
Loan participation notes issued in November 2016 ^{2,4}	Swiss Franc	2021	33,847	36,943
Loan participation notes issued in July 2017 ^{2,4}	Swiss Franc	2022	33,088	36,207
Loan participation notes issued in October 2013 ²	Swiss Franc	2019	32,997	35,474
PJSC Sberbank	Euro	2023	32,049	29,861
Wintershall Nederland Transport and Trading B.V. ⁶	Euro	2019	30,799	26,245
OMV Gas Marketing Trading & Finance B.V. ⁶	Euro	2019	30,799	26,245
Uniper Gas Transportation and Finance B.V. ⁶	Euro	2019	30,799	26,245
Shell Exploration and Production (LXXI) B.V. ⁶	Euro	2019	30,799	26,245
Engie Energy Management Holding Switzerland AG ⁶	Euro	2019	30,799	26,243
Citibank Europ plc ³	Euro	2023	30,314	33,537
ING Bank, a branch of ING-DiBa AG	Euro	2023	28,571	31,611
J.P. Morgan Europe Limited ³	Euro	2020	28,445	42,007
Wintershall Nederland Transport and Trading B.V. ⁶	Euro	2035	25,990	26,978
Uniper Gas Transportation and Finance B.V. ⁶	Euro	2035	25,990	26,978
OMV Gas Marketing Trading & Finance B.V. ⁶	Euro	2035	25,989	26,975
Shell Exploration and Production (LXXI) B.V. ⁶	Euro	2035	25,989	26,975
Engie Energy Management Holding Switzerland AG ⁶	Euro	2035	25,988	26,975
Russian bonds issued in March 2018 ¹	Russian Ruble	2024	25,533	25,538
Russian bonds issued in October 2017 ¹	Russian Ruble	2022	25,371	25,376
UniCredit S.p.A. ³	Euro	2021	24,957	6,339
JSC ALFA-BANK	US Dollar	2021	23,352	27,803
PJSC Sberbank	Euro	2022	17,532	19,149
PJSC Sberbank	Euro	2020	17,299	19,143
VTB Bank (Europe) SE	Euro	2027	17,248	20,276
Russian bonds issued in July 2018 ⁷	Russian Ruble	2048	15,506	15,509
Russian bonds issued in July 2018 ⁷	Russian Ruble	2048	15,506	15,509
Russian bonds issued in February 2017 ⁸	Russian Ruble	2027	15,501	15,505
Russian bonds issued in February 2017 ⁸	Russian Ruble	2027	15,501	15,505
Russian bonds issued in August 2017 ¹	Russian Ruble	2024	15,480	15,482
UniCredit Bank Austria AG	Euro	2021	15,352	21,254
JSC BANK "ROSSIYA"	Russian Ruble	2022	15,285	15,281
Russian bonds issued in April 2017 ¹	Russian Ruble	2022	15,281	15,282
Russian bonds issued in November 2013 ⁷	Russian Ruble	2043	15,099	15,074
Russian bonds issued in November 2013 ⁷	Russian Ruble	2043	15,099	15,074
Russian bonds issued in June 2019 ⁸	Russian Ruble	2022	15,082	-

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14 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	30 June 2019	31 December 2018
Gazprombank (Joint-stock Company)	Russian Ruble	2025	15,000	15,000
Gazprombank (Joint-stock Company)	Russian Ruble	2021	15,000	15,000
Deutsche Bank Luxembourg S.A.	Euro	2022	14,410	15,943
Russian bonds issued in July 2018 ⁷	Russian Ruble	2033	10,337	10,340
Russian bonds issued in August 2016 ¹	Russian Ruble	2046	10,319	10,322
Russian bonds issued in February 2011 ¹	Russian Ruble	2021	10,317	10,319
BNP Paribas S.A. ³	Euro	2022	10,271	12,986
Russian bonds issued in February 2018 ⁸	Russian Ruble	2028	10,243	10,245
Russian bonds issued in February 2018 ⁸	Russian Ruble	2028	10,243	10,245
Russian bonds issued in December 2017 ¹	Russian Ruble	2024	10,021	10,023
JSC ALFA-BANK	Russian Ruble	2023	10,004	10,007
Russian bonds issued in June 2016 ¹	Russian Ruble	2046	1,184	10,067
Loan participation notes issued in April 2009 ²	US Dollar	2019	-	159,040
Gazprombank (Joint-stock Company)	US Dollar	2019	-	25,009
Gazprombank (Joint-stock Company)	US Dollar	2019	-	22,925
Mizuho Bank Ltd. ³	US Dollar	2019	-	17,339
Other long-term borrowings, promissory notes	Various	Various	<u>546,424</u>	<u>515,495</u>
Total long-term borrowings, promissory notes			3,657,605	3,788,931
Less current portion of long-term borrowings			<u>(422,189)</u>	<u>(494,170)</u>
			3,235,416	3,294,761

¹ Issuer of these bonds is PJSC Gazprom Neft.

² Issuer of these bonds is Gaz Capital S.A. Bonds were issued under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

³ Loans received from consortiums of banks, named lender is the agent bank.

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 the achievement of a coefficient based on the ratio of currency exchange rates set in the agreements).

⁵ Issuer of these bonds is GazAsia Capital S.A.

⁶ Borrowings were obtained for financing of the Nord Stream 2 project.

⁷ Issuer of these bonds is PJSC Gazprom.

⁸ Issuer of these bonds is Gazprom capital LLC.

The analysis of maturity of long-term borrowings and promissory notes is presented in the table below.

Maturity of long-term borrowings, promissory notes	30 June 2019	31 December 2018
between one and two years	659,079	607,775
between two and five years	1,642,931	1,654,576
after five years	<u>933,406</u>	<u>1,032,410</u>
	3,235,416	3,294,761

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,447,202 million and RUB 2,709,599 million and fair value of RUB 2,633,819 million and RUB 2,831,050 million as of 30 June 2019 and 31 December 2018, respectively.

All other long-term liabilities have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 1,210,403 million and RUB 1,079,332 million and fair value is RUB 1,224,086 million and RUB 1,082,539 million as of 30 June 2019 and 31 December 2018, respectively.

As of 30 June 2019 and 31 December 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 the 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 and due in 2048 the issuer can execute the right of early redemption in July 2025.

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14 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

Under the terms of the Russian bonds with the nominal value of RUB 15,000 million issued by PJSC Gazprom in July 2018 and 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 and due in 2033 the issuer can execute the right of early redemption in July 2025.

Under the terms of the Russian bonds with the nominal value of RUB 30,000 million issued by Gazprom capital LLC in February 2018 and 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 and 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 and due in 2046 bondholders can execute the right of early redemption in August 2021 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 20).

15 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 six months ended 30 June 2019. Differences between the recognition criteria of assets and liabilities reflected in the consolidated interim condensed financial information 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 June 2019	Temporary differences recognition and reversal	1 January 2019	Effect of changes in accounting policies	31 December 2018	30 June 2018	Temporary differences recognition and reversal	31 December 2017
Tax effects of taxable temporary differences:								
Property, plant and equipment	(908,978)	(36,190)	(872,788)	2,619	(875,407)	(861,728)	(30,493)	(831,235)
Inventories	<u>3,406</u>	<u>(1,839)</u>	<u>5,245</u>	-	<u>5,245</u>	<u>(5,596)</u>	<u>3,311</u>	<u>(8,907)</u>
	(905,572)	(38,029)	(867,543)	2,619	(870,162)	(867,324)	(27,182)	(840,142)
Tax effects of deductible temporary differences:								
Financial assets	1,646	(67)	1,713	-	1,713	1,946	6,520	(4,574)
Tax losses carried forward	16,136	(710)	16,846	-	16,846	17,156	3,815	13,341
Retroactive gas price adjustments	8,391	1,732	6,659	-	6,659	7,966	(14,494)	22,460
Accounts receivable	80,290	(420)	80,710	-	80,710	60,338	13,267	47,071
Accounts payable	-	-	-	-	-	-	(53,859)	53,859
Other deductible temporary differences	<u>12,557</u>	<u>(7,295)</u>	<u>19,852</u>	<u>4,369</u>	<u>15,483</u>	<u>7,131</u>	<u>(1,441)</u>	<u>8,572</u>
	<u>119,020</u>	<u>(6,760)</u>	<u>125,780</u>	<u>4,369</u>	<u>121,411</u>	<u>94,537</u>	<u>(46,192)</u>	<u>140,729</u>
Total net deferred tax liabilities	(786,552)	(44,789)	(741,763)	6,988	(748,751)	(772,787)	(73,374)	(699,413)

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15 PROFIT TAX (continued)

Taxable temporary differences recognised for the six months ended 30 June 2019 and 30 June 2018 include the effect of depreciation premium on certain items of property, plant and equipment. The positive tax effect on these differences for the six months ended 30 June 2019 amounted to RUB 9,119 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 six months ended 30 June 2019. The negative tax effect on these differences for the six months ended 30 June 2018 was RUB 2,328 million and was offset by the increase in the current profit tax by the corresponding amount which did not have influence on profit for the six months ended 30 June 2018.

16 EQUITY

Share capital

The share capital authorised, issued and paid totals RUB 325,194 million as of 30 June 2019 and 31 December 2018 and consists of 23.7 billion ordinary shares, each with a par value of 5 Russian Rubles.

Treasury shares

As of 30 June 2019 and 31 December 2018 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.

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 June 2019 and 31 December 2018.

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

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17 **SALES**

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Gas sales gross of excise tax and customs duties:				
Russian Federation	169,326	158,218	518,256	508,765
Former Soviet Union (excluding Russian Federation)	68,687	59,966	202,637	183,779
Europe and other countries	<u>742,550</u>	<u>840,226</u>	<u>1,806,757</u>	<u>1,780,324</u>
	980,563	1,058,410	2,527,650	2,472,868
Customs duties	(139,275)	(179,942)	(363,524)	(359,664)
Excise tax	(13,526)	(11,707)	(32,541)	(26,110)
Retroactive gas price adjustments ¹	<u>8,009</u>	<u>37,603</u>	<u>8,009</u>	<u>37,795</u>
Total gas sales	835,771	904,364	2,139,594	2,124,889
Sales of refined products:				
Russian Federation	343,192	326,212	648,871	618,607
Former Soviet Union (excluding Russian Federation)	29,329	40,779	64,779	77,069
Europe and other countries	<u>163,941</u>	<u>155,038</u>	<u>329,721</u>	<u>295,897</u>
Total sales of refined products	536,462	522,029	1,043,371	991,573
Sales of crude oil and gas condensate:				
Russian Federation	16,432	20,501	32,932	31,391
Former Soviet Union (excluding Russian Federation)	12,997	9,819	22,741	19,084
Europe and other countries	<u>163,129</u>	<u>164,864</u>	<u>327,274</u>	<u>295,181</u>
Total sales of crude oil and gas condensate	192,558	195,184	382,947	345,656
Electric and heat energy sales:				
Russian Federation	100,375	94,667	265,889	265,339
Former Soviet Union (excluding the Russian Federation)	815	622	912	1,754
Europe and other countries	<u>3,292</u>	<u>3,398</u>	<u>11,094</u>	<u>7,080</u>
Total electric and heat energy sales	104,482	98,687	277,895	274,173
Gas transportation sales:				
Russian Federation	53,410	53,773	107,538	111,297
Former Soviet Union (excluding the Russian Federation)	664	733	1,434	1,424
Europe and other countries	<u>579</u>	<u>595</u>	<u>1,182</u>	<u>1,033</u>
Total gas transportation sales	54,653	55,101	110,154	113,754
Other sales:				
Russian Federation	50,376	45,916	101,187	96,770
Former Soviet Union (excluding the Russian Federation)	2,046	1,819	3,804	3,784
Europe and other countries	<u>8,582</u>	<u>10,124</u>	<u>17,799</u>	<u>20,956</u>
Total other sales	61,004	57,859	122,790	121,510
Total sales	1,784,930	1,833,224	4,076,751	3,971,555

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 negotiation. The effect of gas price adjustments, including corresponding impact on profit tax, is 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 six months ended 30 June 2019 recorded as an increase of sales by RUB 8,009 million.

The effects of retroactive gas price adjustments on sales for the three and six months ended 30 June 2018 recorded as an increase of sales by RUB 37,603 million and RUB 37,795 million, respectively.

The effects increasing sales were due to recognition of adjustments increasing gas prices for the past periods and due to change of related accruals following agreements reached prior to the issuance of the respective consolidated interim condensed financial information.

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18 OPERATING EXPENSES

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Taxes other than on profit	357,204	345,866	733,509	668,485
Purchased gas and oil	325,917	345,766	729,779	744,542
Staff costs	194,315	189,010	381,134	378,771
Depreciation	175,223	160,261	347,875	318,547
Transit of gas, oil and refined products	167,351	156,894	336,053	303,483
Materials	83,550	73,670	147,393	128,545
Cost of goods for resale, including refined products	69,780	61,625	125,846	123,749
Electricity and heating expenses	23,948	25,122	57,144	57,608
Repairs and maintenance	35,294	32,943	53,361	52,676
Foreign exchange rate differences on operating items	4,139	9,821	51,390	(8,791)
Social expenses	9,522	7,343	16,315	16,440
Insurance expenses	7,955	8,085	15,477	15,592
Rental expenses	5,581	9,699	12,884	19,466
Processing services	5,129	4,963	10,496	9,121
Derivatives loss	2,987	3,703	10,051	16,155
Transportation services	3,446	7,855	9,714	16,961
Research and development expenses	4,152	1,714	9,367	7,529
Impairment loss (reversal of impairment loss) on non-financial assets	(351)	1,505	1,802	5,158
Other	80,605	78,058	219,217	176,723
	1,555,747	1,523,903	3,268,807	3,050,760
Change in balances of finished goods, work in progress and other effects	<u>(141,276)</u>	<u>(139,600)</u>	<u>(72,120)</u>	<u>(15,111)</u>
Total operating expenses	1,414,471	1,384,303	3,196,687	3,035,649

Staff costs include RUB 8,713 million and RUB 17,322 million of expenses for provision for post-employment benefits for the three and six months ended 30 June 2019, respectively, and RUB 11,672 million and RUB 23,283 million of expenses for provision for post-employment benefits for the three and six months ended 30 June 2018, respectively (see Note 21).

19 FINANCE INCOME AND EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Foreign exchange gain	70,848	149,780	305,451	223,091
Interest income	<u>24,567</u>	<u>18,779</u>	<u>48,187</u>	<u>36,848</u>
Total finance income	95,415	168,559	353,638	259,939
Foreign exchange loss	36,346	274,744	86,964	369,153
Interest expense	<u>19,156</u>	<u>12,665</u>	<u>37,529</u>	<u>25,679</u>
Total finance expense	55,502	287,409	124,493	394,832

Total interest paid amounted to RUB 38,513 million and RUB 89,369 million for the three and six months ended 30 June 2019, respectively, and RUB 38,006 million and RUB 82,780 million for the three and six months ended 30 June 2018, respectively.

Interest expense includes interest expense on lease obligations under IFRS 16 Leases in the amount of RUB 4,386 million and RUB 8,371 million for the three and six months ended 30 June 2019, respectively.

Foreign exchange gain and loss for the six month ended 30 June 2019 and 30 June 2018 were recognised as a result of change in the Euro and US Dollar exchange rates against the Russian Ruble. Gain and loss primarily relate to revaluation of borrowings denominated in foreign currencies.

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20 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 by dividing the profit for the period 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 16).

The weighted average number of ordinary shares outstanding, excluding the weighted average number of treasury shares, was 22.1 billion for the three and six months ended 30 June 2019 and for the three and six months ended 30 June 2018.

There are no dilutive financial instruments outstanding in the Group.

21 PROVISIONS

	30 June 2019	31 December 2018
Provision for post-employment benefits	265,399	226,585
Provision for decommissioning and site restoration	168,539	166,799
Other	<u>17,949</u>	<u>12,938</u>
Total provisions	451,887	406,322

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. The defined benefit plan covers the majority of employees of the Group. These benefits include pension benefits provided by the non-governmental pension fund, JSC NPF GAZFOND, and post-employment benefits from the Group provided upon retirement.

The net pension plan assets related to benefits, provided by JSC NPF GAZFOND, are presented within other non-current assets in the consolidated interim condensed balance sheet in the amount of RUB 102,498 million and RUB 140,878 million as of 30 June 2019 and 31 December 2018, respectively (see Note 13).

In accordance with IAS 19 Employee Benefits, pension plan assets are recorded at estimated fair value subject to certain limitations. As of 30 June 2019 and 31 December 2018 management estimates the fair value of these assets at RUB 489,797 million and RUB 473,371 million, respectively. The pension plan assets comprise shares of Gazprombank (Joint-stock Company) and other assets held by JSC NPF GAZFOND.

Net liabilities or assets related to post-employment benefits recognised in the consolidated interim condensed balance sheet are presented below.

	30 June 2019		31 December 2018	
	Pension plan provided through JSC NPF GAZFOND	Other post- employment benefits	Pension plan provided through JSC NPF GAZFOND	Other post- employment benefits
Present value of obligations	(387,299)	(265,399)	(332,493)	(226,585)
Fair value of plan assets	<u>489,797</u>	<u>-</u>	<u>473,371</u>	<u>-</u>
Total net assets (liabilities)	102,498	(265,399)	140,878	(226,585)

Expenses for provision for post-employment benefits recognised in operating expenses are presented below (see Note 18).

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Current service cost	6,869	7,262	13,738	14,526
Net interest expense	<u>1,844</u>	<u>4,410</u>	<u>3,584</u>	<u>8,757</u>
Total expenses included in staff costs within operating expenses	8,713	11,672	17,322	23,283

The principal assumptions used for the measurement of post-employment benefit obligations for the three and six months ended 30 June 2019 were the same as those applied for the year ended 31 December 2018 with exception of the discount rate determined by reference to market yields on government securities. The decrease in the discount rate from 8.5 % to 7.5 % resulted in recognition of an actuarial loss in the amount of

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21 PROVISIONS (continued)

RUB 52,990 million in other comprehensive income for the three months ended 30 June 2019. The decrease in the discount rate from 8.8 % to 7.5 % resulted in recognition of an actuarial loss in the amount of RUB 68,410 million in other comprehensive income for the six months ended 30 June 2019. The increase in the discount rate from 7.3 % to 7.8 % resulted in recognition of an actuarial gain of RUB 30,985 million in other comprehensive income for the three months ended 30 June 2018. The increase in the discount rate from 7.6 % to 7.8 % resulted in recognition of an actuarial gain of RUB 11,336 million in other comprehensive income for the six months ended 30 June 2018.

Remeasurement of provision for post-employment benefits recognised in other comprehensive income is presented below.

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Actuarial (loss) gain	(52,990)	30,985	(68,410)	11,336
Return on plan assets excluding amounts included in interest expense	(797)	(4,164)	(9,848)	4,202
Translation differences	48	(115)	406	(195)
Total	(53,739)	26,706	(77,852)	15,343

22 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 flow 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 measure a financial instrument at fair value 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 12), long-term borrowings – Level 2 (see Note 14).

As of 30 June 2019 and 31 December 2018 the Group had the following assets and liabilities that are measured at fair value:

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22 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Notes	30 June 2019				
	Level 1	Level 2	Level 3	Total	
	Financial assets measured at fair value with changes recognised through profit or loss:				
13	Derivative financial instruments	16,396	84,959	622	101,977
	Bonds	26,466	-	-	26,466
	Equity securities	213	-	-	213
	Financial assets measured at fair value with changes recognised through other comprehensive income:				
	Promissory notes	-	2	-	2
	Total short-term financial assets measured at fair value	43,075	84,961	622	128,658
	Financial assets measured at fair value with changes recognised through profit or loss:				
13	Derivative financial instruments	6,625	20,113	194	26,932
	Equity securities	-	-	2,046	2,046
	Financial assets measured at fair value with changes recognised through other comprehensive income:				
	Equity securities	412,480	43,594	6,030	462,104
	Promissory notes	-	273	-	273
	Total long-term financial assets measured at fair value	419,105	63,980	8,270	491,355
	Total financial assets	462,180	148,941	8,892	620,013
	Financial liabilities measured at fair value with changes recognised through profit or loss:				
	Short-term derivative financial instruments	6,018	94,730	4,928	105,676
	Long-term derivative financial instruments	6,037	22,352	1,052	29,441
	Total financial liabilities measured at fair value	12,055	117,082	5,980	135,117

Notes	31 December 2018				
	Level 1	Level 2	Level 3	Total	
	Financial assets measured at fair value with changes recognised through profit or loss:				
13	Derivative financial instruments	7,238	100,041	589	107,868
	Bonds	25,868	-	-	25,868
	Equity securities	207	-	752	959
	Financial assets measured at fair value with changes recognised through other comprehensive income:				
	Promissory notes	-	32	-	32
	Total short-term financial assets measured at fair value	33,313	100,073	1,341	134,727
	Financial assets measured at fair value with changes recognised through profit or loss:				
13	Derivative financial instruments	9,395	27,998	-	37,393
	Equity securities	-	-	2,131	2,131
	Financial assets measured at fair value with changes recognised through other comprehensive income:				
	Equity securities	365,090	43,594	5,589	414,273
	Promissory notes	-	262	-	262
	Total long-term financial assets measured at fair value	374,485	71,854	7,720	454,059
	Total financial assets	407,798	171,927	9,061	588,786
	Financial liabilities measured at fair value with changes recognised through profit or loss:				
	Short-term derivative financial instruments	11,776	83,493	4,221	99,490
	Long-term derivative financial instruments	11,622	42,344	529	54,495
	Total financial liabilities measured at fair value	23,398	125,837	4,750	153,985

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, equity and debt securities intended to generate short-term profit through trading.

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22 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

As of 30 June 2019 and 31 December 2018 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 405,610 million and RUB 360,336 million, respectively.

23 RELATED PARTIES

For the purpose of the consolidated interim condensed financial information, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making operational and financial 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 Russian Federation is the ultimate controlling party of PJSC Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50 % in PJSC Gazprom.

As of 30 June 2019 the Government directly owns 38.373 % of PJSC Gazprom's issued shares. JSC Rosneftgaz and JSC Rosgazifikatsiya controlled by the Government own 11.859 % of PJSC Gazprom's issued shares.

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

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 June 2019 prices of natural gas and gas transportation, electricity tariffs in the Russian Federation are regulated by the FAS.

Bank borrowings are provided on the basis of market interest rates. Taxes are accrued and settled in accordance with the applicable current legislation.

As of 30 June 2019 and 31 December 2018 and for the three and six months ended 30 June 2019 and for the three and six months ended 30 June 2018, the Group had the following significant transactions and balances with the Government and parties under the Government control:

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23 RELATED PARTIES (continued)

	As of 30 June 2019		Three months ended 30 June 2019		Six months ended 30 June 2019	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	56,324	3,820	-	74,626	-	191,066
Insurance contributions	934	12,641	-	38,267	-	78,827
VAT	282,910	110,449	-	-	-	-
Customs duties	38,110	-	-	-	-	-
Other taxes	19,329	144,922	-	333,459	-	688,646
Transactions and balances with entities under control of the Government						
Gas sales	-	-	24,981	-	79,181	-
Electric and heat energy sales	-	-	33,239	-	97,194	-
Gas transportation sales	-	-	11,086	-	22,237	-
Other sales	-	-	1,043	-	1,925	-
Transit of oil and refined products expenses	-	-	-	32,924	-	70,121
Interest expense	-	-	-	4,421	-	8,858
Accounts receivable	41,843	-	-	-	-	-
Short-term financial assets	20,731	-	-	-	-	-
Long-term financial assets	6,860	-	-	-	-	-
Accounts payable	-	23,181	-	-	-	-
Borrowings	-	179,030	-	-	-	-
Short-term lease liabilities	-	5,126	-	-	-	-
Long-term lease liabilities	-	65,327	-	-	-	-

	As of 31 December 2018		Three months ended 30 June 2018		Six months ended 30 June 2018	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	5,011	26,296	-	54,468	-	98,582
Insurance contributions	1,526	9,449	-	35,618	-	75,353
VAT	304,159	140,085	-	-	-	-
Customs duties	11,187	-	-	-	-	-
Other taxes	5,056	172,901	-	321,975	-	622,940
Transactions and balances with entities under control of the Government						
Gas sales	-	-	23,231	-	71,400	-
Electric and heat energy sales	-	-	28,380	-	93,684	-
Gas transportation sales	-	-	10,569	-	22,106	-
Other sales	-	-	1,722	-	3,208	-
Transit of oil and refined products expenses	-	-	-	29,939	-	61,948
Interest expense	-	-	-	2,894	-	6,187
Accounts receivable	45,104	-	-	-	-	-
Short-term financial assets	20,315	-	-	-	-	-
Long-term financial assets	4,742	-	-	-	-	-
Accounts payable	-	18,671	-	-	-	-
Borrowings	-	206,681	-	-	-	-

See the consolidated interim condensed statement of changes in equity for returns of social assets to governmental authorities for the six months ended 30 June 2019 and for the six months ended 30 June 2018. See Note 9 for the net book value of social assets vested to the Group at privatisation as of 30 June 2019 and 31 December 2018.

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23 RELATED PARTIES (continued)

Transactions with JSC FSC

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with JSC FSC. The current financial settling system of JSC FSC does not provide the ultimate counterparties with automatically generated 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 June 2019		Three months ended 30 June 2019		Six months ended 30 June 2019	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with JSC FSC						
Electric and heat energy sales	-	-	39,378	-	87,342	-
Electricity and heating expenses	-	-	-	5,987	-	13,337
Accounts receivable	5,128	-	-	-	-	-
Accounts payable	-	1,553	-	-	-	-

	As of 31 December 2018		Three months ended 30 June 2018		Six months ended 30 June 2018	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with JSC FSC						
Electric and heat energy sales	-	-	30,872	-	76,094	-
Electricity and heating expenses	-	-	-	5,790	-	12,871
Accounts receivable	6,920	-	-	-	-	-
Accounts payable	-	1,975	-	-	-	-

Compensation for key management personnel

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

The members of the Board of Directors, who are government officials, do not receive compensation from the Group.

The compensation of the members of the Board of Directors is approved by annual general meetings of the shareholders of the Group's entities. Compensation of key management personnel (other than compensation of the members of the Board of Directors) is determined by the terms of the employment contracts. Short-term compensation of key management personnel also includes benefits related to healthcare.

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

Key management personnel are also entitled to long-term post-employment benefits. These benefits include non-governmental pension benefits provided by JSC NPF GAZFOND, and lump-sum payments from the Group's entities provided upon retirement (see Note 21).

Employees of the majority of the Group's entities are eligible for such post-employment benefits.

The Group also provides key management personnel with medical insurance and liability insurance.

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23 RELATED PARTIES (continued)

Associates and joint ventures

For the three and six months ended 30 June 2019 and for the three and six months ended 30 June 2018 and as of 30 June 2019 and 31 December 2018 the Group had the following significant transactions and balances with associates and joint ventures.

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	Income		Income	
Gas sales				
Panrusgaz Co.	11,689	15,332	24,195	25,921
JSV Moldovagaz	5,694	4,476	16,342	12,529
CJSC Gazprom YRGM Trading ¹	4,423	3,683	9,266	7,650
JSC Gazprom YRGM Development ¹	3,159	2,630	6,619	5,464
KazRosGas LLP	2,577	985	5,714	6,761
Prometheus Gas S.A.	2,278	2,418	5,251	4,477
JSC Latvijas Gaze	2,628	770	3,379	981
JSC EUROPOL GAZ	619	672	1,271	1,247
VEMEX s.r.o. and its subsidiaries	70	1,014	373	2,016
Bosphorus Gaz Corporation A.S.	-	1,064	-	6,738
Gas transportation sales				
CJSC Gazprom YRGM Trading ¹	6,095	6,202	12,769	12,882
JSC Gazprom YRGM Development ¹	4,354	4,429	9,121	9,201
KazRosGas LLP	663	733	1,433	1,424
Crude oil, gas condensate and refined products sales				
PJSC NGK Slavneft and its subsidiaries	11,436	11,548	20,397	22,296
JSC SOVEX	1,985	1,818	2,908	3,025
LLC NPP Neftekhimia	1,305	1,011	2,481	2,039
Sakhalin Energy Investment Company Ltd.	529	429	2,388	1,985
LLC Poliom	1,103	1,076	2,028	2,154
Field operator services and other services sales				
JSC Messoyakhaneftegaz	828	1,196	1,912	2,136
PJSC NGK Slavneft and its subsidiaries	617	568	1,287	1,137
Gas refining services sales				
KazRosGas LLP	2,728	2,663	5,850	5,396
Interest income				
Gazprombank (Joint-stock Company) and its subsidiaries	12,852	9,453	24,885	18,265
	Expenses		Expenses	
Purchased gas				
CJSC Gazprom YRGM Trading ¹	14,069	15,211	31,444	30,916
JSC Gazprom YRGM Development ¹	10,052	10,868	22,472	22,100
KazRosGas LLP	10,990	7,865	17,925	14,419
JSC Arcticgas	9,195	10,042	14,553	13,862
Sakhalin Energy Investment Company Ltd.	3,150	3,564	9,058	7,254
CJSC Northgas	1,564	1,537	3,113	2,831
Transit of gas				
Nord Stream AG	19,409	19,802	39,417	38,531
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	9,017	8,688	17,921	16,979
JSC EUROPOL GAZ	3,121	3,163	6,287	6,208
JSV Moldovagaz	419	624	973	1,652

24 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 June 2019 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 regarding the sale and purchase of natural gas in 2009-2019 ("Contract No. KP"), and related interest charged. On 12 June 2015 PJSC Gazprom submitted to arbitration a defence to the claim from NJSC Naftogaz of Ukraine and a counter-claim, in which it adjusted the amount claimed to 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 adjusted amount claimed by 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 adjusted amount claimed by NJSC Naftogaz of Ukraine against PJSC Gazprom amounted to over USD 14,230 million.

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

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

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

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

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

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

- 1) to acknowledge that rights and obligations of NJSC Naftogaz of Ukraine under Contract No. TKGU dated 19 January 2009 ("Contract No. TKGU") on volumes and terms of gas transportation through Ukraine in 2009-2019 should be transferred to PJSC Ukrtransgaz;
- 2) to acknowledge that certain provisions of Contract No. TKGU, which will be subsequently updated, are invalid and / or inoperative and should be supplemented with or substituted by provisions which will be updated in line with the energy and anti-monopoly legislation of Ukraine and the European Union ("the EU");
- 3) to oblige PJSC Gazprom to pay a compensation of USD 3,200 million and related interest to NJSC Naftogaz of Ukraine for the failure to provide gas for transit;

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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 consolidate 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 adjusted amount of the 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, provisions and other liabilities" in the consolidated balance sheet. On 29 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea, Sweden, a petition to challenge stated final award of 28 February 2018 and to annul it partially. On 13 June 2018 the court rendered a 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. The dates of hearings in the case on challenging the arbitration award in the transit case are scheduled for September-October 2020.

On 29 May 2018 PJSC Gazprom became aware of the fact that NJSC Naftogaz of Ukraine was taking actions to enforce the arbitration award in Switzerland. In particular, an injunction was issued seizing PJSC Gazprom's receivables from Nord Stream AG and Nord Stream 2 AG. Payments from these companies to PJSC Gazprom should be directed to the bailiff. PJSC Gazprom has not received any official notifications on this issue. On 2 August 2018 PJSC Gazprom filed a reasoned objection to the injunction to the Swiss court. On 16 January 2019 the Swiss court rendered a decision to fully annul the injunction seizing PJSC Gazprom's assets issued on 29 May 2018. Based on this court decision the shares of Nord Stream AG and Nord Stream 2 AG in Switzerland and PJSC Gazprom's receivables from these companies are no longer seized. On 5 June 2018 PJSC Gazprom became aware of the fact that NJSC Naftogaz of Ukraine was taking similar actions in the Netherlands. In particular, on 30 May 2018 the shares in Blue Stream Pipeline Company B.V., the operator of the Blue Stream pipeline, owned by PJSC Gazprom and the debt payable to PJSC Gazprom (with such debt remaining at the disposal of the Group's Dutch companies) were seized pursuant to the decision of the District Court of Amsterdam.

On 17 September 2018 NJSC Naftogaz of Ukraine filed a motion in the Netherlands to recognise and enforce the arbitration award in the transit case. Hearings in the case are scheduled for December 2019.

On 22 June 2018 PJSC Gazprom received an order of the High Court of Justice of England and Wales dated 18 June 2018 for the seizure of PJSC Gazprom's assets in the United Kingdom as requested by NJSC Naftogaz of Ukraine to enforce the above mentioned arbitration award and the decision of the court of first instance dated 8 June 2018 on the enforcement of this decision. On 13 September 2018 the High Court of Justice 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 enforcement of the decision of the Stockholm arbitration court in the transit case dated 28 February 2018.

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Hearings in the case were held on 12-13 February 2019. On 15 March 2019 the English court suspended the proceedings in the case on recognition and enforcement in England and Wales of the decision of the Stockholm arbitration court in the transit case dated 28 February 2018 until the end of the proceedings in the Court of Appeal of Svea, Sweden. As part of the proceedings in the case on recognition and execution of the award of the Stockholm arbitration court, in 2019 PJSC Gazprom made security payments totaling USD 345 million to the High Court of Justice of England and Wales.

On 15 February 2019 PJSC Naftogaz of Ukraine sent to Luxembourg branches of the major banks and Gaz Capital S.A. a notification on the seizure of any liabilities and assets of PJSC Gazprom in Luxembourg. On 15 April 2019 PJSC Gazprom filed with the court of Luxembourg a petition to challenge the seizure and intervene in order to defend its rights. On 8 July 2019 the Court of Luxembourg rejected PJSC Gazprom's motion to challenge the seizure. PJSC Gazprom has not currently been served with the decision. PJSC Gazprom is considering the ways to appeal against it.

On 5 March 2018 PJSC Gazprom notified PJSC 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 with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a request for arbitration seeking amendment or termination of contracts with PJSC Naftogaz of Ukraine for gas supply and gas transit through Ukraine in order to restore the balance between contractual obligations and eliminate disproportions in terms of the parties' contractual liabilities. On 22 May 2018 PJSC Naftogaz of Ukraine filed a response to this request for arbitration and counter-claims in respect of the gas supply and transit contracts. On 6 September 2018 the Stockholm Chamber of Commerce, Sweden, rendered a decision upon PJSC Gazprom's motion to consolidate these proceedings with the proceedings related to the request of PJSC Naftogaz of Ukraine to change the gas transit tariff. On 28 December 2018 the arbitration panel was formed. Hearings in the case are scheduled for April-May 2021.

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

On 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders' agreement in respect of AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5,000 million compensation (at the exchange rate as of 30 June 2019 – RUB 104,000 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. 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 rejected all claims raised by the Ministry of Energy of the Republic of Lithuania, including the claims on unfair pricing of the gas which PJSC Gazprom supplied to Lithuania in 2006-2015. On 22 September 2016 it became known that the Ministry of Energy of the Republic of Lithuania had filed a motion with the Court of Appeal of Stockholm, Sweden, to annul the final arbitration award of 22 June 2016. On 4 April 2017 PJSC Gazprom was officially served with this motion. On 9 June 2017 PJSC Gazprom filed a defence to the claim with the Court of Appeal of Stockholm, Sweden. The Ministry of Energy of the Republic of Lithuania submitted its detailed written opinions on the case on 10 October 2017. Hearings in the case were held in May 2019. On 4 July 2019 the Court of Appeal of Svea, Sweden, fully rejected Lithuania's motion to annul the award of the Stockholm arbitration court dated 22 June 2016. On 1 August 2019 it became known to PJSC Gazprom that Lithuania had appealed to the Supreme Court of Sweden.

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In December 2015 South Stream Transport B.V., a subsidiary of the Group, was served with an official notification by the Secretariat of the 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 gas pipeline. The amount of final claims of Saipem S.p.A. to South Stream Transport B.V. was about EUR 615 million (at the exchange rate as of 30 June 2019 – RUB 44,168 million). Hearings were scheduled for June 2019. On 18 April 2019 Saipem S.p.A. and South Stream Transport B.V. agreed to terminate the legal proceedings initiated in December 2015 by signing a settlement agreement.

On 22 January 2016 the Antimonopoly Committee of Ukraine rendered a decision to impose a fine on PJSC Gazprom in the amount of 85,966 million Ukrainian hryvnia (at the exchange rate as of 30 June 2019 – RUB 207,316 million) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed a claim with the Kiev Economic Court to challenge the decision of the Antimonopoly Committee of Ukraine. In April 2017 the Antimonopoly Committee of Ukraine filed a request with the Department of State Executive Service of the Ministry of Justice of Ukraine for enforced recovery from PJSC Gazprom of an amount of 171,932 million Ukrainian hryvnia (about USD 6 billion). On 12 May 2017 PJSC Gazprom was served via its Kiev-based Representative office an Order of the Department of the State Executive Service of the Ministry of Justice of Ukraine on institution of enforcement proceedings to recover an amount of 189,125 million Ukrainian hryvnia (at the exchange rate as of 30 June 2019 – RUB 456,096 million), including an execution fee of 17,193 million Ukrainian hryvnia (at the exchange rate as of 30 June 2019 – RUB 41,463 million), and on the seizure of the bank accounts of the Kiev-based representative office of PJSC Gazprom, dividends due to PJSC Gazprom for the participation in JSC Gaztransit, the shares of JSC Gaztransit, 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 owned by PJSC Gazprom. 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 June 2019 – RUB 2 million) (estimated value – 6,241,386 Ukrainian hryvnia, at the exchange rate as of 30 June 2019 – RUB 15 million) were sold on 22 August 2018 in a forced sale auction.

The shares of JSC Gaztransit with a nominal value of 33.3 million Ukrainian hryvnia (at the exchange rate as of 30 June 2019 – RUB 80 million) (estimated value – 44.22 million Ukrainian hryvnia, at the exchange rate as of 30 June 2019 – RUB 107 million) were sold on 29 January 2019 in a forced sale auction.

On 26 October 2018 pursuant to the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL) PJSC Gazprom commenced an arbitration against Ukraine to protect its investments in Ukraine due to the fact that Ukraine represented by the Antimonopoly Committee of Ukraine had imposed an unjustified and unfair fine on PJSC Gazprom, which means that it violated PJSC Gazprom's rights guaranteed by the Agreement between the Government of the Russian Federation and the Cabinet of Ministers of Ukraine on the Encouragement and Mutual Protection of Investments dated 27 November 1998. Hearings in the case are pre-scheduled for June 2021 (the date may be later rescheduled by the arbitration panel).

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

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

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

24 COMMITMENTS AND CONTINGENCIES (continued)

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

On 4 May 2018 PJSC Gazprom received a notice from Poland's antimonopoly authority on initiation of investigation 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 % of the 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.

On 7 May 2019 the European Commission received a complaint from NJSC Naftogaz of Ukraine stating that PJSC Gazprom and its subsidiaries allegedly violated Article 102 of the Treaty on the Functioning of the European Union. NJSC Naftogaz of Ukraine brings the following main charges in its complaint:

- 1) making "predatory" investments when implementing the Nord Stream 2 project;
- 2) blocking the virtual reverse flow of gas to Ukraine;
- 3) abusing PJSC Gazprom's dominance in pipeline gas export;
- 4) "margin decrease" when making gas supplies to the Federal Republic of Germany.

Based on the complaint, the European Commission registered case No. AT.40643. This does not necessarily entail formal investigation and does not constitute an accusation of PJSC Gazprom in violating the antitrust law of the EU.

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 financial performance or the financial position of the Group.

Sanctions

Since 2014 the EU, the United States ("U.S.") and some other countries have 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. citizen and legal entities incorporated in the U.S. (including their foreign branches) and any person or entity in the U.S. or related to the territory of the 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 new equity, property, or interests in 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 new equity, property, or interests in property in respect of a number of Russian companies of the banking sector, including Gazprombank (Joint-stock Company) (PJSC Gazprom is not on the list of restricted entities in this respect);

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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 the 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:

- the start date of projects – 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 the EU member countries, as well as all legal persons, entities and bodies incorporated or established under the laws of an EU member country (both within the EU and abroad), as well as all legal persons, entities and 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 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 the 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 directly or indirectly making or being part of any arrangement to make new borrowings with a maturity exceeding 30 days to some Russian companies (including PJSC Gazprom Neft and Gazprombank (Joint-stock Company) but excluding PJSC Gazprom), except for borrowings that have a specific and documented objective to provide financing for non-prohibited imports or exports of goods and non-financial services between the EU and the Russian Federation or for borrowings that have a specific and documented

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24 COMMITMENTS AND CONTINGENCIES (continued)

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 financial performance.

Financial guarantee contracts

	30 June 2019	31 December 2018
Guarantees issued for:		
Nord Stream AG	117,026	136,086
Sakhalin Energy Investment Company Ltd.	50,557	66,317
LLC Stroygazconsulting	-	87,094
Other	<u>66,112</u>	<u>31,171</u>
Total financial guarantee contracts	<u>233,695</u>	<u>320,668</u>

For the six months ended 30 June 2019 and in 2018 counterparties fulfilled their contractual obligations.

Included in financial guarantee contracts amounts are denominated in US Dollars of USD 802 million and USD 955 million as of 30 June 2019 and 31 December 2018, respectively, as well as amounts denominated in Euros of EUR 2,245 million and EUR 1,879 million as of 30 June 2019 and 31 December 2018, respectively.

In June 2008 the Group pledged the shares of Sakhalin Energy Investment Company Ltd. to the agent bank Mizuho Bank Ltd. under the loan obligations of Sakhalin Energy Investment Company Ltd. As of 30 June 2019 and 31 December 2018 the amount of Sakhalin Energy Investment Company Ltd. obligations up to the amount of the Group's share (50 %) amounted to RUB 50,557 million (USD 802 million) and RUB 66,317 million (USD 955 million), respectively.

In March 2010 the Group pledged the shares of Nord Stream AG to the agent bank Societe Generale under the obligations of Nord Stream AG under the project financing agreement. As of 30 June 2019 and 31 December 2018 the amount of Nord Stream AG obligations up to the amount of the Group's share (51 %) amounted to RUB 117,026 million (EUR 1,629 million) and RUB 136,086 million (EUR 1,713 million), respectively.

Since December 2017 the Group provided guarantees to Gazprombank (Joint-stock Company) for LLC Stroygazconsulting under its loan obligations. As of 30 June 2019 and 31 December 2018 the guarantees amounted to RUB nil million and RUB 87,094 million, respectively. In January 2019 the Group terminated guarantees provided to Gazprombank (Joint-stock Company) for LLC Stroygazconsulting under its loan obligations.

Capital commitments

The total investment utilisation in accordance with the investment programme of the Group for 2019 (for gas, oil, electricity, heat generating and other assets) and current similar intentions of the Group is RUB 2,149,359 million.

Gas transportation commitments

The Group is a party to a number of long-term agreements on booking capacity for gas transportation. As of 30 June 2019 these agreements are not expected to be onerous for the Group.

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25 **EVENTS AFTER REPORTING PERIOD**

Borrowings

In July 2019 the Group obtained long-term loans from a Russian bank in the total amount of EUR 200 million at an interest rate of 2.05 % and due in 2022 under the agreement concluded in June 2019.

In July 2019 the Group issued Russian bonds in the amount of RUB 15,000 million at an interest rate of 7.8 % and due in 2024.

In July-August 2019 the Group obtained long-term loans from a consortium of banks in the total amount of EUR 230 million at an interest rate of EURIBOR + 1.6 % and due in 2021 under the agreement concluded in December 2018. Intesa Sanpaolo Bank Luxembourg S.A. was appointed as the agent bank.

In July-August 2019 the Group obtained a long-term loan from foreign bank in the amount of EUR 1,000 million at an interest rate of EURIBOR + 2.1 % and due in 2024.

In July 2019 the Group signed an agreement to obtain a long-term loan from Gazprombank (Joint-stock Company) in the amount of RUB 10,000 million at an interest rate, which is set up according to each loan transaction, and due in 2022.

Treasury shares

In July 2019 the Group sold 693,627,848 ordinary shares of PJSC Gazprom, which represent 2.93 % of the share capital, for 200.5 Russian Rubles per share by using the stock exchange transaction technology of PJSC Moscow Exchange MICEX-RTS.

PJSC GAZPROM
INVESTORS RELATIONS

The Company may be contacted at its registered office:

PJSC Gazprom
Nametkina Str., 16
V-420, GSP-7, 117997, Moscow
Russia

Telephone: +7 (812) 609-41-29

Facsimile: +7 (812) 609-43-34

www.gazprom.ru (in Russian)

www.gazprom.com (in English)