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PJSC GAZPROM

IFRS CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015

Moscow | 2016

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Auditor's Report on Consolidated Financial Statements for the year ended December 31, 2015

To the Shareholders and Board of Directors
of Pubic Joint Stock Company Gazprom

Audited entity

Company name:

Pubic Joint Stock Company Gazprom (PJSC Gazprom).

Address:

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

State registration certificate:

Registered by the Moscow Registration Chamber on February 25, 1993, the certificate: series No. 002.726. Entered in the Uniform State Register of Legal Entities on August 2, 2002 under the main state number 1027700070518.

Auditor

Company name:

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

Address:

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

State registration certificate:

Registered by the Moscow Registration Chamber on November 15, 1993, the certificate: series YZ 3 No. 484.583 RP. Entered in the Uniform State Register of Legal Entities on July 24, 2002 under the main state number 1027700058286.

Membership in Self-Regulatory Organization of Auditors:

Nonprofit Partnership "Auditor Association Sodruzhestvo".

Number in the register of Self-Regulatory Organization of Auditors:

Certificate of membership in Nonprofit Partnership "Auditor Association Sodruzhestvo" No. 7198, number in the register – 11506030481.

We have audited the accompanying consolidated financial statements of PJSC Gazprom, which comprise the consolidated balance sheet as at December 31, 2015, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended December 31, 2015, and Notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management of the audited entity is responsible for preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PJSC Gazprom as at December 31, 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of PJSC Gazprom for the year ended December 31, 2014, were audited by another auditor (ZAO "PricewaterhouseCoopers Audit") who expressed an unmodified opinion on those financial statements and dated its audit report April 28, 2015.

President of FBK, LLC

S.M. Shapiguzov
(on the ground of the Charter, audit qualification certificate No. 01-001230, registration number 29501041926)

ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ ФИНАНСОВЫЕ И БУХГАЛТЕРСКИЕ КОНСУЛЬТАНТЫ ФБК Г.Р. № 484583 г. МОСКВА

Audit manager

K.S. Shirikova, ACCA
(audit qualification certificate No. 01-000712 dated July 9, 2012, registration number 20501042062)

April, 25 2016

PJSC GAZPROM
CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2015
(in millions of Russian Rubles)

Notes		31 December 2015	31 December 2014
	Assets		
	Current assets		
8	Cash and cash equivalents	1,359,095	1,038,191
	Restricted cash	1,815	2,085
9	Short-term financial assets	12,570	10,735
10	Accounts receivable and prepayments	1,114,207	1,045,936
11	Inventories	804,364	671,916
	VAT recoverable	229,626	289,287
12	Other current assets	472,045	403,005
		3,993,722	**3,461,155**
	Non-current assets		
13	Property, plant and equipment	11,003,881	9,950,209
14	Goodwill	107,467	104,221
15	Investments in associates and joint ventures	808,246	677,216
16	Long-term accounts receivable and prepayments	599,848	436,468
17	Available-for-sale long-term financial assets	235,607	201,824
12	Other non-current assets	303,269	346,377
		13,058,318	**11,716,315**
	Total assets	**17,052,040**	**15,177,470**
	Liabilities and equity		
	Current liabilities		
18	Accounts payable, accruals and provisions for liabilities and charges	1,298,006	1,217,141
	Current profit tax payable	11,929	8,402
19	Other taxes payable	168,394	165,622
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	646,372	464,782
		2,124,701	**1,855,947**
	Non-current liabilities		
21	Long-term borrowings, promissory notes	2,795,843	2,224,042
24	Provisions for liabilities and charges	435,438	297,106
22	Deferred tax liabilities	618,404	594,098
	Other non-current liabilities	163,032	86,256
		4,012,717	**3,201,502**
	Total liabilities	**6,137,418**	**5,057,449**
	Equity		
25	Share capital	325,194	325,194
25	Treasury shares	(103,919)	(103,919)
25	Retained earnings and other reserves	10,368,311	9,595,283
		10,589,586	**9,816,558**
33	Non-controlling interest	325,036	303,463
	Total equity	**10,914,622**	**10,120,021**
	Total liabilities and equity	**17,052,040**	**15,177,470**

A.B. Miller
Chairman of the Management Committee
25 April 2016

E.A. Vasilieva
Chief Accountant
25 April 2016

The accompanying notes on pages 9 to 73 are an integral part of these consolidated financial statements.

(in millions of Russian Rubles)

Notes		Year ended 31 December 2015	2014
26	Sales	6,073,318	5,589,811
	Net gain (loss) from trading activity	3,704	(22,510)
27	Operating expenses	(4,635,502)	(3,943,669)
27	Charge for impairment and other provisions, net	(213,219)	(313,208)
	Operating profit	**1,228,301**	**1,310,424**
28	Finance income	990,346	389,804
28	Finance expense	(1,409,087)	(1,438,541)
15	Share of net income of associates and joint ventures	106,560	46,051
	Gains (losses) on disposal of available-for-sale financial assets	9,121	(915)
	Profit before profit tax	**925,241**	**306,823**
	Current profit tax expense	(102,223)	(121,343)
	Deferred profit tax expense	(17,819)	(28,288)
22	Profit tax expense	(120,042)	(149,631)
	Profit for the year	**805,199**	**157,192**
	Other comprehensive income (loss):		
	Items that will not be reclassified to profit or loss:		
24	Remeasurements of post-employment benefit obligations	(169,059)	34,438
	Total items that will not be reclassified to profit or loss	**(169,059)**	**34,438**
	Items that may be reclassified subsequently to profit or loss:		
	Gains (losses) arising from change in fair value of available-for-sale financial assets, net of tax	43,172	(2,933)
	Share of other comprehensive income (loss) of associates and joint ventures	28,699	(14,769)
	Translation differences	282,924	570,402
	Losses from cash flow hedges, net of tax	(22,862)	(60,550)
	Total items that may be reclassified subsequently to profit or loss	**331,933**	**492,150**
	Other comprehensive income for the year, net of tax	**162,874**	**526,588**
	Total comprehensive income for the year	**968,073**	**683,780**
	Profit (loss) attributable to:		
	Owners of PJSC Gazprom	787,056	159,004
33	Non-controlling interest	18,143	(1,812)
		805,199	**157,192**
	Total comprehensive income attributable to:		
	Owners of PJSC Gazprom	938,591	667,609
	Non-controlling interest	29,482	16,171
		968,073	**683,780**
30	**Basic and diluted earnings per share for profit attributable to the owners of PJSC Gazprom (in Russian Rubles)**	**34.29**	**6.93**

A.B. Miller
Chairman of the Management Committee
25 April 2016

E.A. Vasilieva
Chief Accountant
25 April 2016

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PJSC GAZPROM
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
(in millions of Russian Rubles)

Notes		Year ended 31 December 2015	2014
	Cash flows from operating activities		
31	**Net cash from operating activities**	**2,030,927**	**1,915,769**
	Cash flows from investing activities		
13	Capital expenditures	(1,641,024)	(1,262,140)
13, 28	Interest paid and capitalised	(128,211)	(94,016)
	Net change in loans issued	(25,063)	(50,780)
34	Acquisition of subsidiaries, net of cash acquired	24,551	(77,496)
15	Investments in associates and joint ventures	(1,554)	(84,570)
	Interest received	54,243	51,825
	Change in available-for-sale long-term financial assets	(27,396)	(3,257)
15	Proceeds from associates and joint ventures	79,469	99,679
	Long-term bank deposits placement	-	(20,467)
	Repayment of long-term bank deposits	20,609	771
	Other	(19,780)	(854)
	Net cash used in investing activities	**(1,664,156)**	**(1,441,305)**
	Cash flows from financing activities		
21	Proceeds from long-term borrowings	574,924	293,940
21	Repayment of long-term borrowings (including current portion of long-term borrowings)	(467,831)	(352,885)
20	Proceeds from short-term borrowings	62,401	69,885
20	Repayment of short-term borrowings	(97,141)	(54,190)
25	Dividends paid	(170,702)	(178,947)
28	Interest paid	(40,100)	(27,803)
	Acquisition of non-controlling interest in subsidiaries	(126)	(10,903)
	Change in restricted cash	270	(1,684)
	Net cash used in financing activities	**(138,305)**	**(262,587)**
	Effect of foreign exchange rate changes on cash and cash equivalents	92,438	137,184
	Increase in cash and cash equivalents	**320,904**	**349,061**
8	Cash and cash equivalents at the beginning of the reporting year	1,038,191	689,130
8	**Cash and cash equivalents at the end of the reporting year**	**1,359,095**	**1,038,191**

A.B. Miller
Chairman of the Management Committee
25 April 2016

E.A. Vasilieva
Chief Accountant
25 April 2016

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PJSC GAZPROM
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015
(in millions of Russian Rubles)

Notes		Number of shares outstanding (billions)	Attributable to the owners of PJSC Gazprom				Non-controlling interest	Total equity
			Share capital	Treasury shares	Retained earnings and other reserves	Total		
	Balance as of 31 December 2013	**23.0**	**325,194**	**(103,919)**	**9,098,315**	**9,319,590**	**314,764**	**9,634,354**
33	Profit (loss) for the year	-	-	-	159,004	159,004	(1,812)	157,192
	Other comprehensive income (loss):							
24, 33	Remeasurements of post-employment benefit obligations	-	-	-	34,272	34,272	166	34,438
33	Losses arising from change in fair value of available-for-sale financial assets, net of tax	-	-	-	(2,927)	(2,927)	(6)	(2,933)
	Share of other comprehensive loss of associates and joint ventures	-	-	-	(14,769)	(14,769)	-	(14,769)
25, 33	Translation differences	-	-	-	550,191	550,191	20,211	570,402
33	Losses from cash flow hedges, net of tax	-	-	-	(58,162)	(58,162)	(2,388)	(60,550)
	Total comprehensive income for the year ended 31 December 2014	-	-	-	**667,609**	**667,609**	**16,171**	**683,780**
33	Changes in non-controlling interest in subsidiaries	-	-	-	(5,300)	(5,300)	(16,028)	(21,328)
25	Return of social assets to governmental authorities	-	-	-	(94)	(94)	-	(94)
25, 33	Dividends declared	-	-	-	(165,247)	(165,247)	(11,444)	(176,691)
	Balance as of 31 December 2014	**23.0**	**325,194**	**(103,919)**	**9,595,283**	**9,816,558**	**303,463**	**10,120,021**
33	Profit for the year	-	-	-	787,056	787,056	18,143	805,199
	Other comprehensive income (loss):							
24, 33	Remeasurements of post-employment benefit obligations	-	-	-	(168,899)	(168,899)	(160)	(169,059)
33	Gains (losses) arising from change in fair value of available-for-sale financial assets, net of tax	-	-	-	43,179	43,179	(7)	43,172
	Share of other comprehensive income of associates and joint ventures	-	-	-	28,699	28,699	-	28,699
25, 33	Translation differences	-	-	-	271,015	271,015	11,909	282,924
33	Losses from cash flow hedges, net of tax	-	-	-	(22,459)	(22,459)	(403)	(22,862)
	Total comprehensive income for the year ended 31 December 2015	-	-	-	**938,591**	**938,591**	**29,482**	**968,073**
33	Changes in non-controlling interest in subsidiaries	-	-	-	(281)	(281)	(1,535)	(1,816)
25	Return of social assets to governmental authorities	-	-	-	(35)	(35)	-	(35)
25, 33	Dividends declared	-	-	-	(165,247)	(165,247)	(6,374)	(171,621)
	Balance as of 31 December 2015	**23.0**	**325,194**	**(103,919)**	**10,368,311**	**10,589,586**	**325,036**	**10,914,622**

A.B. Miller
Chairman of the Management Committee
25 April 2016

E.A. Vasilieva
Chief Accountant
25 April 2016

The accompanying notes on pages 9 to 73 are an integral part of these consolidated financial statements.

1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

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

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

The weighted average number of employees during 2015 and 2014 was 449 thousand and 450 thousand, respectively.

On 17 July 2015 OJSC Gazprom was renamed into PJSC Gazprom. The change in the PJSC Gazprom's legal status is reflected in the new version of the Articles of Association approved by the annual General Shareholders Meeting. The PJSC Gazprom's name was changed with a view to bring it in line with the provisions of Chapter 4 of the Civil Code of the Russian Federation.

In 2016 and earlier, to ensure compliance with the provisions of Chapter 4 of the Civil Code of the Russian Federation, Russian companies registered in the territory of the Russian Federation as open and closed joint stock companies changed their legal structures. Names of the companies are given with regard to the announced changes as of the date of preparation of these consolidated financial standarts.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation (see Note 37).

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

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

- as of 31 December 2015 – 72.8827;
- as of 31 December 2014 – 56.2584 (as of 31 December 2013 – 32.7292).

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

- as of 31 December 2015 – 79.6972;
- as of 31 December 2014 – 68.3427 (as of 31 December 2013 – 44.9699).

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. During 2015 the official Russian Ruble to US dollar and Euro foreign exchange rates fluctuated between 49.1777 and 72.8827 Russian Rubles per US dollar and 52.9087 and 81.1533 Russian Rubles per Euro. In addition during 2015 the key interest rate determined by the Central Bank of the Russian Federation decreased to 11 % and actual inflation was 12.9 %.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government of the Russia Federation to sustain growth and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION (continued)

sustainability and development of the Group's business in the current business and economic environment. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

3 BASIS OF PRESENTATION

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

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

4 SCOPE OF CONSOLIDATION

As described in Note 5, these consolidated financial statements include consolidated subsidiaries, associates, joint ventures and operation of the Group. Significant changes in the Group's structure in 2015 and 2014 are described below.

Asset swap with Wintershall Holding GmbH

On 30 September 2015 PJSC Gazprom and Wintershall Holding GmbH completed the asset swap which was initially agreed in December 2013.

According to the Swap Agreement 25.01 % of the interest in the capital of LLC Achim Development and 9 % of ordinary shares, one class A preference share and one class B preference share of JSC Achim Trading which were recognised under other non-current assets in the consolidated financial statements of the Group have been transferred to Wintershall Holding GmbH in return for the 100 % of the interest in WIBG GmbH[1] and for 50 % of the interest in Wintershall Noordzee B.V. and Wintershall Services B.V. WIBG GmbH holds an equity interest of 50.02 % and 50 % in W & G Beteiligungs-GmbH & Co. KG and in WIEH GmbH & Co. KG[2], respectively.

Prior to the swap transaction the Group held an equity interest of 49.98 % in W & G Beteiligungs-GmbH & Co. KG and of 50 % in WIEH GmbH & Co. KG. These subgroups were accounted for using the equity method. In addition at the acquisition date the Group held an equity interest of 33.33 % in WINGAS Storage UK Ltd., in which W & G Beteiligungs-GmbH & Co. KG held an equity interest of 50 %.

In substance, the Group acquired the remaining shares in the natural gas trading and storage companies W & G Beteiligungs-GmbH & Co. KG and WIEH GmbH & Co. KG and in their subsidiaries. Consequently, as of 30 September 2015 the Group obtained control over these companies.

The acquired 50 % interests in Wintershall Noordzee B.V. and Wintershall Services B.V. are accounted for using the equity method since the acquisition date (see Note 34).

Acquisition of Shtokman Development AG

In July 2015 the Group became an owner of the 100 % of shares of Shtokman Development AG. Before the acquisition date the Group held an equity interest of 75 % in the company and accounted the investment as a joint venture using the equity method. The Group acquired remaining 25 % of the shares of Shtokman Development AG from Total Shtokman B.V. for 25 thousand Swiss Franc (RUB 2 million) according to the terms of the Shareholder Agreement. The payment was made by cash (see Note 34).

Acquisition of South Stream Transport B.V.

In December 2014 the Group became the owner of 100 % of the interest in South Stream Transport B.V., the company responsible for the offshore part of the South Stream project, by acquiring shares of EDF International S.A.S., Wintershall Holding GmbH and ENI International B.V. for EUR 883 million paid in cash. As a result of the acquisition, the Group obtained control over South Stream Transport B.V. (see Note 34).

[1] On 8 October 2015 Wintershall Erdgas Beteiligungs GmbH was renamed into WIBG GmbH.
[2] On 6 November 2015 Wintershall Erdgas Handelshaus GmbH & Co. KG was renamed into WIEH GmbH & Co. KG.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Group accounting

Subsidiaries

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

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

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

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

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

Goodwill and non-controlling interest

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

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

Joint arrangements

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.

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

Associates

Associates are entities over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint arrangement. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies. Associates are accounted for using the equity method. The group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

5.2 Financial instruments

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

Accounting for financial guarantee contracts

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

Fair value disclosure

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

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

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

5.3 Derivative financial instruments

As a part of trading activities the Group is also a party to derivative financial instruments including forward and options contracts for a foreign exchange rate, commodities and securities. The Group's policy is to measure these instruments at fair value, with resultant gains or losses being reported within the profit and loss section of the consolidated statement of comprehensive income. The fair value of derivative financial instruments is determined using an actual market information data and valuation techniques based on prevailing market interest rates for similar instruments as appropriate.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group routinely enters into sale and purchase transactions for the purchase and sales of gas, oil, oil products and other goods. The majority of these transactions are entered to meet supply requirements to fulfil contract obligations and for own consumption and are not within the scope of IAS 39 Financial instruments: recognition and measurement.

Sale and purchase transactions of gas, oil, oil products and other goods, which are not physically settled in accordance with the Group's expected operating activity or can be net settled under the terms of the respective contracts, are accounted for as derivative financial instruments in accordance with IAS 39 Financial instruments: recognition and measurement. These instruments are considered as held for trading and related gains or losses are recorded within the profit and loss section of the consolidated statement of comprehensive income.

Derivative contracts embedded into sales and purchase contracts are separated from the host contracts and accounted for separately. Derivatives are carried at the fair value with gains and losses arising from changes in the fair values of derivatives included within the profit and loss section of the consolidated statement of comprehensive income in the period in which they arise.

5.4 Hedge accounting

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

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

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

5.5 Non-derivative financial assets

The Group classifies its financial assets in the following categories:

(a) financial assets at fair value through profit or loss;

(b) available-for-sale financial assets; and

(c) loans and receivables.

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

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

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

There were no material financial assets designated at the fair value through profit or loss at inception as of 31 December 2015 and 31 December 2014.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the balance sheet date.

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

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

(c) Loans and receivables

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

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

Impairment of financial assets

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

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

5.6 Options on purchase or sale of financial assets

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.7 Cash and cash equivalents and restricted cash

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

5.8 Value added tax

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

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

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

5.9 Mineral extraction tax

Mineral extraction tax (“MET”) on hydrocarbons, including natural gas and crude oil, is due on the basis of quantities of natural resources extracted.

In the Russian Federation effective since 1 July 2014 a calculation formula of determining MET rate for natural gas and gas condensate was established instead of the fixed MET rate.

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

1) the base rate of RUB 35 per thousand square meters of natural gas;

2) the base amount of hard coal equivalent, calculated on basis of macroeconomic factors, including oil and gas prices;

3) the rate reflecting the complexity of producing natural gas;

4) the rate of expenses for transporting gas.

A 0 % MET rate is applied to natural gas extracted in a number of regions of the Russian Federation shall the specific criteria determined by respective tax legislation be fulfilled.

MET rate for natural gas was RUB 700 per thousand square meters to 1 July 2014. MET rate for gas condensate was RUB 42 per ton from 1 July 2014 to 31 December 2014. The tax rate is multiplied by the base amount of hard coal equivalent and by the rate reflecting the complexity of producing gas and (or) gas condensate in a raw hydrocarbon deposit. MET for gas condensate was RUB 647 per thousand square meters from 1 January 2014 to 30 June 2014.

In the Russian Federation MET for crude oil is defined as an amount of volume produced per fixed tax rate (RUB 766 per ton in 2015 and RUB 493 per ton in 2014) adjusted for coefficients that take into account volatility of crude oil prices on the global market, relative size of the field and degree of depletion of the specific field. Also 0 % tax rate is applied to oil extracted in a number of regions of the Russian Federation shall the specific criteria determined by respective tax legislation be fulfilled.

MET is accrued as a tax on production and recorded within operating expenses.

5.10 Customs duties

The export of hydrocarbons, including natural gas and crude oil, outside of the Customs union, which includes the Russian Federation, Belarus and Kazakhstan, is subject to export customs duties. According to

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the Decree of the Government of the Russian Federation No.754 dated 30 August 2013 export of natural gas outside the boundaries of the Customs union is subject to a fixed 30 % export customs duty rate levied on the customs value of the exported natural gas.

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

Revenues are recognised net of the amount of custom duties.

5.11 Excise tax

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

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

5.12 Inventories

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

5.13 Property, plant and equipment

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

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

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

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

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

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

(in millions of Russian Rubles)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

5.14 Impairment of non-current non-financial assets

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

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

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

5.15 Borrowings

Borrowings are recognised initially at their fair value which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are recognised at amortised cost, using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

5.16 Deferred tax

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5.17 Foreign currency transactions

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

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

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

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

5.18 Provisions for liabilities and charges

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

5.19 Equity

Treasury shares

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

Dividends

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

5.20 Revenue recognition

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

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

Prices for natural gas and tariffs for transportation of gas to final consumers in the Russian Federation are

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Trading activity

Contracts to buy or sell non-financial items entered into for trading purposes and which do not meet the expected own-use requirements, such as contracts to sell or purchase commodities that can be net settled in cash or settled by entering into another contract, are recognised at fair value and associated gains or losses are recorded as Net gain (loss) from trading activity. These contracts are derivatives in the scope of IAS 39 for both measurement and disclosure.

The financial result generated by trading activities is reported as a net figure. Trading activities are mainly managed by Gazprom Marketing and Trading Ltd., a subsidiary of the Group, and relate partly to gas trading and power and emission rights trading activities.

5.21 Interest

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

5.22 Research and development

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

5.23 Employee benefits

Pension and other post-retirement benefits

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

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Social expenses

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

5.24 Recent accounting pronouncements

Application of new IFRSs

A number of amendments to current IFRSs and new IFRICs became effective for the periods beginning on or after 1 January 2015:

- Amendments to IAS 19 Employee benefit. The amendments allow entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.
- Annual amendments to IFRSs 2012, 2013 and 2014.

The Group has reviewed amended standards while preparing these consolidated financial statements. The amended standards have no significant impact on the Group’s consolidated financial statements.

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

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016. In particular, the Group has not early adopted the standards and amendments:

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognize assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. Earlier application of the standard is permitted simultaneously with earlier application IFRS 15 Revenue from Contracts with Customers.
- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognised as an asset and amortized over the period when the benefits of the contract are consumed.
- The amendments to IFRS 11 Joint Arrangements (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016) on accounting for acquisitions of interests in jointoperations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.
- The amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016) on clarification of acceptable methods of depreciation and amortization. In this amendment the International Accounting Standards Board clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- The amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments eliminate an inconsistency between the requirements of IFRS 10 Consolidated Financial Statements and those of IAS 28 Investments in Associates and Joint Ventures in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

- The amendments to IAS 1 Presentation of Financial Statements (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016). The standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The standard also provides new guidance on subtotals in financial statements.

- The amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (issued in August 2014 and effective for annual periods on or after 1 January 2016). These standards were amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 Consolidated Financial Statements in such ultimate or any intermediate parent's financial statements.

- The amendments to IFRS 9 Financial Instruments (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). IFRS 9 Financial Instruments replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification and measurement of financial assets. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy a choice between applying the hedge accounting requirements of IFRS 9 Financial Instruments or continuing to apply IAS 39 Financial Instruments: Recognition and Measurement to all hedging instruments because the standard currently does not address accounting for macro hedging.

- Amendments to IAS 7 Cash Flow Statements (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The revised standard requires disclosing a reconciliation of movements for obligations arising from financing activities.

- Annual Improvements to IFRS, the period 2012-2014 (effective for annual periods beginning on or after 1 January 2016). The document includes the following amendments:

  IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Disposal of assets (or disposal of groups) is carried out, usually through sale or distribution to owners. The amendment clarifies that the transition from one method of disposal to another should not be regarded as a new plan for retirement, and a continuation of the original plan. Thus, the application of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations is not discontinued. This amendment will be applied prospectively.

  IFRS 7 Financial Instruments: Disclosures. The amendment clarifies that a service contract providing for the payment of fees may be a continuing involvement in the financial asset. To determine the need for disclosure of information an organization should assess the nature of the benefit and the agreement in accordance with the instructions of the continued participation in the IFRS 7 Financial Instruments: Disclosures. The assessment of any maintenance contracts are continuing involvement, it should be carried out retrospectively. However, the disclosure is not

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

required for periods beginning before the annual period in which the entity first applies this amendment.

- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).

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

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

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

6.1 Consolidation of subsidiaries

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

6.2 Tax legislation and uncertain tax positions

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

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

6.3 Assumptions to determine amount of provisions

Impairment allowance for accounts receivable

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

Impairment of Property, plant and equipment and Goodwill

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

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

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

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

Impairment charges are disclosed in Notes 13, 14 and 27.

Accounting for provisions

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

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

6.4 Site restoration and environmental costs

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

6.5 Useful lives of Property, plant and equipment

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

Were the estimated useful lives to decrease by 10 % or increase by 10 % from management's estimates, the impact on depreciation for the year ended 31 December 2015 would be an increase by RUB 58,112 million or a decrease by RUB 47,546 million (2014: increase by RUB 51,940 million or decrease by RUB 42,497 million).

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

6.6 Fair value estimation for financial instruments

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

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

6.7 Fair value estimation for acquisitions

In accounting for business combinations, the purchase price paid to acquire a business is allocated to its assets and liabilities based on the estimated fair values of the assets acquired and liabilities assumed as of the

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

date of acquisition. The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. A significant amount of judgment is involved in estimating the individual fair values of property, plant and equipment and identifiable intangible assets.

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

6.8 Accounting for plan assets and pension liabilities

Pension plan liabilities are estimated using actuarial techniques and assumptions as disclosed in Note 24. Actual results may differ from the estimates, and the Group's estimates can be revised in the future based on changes in economic and financial conditions. In addition, certain plan assets included in NPF Gazfund are estimated using the fair value estimation techniques. Management makes judgments with respect to the selection of valuation model applied, the amount and timing of cash flows forecasts or other assumptions such as discount rates. The recognition of plan assets is limited by the estimated present value of future benefits which are available to the Group in relation to this plan. These benefits are determined using actuarial techniques and assumptions. The impact of the change in the limitation of the plan assets in accordance with IAS 19 Employee Benefits is disclosed in Note 24. The value of plan assets and the limit are subject to revision in the future.

6.9 Joint Arrangements

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

7 SEGMENT INFORMATION

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

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

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

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

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

The inter-segment sales mainly consist of:

- Production of gas – sales of gas to the Distribution and Refining segments;
- Transportation – rendering transportation services to the Distribution 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 segment;

(in millions of Russian Rubles)

7 SEGMENT INFORMATION (continued)

- Production of crude oil and gas condensate – sales of oil and gas condensate to the Refining segment for further processing;
- Refining – sales of refined hydrocarbon products to other segments.

Internal transfer prices, mostly for Production of gas, Transport and Gas storage segments, are established by the management of the Group with the objective of providing specific funding requirements of the individual subsidiaries within each segment.

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

	Production of gas	Transpor-tation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Year ended 31 December 2015									
Total segment revenues	**707,284**	**1,063,138**	**3,636,183**	**47,144**	**874,099**	**1,565,902**	**424,665**	**287,411**	**8,605,826**
Inter-segment sales	689,260	869,173	226,950	44,487	613,491	10,311	-	-	2,453,672
External sales	18,024	193,965	3,409,233	2,657	260,608	1,555,591	424,665	287,411	6,152,154
Segment result	**11,724**	**(11,768)**	**595,837**	**4,707**	**89,730**	**140,160**	**37,475**	**(4,214)**	**863,651**
Depreciation	168,631	450,705	12,787	22,854	95,858	36,204	39,575	35,722	862,336
Share of net income (loss) of associates and joint ventures	7,484	18,960	17,594	(1,664)	82,231	3,353	13	(21,411)	106,560
Year ended 31 December 2014									
Total segment revenues	**701,406**	**965,057**	**3,203,357**	**44,264**	**706,311**	**1,629,779**	**426,951**	**209,632**	**7,886,757**
Inter-segment sales	682,338	792,215	237,040	41,461	497,077	10,565	-	-	2,260,696
External sales	19,068	172,842	2,966,317	2,803	209,234	1,619,214	426,951	209,632	5,626,061
Segment result	**47,193**	**43,327**	**727,604**	**6,314**	**75,720**	**246,647**	**(14,752)**	**(18,774)**	**1,113,279**
Depreciation	141,544	381,004	14,592	18,962	81,905	35,425	37,343	24,937	735,712
Share of net (loss) income of associates and joint ventures	(22,277)	9,895	10,934	(2,724)	55,396	602	(14)	(5,761)	46,051

(in millions of Russian Rubles)

7 SEGMENT INFORMATION (continued)

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

Notes		Year ended 31 December 2015	Year ended 31 December 2014
	Segment result for reportable segments	867,865	1,132,053
	Other segments' result	(4,214)	(18,774)
	Segment result	**863,651**	**1,113,279**
	Difference in depreciation[1]	347,136	263,561
	Income (expenses) associated with pension obligations	2,588	(3,387)
28	Net finance expense	(418,741)	(1,048,737)
	Gains (losses) on disposal of available-for-sale financial assets	9,121	(915)
15	Share of net income of associates and joint ventures	106,560	46,051
27	Derivatives gains (losses)	88	(7,141)
14, 27	Impairment of goodwill	-	(47,620)
	Other	14,838	(8,268)
	Profit before profit tax	**925,241**	**306,823**

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

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

	Year ended 31 December 2015	Year ended 31 December 2014
External sales for reportable segments	5,864,743	5,416,429
External sales for other segments	287,411	209,632
Total external segment sales	**6,152,154**	**5,626,061**
Differences in external sales[1]	(78,836)	(36,250)
Total sales per the consolidated statement of comprehensive income	**6,073,318**	**5,589,811**

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

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

	Production of gas	Transpor-tation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
31 December 2015									
Segment assets	2,357,813	6,119,073	1,677,460	348,857	2,183,335	1,260,557	850,658	885,287	15,683,040
Investments in associates and joint ventures	19,434	152,954	45,580	1,958	467,626	20,124	1,453	99,117	808,246
Capital additions	220,214	420,874	25,962	48,486	324,330	136,299	98,963	69,701	1,344,829
31 December 2014									
Segment assets	2,276,369	6,088,335	1,454,300	280,762	1,896,609	1,378,295	799,914	661,507	14,836,091
Investments in associates and joint ventures	13,178	123,594	54,083	7,017	346,373	20,063	414	112,494	677,216
Capital additions	254,881	434,433	23,709	15,530	227,421	135,158	82,019	48,177	1,221,328

(in millions of Russian Rubles)

7 SEGMENT INFORMATION (continued)

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

		31 December	
Notes		2015	2014
	Segment assets for reportable segments	14,797,753	14,174,584
	Other segments' assets	885,287	661,507
	Total segment assets	**15,683,040**	**14,836,091**
	Differences in property, plant and equipment, net[1]	(1,778,015)	(2,070,873)
13	Loan interest capitalised	645,109	467,373
	Decommissioning costs	74,290	47,287
8	Cash and cash equivalents	1,359,095	1,038,191
	Restricted cash	1,815	2,085
9	Short-term financial assets	12,570	10,735
	VAT recoverable	229,626	289,287
	Other current assets	472,045	403,005
17	Available-for-sale long-term financial assets	235,607	201,824
14	Goodwill	107,467	104,221
	Other non-current assets	303,269	346,377
	Inter-segment assets	(598,040)	(757,684)
	Other	304,162	259,551
	Total assets per the consolidated balance sheet	**17,052,040**	**15,177,470**

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

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

Segment liabilities:

	31 December	
	2015	2014
Distribution of gas	703,268	686,824
Transportation	317,548	351,566
Refining	255,370	247,737
Production of gas	179,935	146,755
Production of crude oil and gas condensate	142,332	323,068
Electric and heat energy generation and sales	78,618	78,438
Gas storage	11,234	18,352
Other segments	220,394	130,044
Total segment liabilities	**1,908,699**	**1,982,784**

(in millions of Russian Rubles)

7 SEGMENT INFORMATION (continued)

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

Notes		31 December 2015	31 December 2014
	Segment liabilities for reportable segments	1,688,305	1,852,740
	Other segments' liabilities	220,394	130,044
	Total segment liabilities	**1,908,699**	**1,982,784**
	Current profit tax payable	11,929	8,402
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	646,372	464,782
21	Long-term borrowings and promissory notes	2,795,843	2,224,042
24	Provisions for liabilities and charges	435,438	297,106
22	Deferred tax liabilities	618,404	594,098
	Other non-current liabilities	163,032	86,256
	Dividends	4,969	4,759
	Inter-segment liabilities	(598,040)	(757,684)
	Other	150,772	152,904
	Total liabilities per the consolidated balance sheet	**6,137,418**	**5,057,449**

8 CASH AND CASH EQUIVALENTS

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

	31 December 2015	31 December 2014
Cash on hand and bank balances payable on demand	1,189,436	969,440
Term deposits with original maturity of three months or less	169,659	68,751
Total cash and cash equivalents	**1,359,095**	**1,038,191**

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

	31 December 2015	31 December 2014
Cash on hand	1,058	852
External credit rating of A-3 and above	203,753	129,630
External credit rating of B	1,071,979	810,478
No external credit rating	82,305	97,231
Total cash and cash equivalents	**1,359,095**	**1,038,191**

The sovereign credit ratings of the Russian Federation published by Standard & Poor's are BB+ (negative outlook) and BBB- (negative outlook) as of 31 December 2015 and 31 December 2014, respectively.

9 SHORT-TERM FINANCIAL ASSETS

	31 December 2015	31 December 2014
Financial assets held for trading:	**9,976**	**6,718**
Bonds	9,673	6,498
Equity securities	303	220
Available-for-sale financial assets:	**2,594**	**4,017**
Equity securities	2,032	2,863
Promissory notes	416	1,154
Bonds	146	-
Total short-term financial assets	**12,570**	**10,735**

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

(in millions of Russian Rubles)

9 SHORT-TERM FINANCIAL ASSETS (continued)

	31 December 2015	31 December 2014
External credit rating of A-3 and above	2,759	5,123
External credit rating of B	4,384	1,778
No external credit rating	3,092	751
	10,235	**7,652**

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2015	31 December 2014
Financial assets		
Trade receivables	726,156	683,967
Short-term loans	93,409	121,063
Other receivables	187,420	108,429
	1,006,985	913,459
Non-financial assets		
Advances and prepayments	107,222	132,477
Total accounts receivable and prepayments	**1,114,207**	**1,045,936**

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

Trade receivables are presented net of impairment allowance of RUB 839,123 million and RUB 616,919 million as of 31 December 2015 and 31 December 2014, respectively.

Accounts receivable due from NJSC Naftogaz Ukraine in relation to gas sales are RUB 5,528 million and RUB nil million net of impairment allowance of RUB 187,228 million and RUB 123,874 million as of 31 December 2015 and 31 December 2014, respectively.

Short-term loans are presented net of impairment allowance of RUB 10,022 million and RUB 1,250 million as of 31 December 2015 and 31 December 2014, respectively.

Other receivables are presented net of impairment allowance of RUB 24,118 million and RUB 26,837 million as of 31 December 2015 and 31 December 2014, respectively.

Advances and prepayments are presented net of impairment allowance of RUB 1,036 million and RUB 1,116 million as of 31 December 2015 and 31 December 2014, respectively.

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

	31 December 2015	31 December 2014
Short-term trade accounts receivable neither past due nor impaired	655,288	604,199
Short-term trade accounts receivable impaired and provided for	850,737	647,006
Impairment allowance at the end of the year	(839,123)	(616,919)
Short-term trade accounts receivable past due but not impaired	59,254	49,681
Total short-term trade accounts receivable	**726,156**	**683,967**

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

	31 December 2015	31 December 2014
Europe and other countries gas, crude oil, gas condensate and refined products debtors	388,284	338,363
Domestic gas, crude oil, gas condensate and refined products debtors	139,613	129,375
Former Soviet Union countries (excluding the Russian Federation) gas, crude oil, gas condensate and refined products debtors	23,803	30,255
Electricity and heat sales debtors	46,290	45,943
Transportation services debtors	3,628	3,953
Other trade debtors	53,670	56,310
Total trade receivables neither past due nor impaired	**655,288**	**604,199**

(in millions of Russian Rubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As of 31 December 2015 and 31 December 2014, the individually impaired receivables mainly relate to gas sales to certain Russian regions and Former Soviet Union countries. In management's view the receivables will be ultimately recovered. The ageing analysis of these receivables is as follows:

Ageing from the due date	Gross book value 31 December		Allowance 31 December		Net book value 31 December	
	2015	2014	2015	2014	2015	2014
Up to 6 months	77,508	124,549	(69,793)	(104,788)	7,715	19,761
From 6 to 12 months	69,191	123,951	(68,101)	(121,310)	1,090	2,641
From 1 to 3 years	329,384	146,053	(326,815)	(139,017)	2,569	7,036
More than 3 years	374,654	252,453	(374,414)	(251,804)	240	649
	850,737	**647,006**	**(839,123)**	**(616,919)**	**11,614**	**30,087**

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

	Trade receivables Year ended 31 December		Other receivables Year ended 31 December	
	2015	2014	2015	2014
Impairment allowance at the beginning of the year	616,919	315,332	26,837	18,139
Impairment allowance accrued[1]	133,531	287,720	2,066	11,545
Write-off of receivables during the year[2]	(4,691)	(6,320)	(3,309)	(755)
Release of previously created allowance[1]	(31,474)	(172,607)	(1,496)	(2,092)
Foreign exchange rate differences	124,838	192,794	20	-
Impairment allowance at the end of the year	**839,123**	**616,919**	**24,118**	**26,837**

[1] The accrual and release of allowance for impaired receivables have been included in the line "Charge for impairment and other provisions, net" in the consolidated statement of comprehensive income.
[2] If there is no probability of cash receipt for the impaired accounts receivable which were previously provided for, the amount of respective accounts receivable is written-off by means of that allowance.

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

Ageing from the due date	31 December	
	2015	2014
Up to 6 months	44,858	30,324
From 6 to 12 months	8,518	16,266
From 1 to 3 years	5,856	2,868
More than 3 years	22	223
	59,254	**49,681**

11 INVENTORIES

	31 December	
	2015	2014
Gas in pipelines and storage	525,822	429,062
Materials and supplies (net of an obsolescence allowance of RUB 5,498 million and RUB 5,414 million as of 31 December 2015 and 31 December 2014, respectively)	183,776	132,322
Goods for resale (net of an obsolescence allowance of RUB 1,679 million and RUB 1,474 million as of 31 December 2015 and 31 December 2014, respectively)	17,266	27,233
Crude oil and refined products	77,500	83,299
Total inventories	**804,364**	**671,916**

12 OTHER CURRENT AND NON-CURRENT ASSETS

Included within other current assets are prepaid taxes, predominantly VAT in the amount of RUB 126,477 million and RUB 117,012 million and profit tax in the amount of RUB 97,218 million and RUB 92,122 million as of 31 December 2015 and 31 December 2014, respectively.

Included within other non-current assets is VAT recoverable related to assets under construction totalling RUB 50,494 million and RUB 49,543 million as of 31 December 2015 and 31 December 2014, respectively. Other non-current assets include net pension assets in the amount of RUB nil million and RUB 111,742 million as of 31 December 2015 and 31 December 2014, respectively (see Note 24).

(in millions of Russian Rubles)

13 PROPERTY, PLANT AND EQUIPMENT

Notes		Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
	As of 31 December 2013								
	Cost	3,089,096	1,344,235	3,233,208	2,777,460	498,399	94,737	1,822,794	12,859,929
	Accumulated depreciation	(1,159,698)	(460,718)	(1,243,122)	(830,465)	(192,331)	(33,507)	-	(3,919,841)
	Net book value as of 31 December 2013	**1,929,398**	**883,517**	**1,990,086**	**1,946,995**	**306,068**	**61,230**	**1,822,794**	**8,940,088**
	Depreciation	(79,240)	(54,714)	(215,927)	(99,840)	(15,121)	(2,620)	-	(467,462)
	Additions	917	371	49,689	32,990	48,328	1,364	1,220,432	1,354,091
	Acquisition of subsidiaries	-	-	1,115	15,243	-	-	128,117	144,475
	Translation differences	8,556	64,279	33,578	29,482	24,820	22	18,246	178,983
	Transfers	307,472	161,030	374,276	208,858	-	1,496	(1,053,132)	-
	Disposals and other	(383)	(72,673)	(11,079)	(9,955)	(2,286)	(2,123)	(25,003)	(123,502)
27	Charge for impairment allowance	-	(18,702)	(35,207)	(19,167)	(2,356)	-	(1,032)	(76,464)
	Net book value as of 31 December 2014	**2,166,720**	**963,108**	**2,186,531**	**2,104,606**	**359,453**	**59,369**	**2,110,422**	**9,950,209**
	As of 31 December 2014								
	Cost	3,415,966	1,478,790	3,652,413	3,036,673	566,905	94,965	2,110,422	14,356,134
	Accumulated depreciation	(1,249,246)	(515,682)	(1,465,882)	(932,067)	(207,452)	(35,596)	-	(4,405,925)
	Net book value as of 31 December 2014	**2,166,720**	**963,108**	**2,186,531**	**2,104,606**	**359,453**	**59,369**	**2,110,422**	**9,950,209**
	Depreciation	(85,564)	(60,517)	(240,979)	(109,983)	(23,341)	(2,625)	-	(523,009)
	Additions	1,237	59,096	50,266	36,864	926	257	1,466,103	1,614,749
	Acquisition of subsidiaries	-	-	29,709	3,681	-	-	12,110	45,500
	Translation differences	5,478	35,665	36,851	12,005	16,943	3	37,701	144,646
	Transfers	201,954	76,229	451,227	252,687	13,144	1,972	(997,213)	-
	Disposals and other	(663)	(5,199)	(42,756)	(8,737)	(222)	(874)	(40,281)	(98,732)
27	Charge for impairment allowance	-	(57,259)	-	-	-	-	(72,223)	(129,482)
	Net book value as of 31 December 2015	**2,289,162**	**1,011,123**	**2,470,849**	**2,291,123**	**366,903**	**58,102**	**2,516,619**	**11,003,881**
	As of 31 December 2015								
	Cost	3,623,972	1,587,322	4,177,710	3,333,173	597,696	96,323	2,516,619	15,932,815
	Accumulated depreciation	(1,334,810)	(576,199)	(1,706,861)	(1,042,050)	(230,793)	(38,221)	-	(4,928,934)
	Net book value as of 31 December 2015	**2,289,162**	**1,011,123**	**2,470,849**	**2,291,123**	**366,903**	**58,102**	**2,516,619**	**11,003,881**

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

Operating assets are shown net of allowance for impairment of RUB 186,738 million and RUB 129,479 million as of 31 December 2015 and 31 December 2014, respectively.

In 2015, due to lower world oil prices the Group conducted an impairment test and recognised an impairment loss in respect of assets of oil in the amount of RUB 57,259 million.

Assets under construction are presented net of allowance for impairment of RUB 115,175 million and RUB 43,788 million as of 31 December 2015 and 31 December 2014, respectively. Charges for impairment allowance of assets under construction primarily relate to assets for which it is not yet probable that there will be future economic benefit.

In 2015, due to the uncertainties regarding the implementation of the project “South Stream” the Group recognised impairment losses in respect of facilities under construction in the amount of RUB 56,347 million.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RUB 260 million and RUB 336 million as of 31 December 2015 and 31 December 2014, respectively.

Included in additions above are capitalized borrowing costs of RUB 218,127 million and

(in millions of Russian Rubles)

13 PROPERTY, PLANT AND EQUIPMENT (continued)

RUB 119,364 million for the years ended 31 December 2015 and 31 December 2014, respectively. Capitalization rates of 12.62 % and 7.59 % were used representing the weighted average borrowing cost including exchange losses on foreign currency borrowings for the years ended 31 December 2015 and 31 December 2014, respectively. Capitalization rates excluding exchange losses on foreign currency borrowings were 6.79 % and 6.16 % for the years ended 31 December 2015 and 31 December 2014, respectively.

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

	Year ended 31 December	
	2015	2014
Balance at the beginning of the year	**276,850**	**184,372**
Additions	49,086	115,703
Translation differences	14,390	14,355
Transfers	(40,668)	(17,230)
Disposals	(8,713)	(20,350)
Balance at the end of the year	**290,945**	**276,850**

14 GOODWILL

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

Note		Year ended 31 December	
		2015	2014
	Balance at the beginning of the year	104,221	151,189
	Additions	3,698	3,735
27	Charge for impairment	-	(47,620)
	Disposals	(452)	(3,083)
	Balance at the end of the year	**107,467**	**104,221**

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

	31 December	
	2015	2014
Gas production, transportation and distribution	70,022	70,475
Production of crude oil and gas condensate	34,997	31,299
Electric and heat energy generation and sales	2,448	2,447
Total goodwill on subsidiaries	**107,467**	**104,221**

As of 31 December 2015 the Group did not identify any indicators for recognising an impairment loss in relation to goodwill. Based on the results of the impairment test conducted as at 31 December 2014 the Group recognised an impairment loss in relation to goodwill in Refining and Electric and heat energy generation and sale segments in the amount of RUB 47,620 million.

(in millions of Russian Rubles)

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Notes			Carrying value as of 31 December		Share of the income (loss) of associates and joint ventures for the year ended 31 December	
			2015	**2014**	**2015**	**2014**
35, 36	Sakhalin Energy Investment Company Ltd.	Associate	240,831	153,418	61,290	58,888
35	OJSC NGK Slavneft and its subsidiaries	Joint venture	118,704	113,676	5,169	(7,534)
35	Gazprombank (Joint-stock Company) and its subsidiaries	Associate	80,800	95,999	(21,221)	(6,145)
35	LLC Yamal razvitie and its subsidiaries	Joint venture	72,128	60,215	11,914	(1,809)
35	Nord Stream AG	Joint venture	69,617	52,944	13,602	8,888
35	WIGA Transport Beteiligungs-GmbH &Co. KG and its subsidiaries[1]	Associate	47,154	39,139	4,530	4,876
35, 36	SGT EuRoPol GAZ S.A.	Associate	33,410	27,857	514	188
35	JSC Achimgaz	Joint venture	26,281	16,844	9,437	6,888
35	KazRosGaz LLP	Joint venture	20,960	19,215	10,155	6,268
35	Wintershall AG	Associate	20,727	17,640	213	186
35	Gasum OY and its subsidiaries	Associate	10,253	6,915	1,619	229
35	JSC Latvijas Gaze	Associate	8,981	7,611	751	594
35	CJSC Northgas	Joint venture	8,726	4,730	3,996	4,322
34, 35	W & G Beteiligungs-GmbH & Co. KG and its subsidiaries[1, 2]		-	6,249	4,974	2,320
35	AB Lietuvos dujos[3]		-	-	-	491
	AB Amber Grid[3]		-	-	-	60
34	Shtokman Development AG		-	-	-	(27,888)
34	South Stream Transport B.V. and its subsidiaries		-	-	-	(4,237)
	Other (net of allowance for impairment of RUB 7,373 million and RUB 1,929 million as of 31 December 2015 and 31 December 2014, respectively)		49,674	54,764	(383)	(534)
			808,246	**677,216**	**106,560**	**46,051**

[1] In May 2014 the shares in all gas transportation companies that belonged to W & G Beteiligungs-GmbH & Co. KG were transferred to WIGA Transport Beteiligungs-GmbH & Co. KG. As of 31 December 2015 WIGA Transport Beteiligungs-GmbH & Co. KG forms an independent subgroup of associates.
[2] In September 2015 W & G Beteiligungs-GmbH & Co. KG and its subsidiaries became the Group subsidiaries (see Note 34).
[3] In accordance with the provisions of the Third Energy Package of the European Union regarding the split between the gas transmission and distribution activities in August 2013 AB Lietuvos dujos transferred assets, liabilities and rights related to gas transportation to AB Amber Grid, an associate of the Group. In June 2014 the Group sold its 37 % interests in associates, AB Lietuvos dujos and AB Amber Grid, to companies controlled by the Republic of Lithuania for EUR 121 million.

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

	Year ended 31 December	
	2015	**2014**
Balance at the beginning of the year	**677,216**	**549,684**
Share of net income of associates and joint ventures	106,560	73,429
Impairment of investment in Shtokman Development AG	-	(27,378)
Distributions from associates and joint ventures	(64,995)	(86,907)
Share of other comprehensive income (loss) of associates and joint ventures	28,699	(14,769)
Translation differences	86,750	150,871
Other acquisitions and disposals	(25,984)	32,286
Balance at the end of the year	**808,246**	**677,216**

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

	31 December	
	2015	**2014**
JSC Latvijas Gaze	10,552	8,479

(in millions of Russian Rubles)

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Significant associates and joint ventures

Notes		Country of primary operations	Country of incorporation	Nature of operations	Percent of ordinary shares held as of 31 December[1] 2015	2014
	JSC Achimgaz	Russia	Russia	Exploration and production of gas and gas condensate	50	50
	Bosphorus Gaz Corporation A.S.[2]	Turkey	Turkey	Gas distribution	71	71
34	W & G Beteiligungs-GmbH & Co. KG	Germany	Germany	Gas distribution	-	50
	WIGA Transport Beteiligungs-GmbH & Co. KG	Germany	Germany	Gas transportation	50	50
	Wintershall AG	Libya	Germany	Production of oil and gas distribution	49	49
34	WIEH GmbH & Co. KG	Germany	Germany	Gas distribution	-	50
	Gaz Project Development Central Asia AG	Uzbekistan	Switzerland	Gas production	50	50
	Gazprombank (Joint-stock Company)	Russia	Russia	Banking	37	37
	Gasum OY	Finland	Finland	Gas distribution	25	25
	SGT EuRoPol GAZ S.A.	Poland	Poland	Transportation and gas distribution	48	48
	KazRosGaz LLP	Kazakhstan	Kazakhstan	Gas processing and sales of gas and refined products	50	50
	JSC Latvijas Gaze	Latvia	Latvia	Transportation and gas distribution	34	34
	JSV Moldovagaz	Moldova	Moldova	Transportation and gas distribution	50	50
	Nord Stream AG[2]	Russia, Germany	Switzerland	Construction, gas transportation	51	51
	CJSC Northgas	Russia	Russia	Exploration and sales of gas and gas condensate	50	50
	Overgaz Inc. AD	Bulgaria	Bulgaria	Gas distribution	50	50
	Panrusgaz Gas Trading Plc	Hungary	Hungary	Gas distribution	40	40
	JSC Prometheus Gas	Greece	Greece	Gas distribution, construction	50	50
	RosUkrEnergo AG[3]	Ukraine	Switzerland	Gas distribution	-	50
	Sakhalin Energy Investment Company Ltd.	Russia	Bermuda Islands	Oil production, production of LNG	50	50
	OJSC NGK Slavneft	Russia	Russia	Production of oil, sales of oil and refined products	50	50
	JSC Turusgaz	Turkey	Turkey	Gas distribution	45	45
34	Shtokman Development AG	Russia	Switzerland	Exploration and production of gas	-	75
	LLC Yamal razvitie[4]	Russia	Russia	Investment activities, assets management	50	50

[1] Cumulative share of Group companies in charter capital of investees.
[2] Investments in companies continue to be accounted under the equity method of accounting, as the Group did not obtain control due to its corporate governance structure.
[3] On 10 June 2015 RosUkrEnergy AG was liquidated.
[4] LLC Yamal razvitie is a holder of 51 % share in LLC SeverEnergiya. In August 2015 with the aim to simplify the ownership structure and achieve parity shareholdings in LLC SeverEnergiya the Group made an additional contribution to equity of LLC Yamal razvitie in the amount of RUB 14,922 million. The payment was performed by converting long-term loans. OJSC NOVATEK made an additional contribution to equity of LLC Yamal razvitie transferring 6.4 % Arctic Russia B.V. shares, as well as RUB 2,512 million by converting long-term loans. As a result the effective Group's share in LLC SeverEnergiya increased from 43.15 % to 44.65 %.

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

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

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

(in millions of Russian Rubles)

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

	OJSC NGK Slavneft and its subsidiaries	Gazprombank (Joint-stock Company) and its subsidiaries[1]	Sakhalin Energy Investment Company Ltd.
As of and for the year ended 31 December 2015			
Cash and cash equivalents	8,078	708,846	42,766
Other current assets (excluding cash and cash equivalents)	15,830	2,342,873	74,421
Other non-current assets	378,633	1,948,877	1,191,957
Total assets	**402,541**	**5,000,596**	**1,309,144**
Current financial liabilities (excluding trade payables)	26,986	3,433,715	56,520
Other current liabilities (including trade payables)	41,056	147,348	129,944
Non-current financial liabilities	54,562	973,550	295,369
Other non-current liabilities	48,145	37,134	375,537
Total liabilities	**170,749**	**4,591,747**	**857,370**
Net assets (including non-controlling interest)	**231,792**	**408,849**	**451,774**
Percent of ordinary shares held	50 %	37 %	50 %
Carrying value	**118,704**	**80,800**	**240,831**
Revenue	224,224	201,120	380,823
Depreciation	(40,383)	(40,264)	(114,649)
Interest income	2,074	370,945	1,017
Interest expense	(5,279)	(274,886)	(13,759)
(Expenses) profit tax income	(6,486)	5,673	(58,234)
Profit (loss) for the year	**11,352**	**(57,117)**	**122,579**
Other comprehensive (loss) income for the year	**(512)**	**16,763**	**1,265**
Total comprehensive income (loss) for the year	**10,840**	**(40,354)**	**123,844**
Dividends received from associates and joint ventures	**-**	**-**	**(23,449)**
As of and for the year ended 31 December 2014			
Cash and cash equivalents	13,709	870,857	28,115
Other current assets (excluding cash and cash equivalents)	17,568	2,061,271	161,437
Other non-current assets	368,437	1,714,631	972,798
Total assets	**399,714**	**4,646,759**	**1,162,350**
Current financial liabilities (excluding trade payables)	44,221	2,942,067	136,283
Other current liabilities (including trade payables)	44,855	152,126	184,803
Non-current financial liabilities	46,592	1,204,013	269,108
Other non-current liabilities	44,727	31,331	295,207
Total liabilities	**180,395**	**4,329,537**	**885,401**
Net assets (including non-controlling interest)	**219,319**	**317,222**	**276,949**
Percent of ordinary shares held	50 %	37 %	50 %
Carrying value	**113,676**	**95,999**	**153,418**
Revenue	197,453	172,438	308,384
Depreciation	(35,571)	(35,831)	(65,012)
Interest income	1,472	269,623	523
Interest expense	(1,530)	(173,004)	(10,050)
Profit tax income (expenses)	1,999	(9,906)	(84,095)
(Loss) profit for the year	**(15,216)**	**(16,546)**	**117,776**
Other comprehensive income for the year	**406**	**8,362**	**514**
Total comprehensive (loss) income for the year	**(14,810)**	**(8,184)**	**118,290**
Dividends received from associates and joint ventures	**(5,901)**	**(2,354)**	**(50,045)**

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

(in millions of Russian Rubles)

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

	Assets	Liabilities	Revenues	Profit (loss)
As of and for the year ended 31 December 2015				
Nord Stream AG	545,076	406,551	73,769	26,821
LLC Yamal razvitie and its subsidiaries	391,329	275,744	125,450	20,991
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	320,847	178,732	43,328	8,887
Gasum OY and its subsidiaries	113,612	68,825	61,414	6,284
Wintershall AG	86,850	56,098	8,349	435
SGT EuRoPol GAZ S.A.	83,320	13,715	20,005	1,312
JSC Achimgaz	65,018	11,345	28,798	18,873
CJSC Northgas	54,986	36,597	28,888	8,008
KazRosGaz LLP	48,942	7,025	56,774	20,307
JSC Latvijas Gaze	47,752	11,047	30,717	2,059
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries[1]	-	-	692,927	10,402

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

	Assets	Liabilities	Revenues	Profit (loss)
As of and for the year ended 31 December 2014				
Nord Stream AG	489,767	383,935	54,646	17,567
LLC Yamal razvitie and its subsidiaries	379,613	290,004	32,110	(4,341)
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	241,203	162,894	17,145	3,231
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	208,835	188,070	657,725	8,916
Gasum OY and its subsidiaries	110,791	79,333	55,385	(237)
SGT EuRoPol GAZ S.A.	71,910	13,873	14,436	395
Wintershall AG	69,833	42,455	10,802	380
CJSC Northgas	57,564	46,456	28,125	8,643
JSC Achimgaz	47,850	13,050	20,513	13,773
KazRosGaz LLP	41,268	2,838	37,199	12,536
JSC Latvijas Gaze	38,905	9,417	26,108	1,748
AB Lietuvos dujos	-	-	8,917	1,325
AB Amber Grid	-	-	1,059	163
South Stream Transport B.V. and its subsidiaries	-	-	13	(5,581)
Shtokman Development AG	-	-	-	(680)

16 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2015	2014
Long-term accounts receivable and prepayments	216,103	182,817
Advances for assets under construction	383,745	253,651
Total long-term accounts receivable and prepayments	**599,848**	**436,468**

Long-term accounts receivable, prepayments and advances for assets under construction are presented net of impairment allowance of RUB 14,621 million and RUB 33,015 million as of 31 December 2015 and 31 December 2014, respectively.

As of 31 December 2015 and 31 December 2014 long-term accounts receivable and prepayments with carrying value RUB 216,103 million and RUB 182,817 million have an estimated fair value RUB 210,757 million and RUB 169,979 million, respectively.

	31 December	
	2015	2014
Long-term accounts receivable neither past due nor impaired	215,549	152,870
Long-term accounts receivable impaired and provided for	6,394	59,072
Impairment allowance at the end of the year	(5,859)	(29,147)
Long-term accounts receivable past due but not impaired	19	22
Total long-term accounts receivable and prepayments	**216,103**	**182,817**

(in millions of Russian Rubles)

16 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

	31 December 2015	31 December 2014
Long-term loans	122,804	96,043
Long-term trade receivables	23,030	9,912
Other long-term receivables[1]	69,715	46,915
Total long-term accounts receivable neither past due nor impaired	**215,549**	**152,870**

[1] Other long-term accounts receivable includes prepayments in the amount of RUB 2,977 million and RUB 1,567 million as of 31 December 2015 and 31 December 2014, respectively.

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

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

	Year ended 31 December 2015	Year ended 31 December 2014
Impairment allowance at the beginning of the year	29,147	14,083
Impairment allowance accrued[1]	3,697	15,979
Release of previously created allowance [1]	(28,053)	(915)
Foreign exchange rate differences	1,068	-
Impairment allowance at the end of the year	**5,859**	**29,147**

[1] The accrual and release of provision for impaired receivables have been included in the line "Charge for impairment and other provisions, net" in the consolidated statement of comprehensive income.

17 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

	31 December 2015	31 December 2014
Equity securities[1]	235,436	200,987
Debt instruments	171	837
	235,607	**201,824**

[1] As of 31 December 2015 and 31 December 2014 equity securities include OJSC NOVATEK shares in the amount of RUB 181,611 million and RUB 133,787 million, respectively.

Available-for-sale long-term financial assets are shown net of allowance for impairment of RUB 2,128 million and RUB 1,797 million as of 31 December 2015 and 31 December 2014, respectively.

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

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

	Year ended 31 December 2015	Year ended 31 December 2014
Balance at the beginning of the year	201,824	168,904
Increase (decrease) in fair value of long-term available-for-sale financial assets	49,257	(8,811)
Acquisition of long-term available-for-sale financial assets	702	47,393
Disposal of long-term available-for-sale financial assets	(15,845)	(5,494)
Charge for impairment of long-term available-for-sale financial assets	(331)	(168)
Balance at the end of the year	**235,607**	**201,824**

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

(in millions of Russian Rubles)

18 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December 2015	31 December 2014
Financial liabilities		
Trade payables	358,393	362,931
Accounts payable for acquisition of property, plant and equipment	337,868	347,379
Derivative financial instruments	150,068	66,820
Provision under financial guarantees[1]	61,404	47,407
Other payables[2]	266,265	239,054
	1,173,998	1,063,591
Non-financial liabilities		
Advances received	116,307	152,122
Accruals and deferred income	7,701	1,428
	124,008	153,550
	1,298,006	**1,217,141**

[1] As of 31 December 2015 and 31 December 2014 provision under financial guarantees includes accrual related to financial guarantee contract issued to Gazprombank (Joint-stock Company) for Ostchem Holding Limited (see Notes 27 and 36).
[2] As of 31 December 2015 and 31 December 2014 other payables include RUB 102,134 million and RUB 58,164 of accruals for probable price adjustments related to natural gas deliveries made from 2013 to 2015, respectively.

Fair values of these liabilities approximate the carrying values.

19 OTHER TAXES PAYABLE

	31 December 2015	31 December 2014
VAT	65,833	63,731
MET	45,721	52,203
Property tax	24,251	21,537
Excise tax	15,794	13,241
Other taxes	16,795	14,910
Total other taxes payable	**168,394**	**165,622**

20 SHORT-TERM BORROWINGS, PROMISSORY NOTES AND CURRENT PORTION OF LONG-TERM BORROWINGS

	31 December 2015	31 December 2014
Short-term borrowings and promissory notes:		
Borrowings and promissory notes denominated in Russian Rubles	12,766	14,718
Foreign currency denominated borrowings	39,236	38,202
	52,002	52,920
Current portion of long-term borrowings (see Note 21)	594,370	411,862
Total short-term borrowings, promissory notes and current portion of long-term borrowings	**646,372**	**464,782**

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

	31 December 2015	31 December 2014
Fixed rate short-term borrowings denominated in Russian Rubles	10.02 %	14.19 %
Fixed rate foreign currency denominated short-term borrowings	9.12 %	7.78 %
Variable rate short-term borrowings denominated in Russian Rubles	13.72 %	7.23 %
Variable rate foreign currency denominated short-term borrowings	2.01 %	3.10 %

Fair values of these liabilities approximate the carrying values.

(in millions of Russian Rubles)

21 LONG-TERM BORROWINGS, PROMISSORY NOTES

	Currency	Final Maturity	31 December 2015	31 December 2014
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009[1]	US Dollar	2019	166,851	128,793
Mizuho Bank Ltd.[2]	US Dollar	2019	156,821	121,037
Loan participation notes issued in July 2012[1]	Euro	2017	114,928	98,554
China Construction Bank Corporation, Beijing branch[2]	US Dollar	2020	111,077	-
Loan participation notes issued in September 2012[3]	US Dollar	2022	110,666	85,424
Loan participation notes issued in November 2013[3]	US Dollar	2023	109,925	84,851
Loan participation notes issued in October 2007[1]	Euro	2018	101,209	86,790
Loan participation notes issued in November 2006[1]	US Dollar	2016	99,054	76,460
Loan participation notes issued in March 2007[1]	US Dollar	2022	96,701	74,644
Loan participation notes issued in August 2007[1]	US Dollar	2037	93,593	72,245
Loan participation notes issued in April 2004[1]	US Dollar	2034	88,779	68,528
Loan participation notes issued in March 2013[1]	Euro	2020	81,821	70,164
Loan participation notes issued in April 2008[1]	US Dollar	2018	81,622	63,004
Loan participation notes issued in October 2015[1]	Euro	2018	80,475	-
Loan participation notes issued in July 2012[1]	US Dollar	2022	74,506	57,512
Loan participation notes issued in November 2011[1]	US Dollar	2016	73,264	56,552
Loan participation notes issued in July 2013[1]	Euro	2018	72,891	62,506
Loan participation notes issued in February 2013[1]	US Dollar	2028	66,902	51,642
Loan participation notes issued in February 2014[1]	Euro	2021	61,595	52,819
Loan participation notes issued in April 2013[3]	Euro	2018	60,967	52,277
Loan participation notes issued in February 2013[1]	US Dollar	2020	59,210	45,705
PJSC Sberbank	US Dollar	2018	56,231	-
Loan participation notes issued in September 2013[1]	British Pound Sterling	2020	48,201	41,334
Loan participation notes issued in November 2011[1]	US Dollar	2021	44,881	34,644
Commerzbank International S.A.	US Dollar	2018	43,730	39,381
Loan participation notes issued in November 2006[1]	Euro	2017	41,447	35,542
Loan participation notes issued in March 2013[1]	Euro	2025	41,211	35,340
Loan participation notes issued in March 2007[1]	Euro	2017	40,205	34,477
Loan participation notes issued in October 2013[1]	Swiss Franc	2019	36,957	28,637
J.P. Morgan Europe Limited[2]	US Dollar	2018	36,694	-
JSC Rosselkhozbank	Russian Ruble	2019	30,029	10,010
Deutsche Bank AG	US Dollar	2016	29,690	22,901
Alfa-Bank (Joint-stock Company)	US Dollar	2016	29,160	22,513
Intesa Sanpaolo S.p.A.	Euro	2016	28,028	-
Gazprombank (Joint-stock Company)	US Dollar	2018	26,238	-
Sumitomo Mitsui Banking Corporation Europ Limited[2]	US Dollar	2016	25,537	39,396
PJSC Promsvyazbank	US Dollar	2020	25,509	-
Gazprombank (Joint-stock Company)	US Dollar	2018	24,051	-
UniCredit Bank Austria AG	Euro	2019	23,940	-
Sumitomo Mitsui Finance Dublin Limited	US Dollar	2016	23,392	18,056
BNP Paribas S.A.[2]	Euro	2022	22,802	22,352
Gazprombank (Joint-stock Company)	US Dollar	2017	22,594	-
Banc of America Securities Limited	US Dollar	2018	22,041	17,005
Bank of America Merrill Lynch International Limited	US Dollar	2018	21,960	-
Bank of Tokyo-Mitsubishi UFJ Ltd.	US Dollar	2016	21,891	16,896
PJSC Sberbank	Russian Ruble	2017	19,802	19,802
PJSC Sberbank	Euro	2020	19,203	-
PJSC Sberbank	Euro	2017	17,971	15,416
Russian bonds issued in February 2013[4]	Russian Ruble	2016	15,410	15,407
Russian bonds issued in November 2013[5]	Russian Ruble	2043	15,246	15,134
Russian bonds issued in November 2013[5]	Russian Ruble	2043	15,246	15,134

(in millions of Russian Rubles)

21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final Maturity	31 December 2015	31 December 2014
Citibank International plc[2]	US Dollar	2021	14,734	13,436
UniCredit Bank Austria AG	US Dollar	2018	14,581	11,253
Bank of America Securities Limited	Euro	2017	14,420	12,372
HSBC Bank plc	Euro	2022	14,394	14,108
UniCredit Bank AG[2, 6]	US Dollar	2018	14,377	14,421
Bank of Tokyo-Mitsubishi UFJ Ltd.[2]	US Dollar	2016	13,754	21,232
BNP Paribas S.A.[2]	Euro	2023	13,559	-
Banc of America Securities Limited	US Dollar	2016	13,126	10,132
PJSC Sberbank	Russian Ruble	2019	12,514	-
PJSC Sberbank	Russian Ruble	2019	12,514	-
PJSC Sberbank	Russian Ruble	2016	12,400	12,400
PJSC VTB Bank	US Dollar	2016	12,104	9,307
Intesa Sanpaolo S.p.A.	Euro	2019	11,957	-
UniCredit Bank AG[2, 6]	Euro	2018	11,297	12,631
Banca Intesa a.d. Beograd	US Dollar	2019	10,947	8,450
PJSC Sberbank	US Dollar	2018	10,947	8,449
Russian bonds issued in February 2011[3]	Russian Ruble	2021	10,363	10,361
Russian bonds issued in February 2013[4]	Russian Ruble	2017	10,275	10,273
Russian bonds issued in February 2011[3]	Russian Ruble	2016	10,259	10,345
Russian bonds issued in February 2011[3]	Russian Ruble	2021	10,228	10,345
Russian bonds issued in April 2009[3]	Russian Ruble	2019	10,177	10,175
Russian bonds issued in December 2012[3]	Russian Ruble	2022	10,070	10,068
PJSC Sberbank	Russian Ruble	2019	10,011	10,010
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2017	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2017	9,750	-
BNP Paribas S.A.[2]	Euro	2022	8,650	8,384
PJSC VTB Bank	Euro	2020	8,449	-
PJSC Sberbank	Russian Ruble	2016	8,300	8,300
PJSC VTB Bank	Russian Ruble	2018	8,250	8,250
Credit Agricole CIB	Euro	2024	8,018	7,579
Gazprombank (Joint-stock Company)	US Dollar	2016	8,017	11,252
GC Vnesheconombank	Russian Ruble	2025	7,852	8,979
PJSC Sberbank	Russian Ruble	2025	7,220	-
Sberbank Serbia a.d.	US Dollar	2019	6,568	5,071
Gazprombank (Joint-stock Company)	Russian Ruble	2022	6,187	-
OJSC Credit Bank of Moscow	Russian Ruble	2018	5,831	-
Banca Intesa a.d. Beograd	Euro	2018	5,754	-
Sberbank Serbia a.d.	US Dollar	2017	5,483	4,231
Russian bonds issued in February 2013[4]	Russian Ruble	2018	5,137	5,136
Russian bonds series 01 issued in November 2015[7]	Russian Ruble	2020	5,058	-
Russian bonds series 02 issued in November 2015[7]	Russian Ruble	2020	5,058	-
Alfa-Bank (Joint-stock Company)	Russian Ruble	2017	5,011	-
OJSC Bank ROSSIYA	Russian Ruble	2017	5,000	5,000
UniCredit Bank AG[2, 6]	Russian Ruble	2018	1,894	2,352
Russian bonds issued in February 2012[3]	Russian Ruble	2022	452	10,335
Russian bonds issued in May 2005[1]	Euro	2015	-	70,685
Russian bonds issued in July 2009[1]	Euro	2015	-	62,372
Loan participation notes issued in November 2010[1]	US Dollar	2015	-	56,513
Loan participation notes issued in November 2014[1]	US Dollar	2015	-	39,621
The Royal Bank of Scotland AG[2]	US Dollar	2015	-	26,939
Bank of Tokyo-Mitsubishi UFJ Ltd.	US Dollar	2015	-	16,970
Credit Agricole CIB	Euro	2015	-	16,431
Russian bonds issued in October 2014[5]	Russian Ruble	2015	-	13,821
Gazprombank (Joint-stock Company)	US Dollar	2015	-	9,620
PJSC Sberbank	Russian Ruble	2015	-	5,504
OJSC Bank ROSSIYA	Russian Ruble	2015	-	5,000

(in millions of Russian Rubles)

21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final Maturity	31 December 2015	31 December 2014
Gazprombank (Joint-stock Company)	US Dollar	2015	-	3,584
Other long-term borrowings, promissory notes	Various	Various	127,112	75,323
Total long-term borrowings, promissory notes			**3,390,213**	**2,635,904**
Less: current portion of long-term borrowings			(594,370)	(411,862)
			2,795,843	**2,224,042**

[1] Issuer of these bonds is Gaz Capital S.A.
[2] Loans received from consortiums of banks, named lender is the bank-agent.
[3] Issuer of these bonds is PJSC Gazprom Neft.
[4] Issuer of these bonds is Gazprom capital LLC.
[5] Issuer of these bonds is PJSC Gazprom.
[6] Loans were obtained for development of Yuzhno-Russkoye oil and gas field.
[7] Issuer of these bonds is PJSC WGC-2.

	31 December 2015	31 December 2014
Long-term borrowings and promissory notes		
denominated in Russian Rubles (including current portion of RUB 79,910 million and RUB 26,252 million as of 31 December 2015 and 31 December 2014, respectively)	362,400	289,984
denominated in foreign currency (including current portion of RUB 514,460 million and RUB 385,610 million as of 31 December 2015 and 31 December 2014, respectively)	3,027,813	2,345,920
	3,390,213	**2,635,904**

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

Due for repayment	31 December 2015	31 December 2014
Between one and two years	472,657	404,096
Between two and five years	1,452,110	970,608
After five years	871,076	849,338
	2,795,843	**2,224,042**

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,431,823 million and RUB 2,044,351 million and fair value of RUB 2,480,142 million and RUB 1,893,394 million as of 31 December 2015 and 31 December 2014, respectively.

All other long-term liabilities have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 958,390 million and RUB 591,553 million and fair value is RUB 948,744 million and RUB 534,708 million as of 31 December 2015 and 31 December 2014, respectively.

In 2015 and 2014 the Group did not have material formal hedging arrangements to mitigate its foreign exchange risk or interest rate risk.

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

	31 December 2015	31 December 2014
Fixed rate long-term borrowings denominated in Russian Rubles	10.68 %	9.85 %
Fixed rate foreign currency denominated long-term borrowings	5.63 %	5.65 %
Variable rate long-term borrowings denominated in Russian Rubles	15.70 %	9.75 %
Variable rate foreign currency denominated long-term borrowings	3.37 %	2.43 %

As of 31 December 2015 and 31 December 2014 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoe oil and gas field with the group of international financial institutions with UniCredit Bank AG acting as a facility agent, ordinary shares of OJSC Severneftegazprom with the pledge value of RUB 16,968 million and fixed assets with the pledge value of RUB 26,210 million were pledged to ING Bank N.V. (London branch) up to the date of full redemption of the liabilities on this agreement. As of 31 December 2015 and 31 December 2014 carrying amount of these fixed assets is RUB 21,654 million and RUB 24,044 million, respectively. Management of the Group does not expect any substantial consequences to occur which relate to respective pledge agreement.

(in millions of Russian Rubles)

21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

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

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

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

The Group has no subordinated debt and no debt that may be converted into an equity interest of the Group (see Note 25).

22 PROFIT TAX

Profit before profit tax for financial reporting purposes is reconciled to profit tax expense as follows:

Notes		Year ended 31 December 2015	2014
	Profit before profit tax	925,241	306,823
	Theoretical tax charge calculated at applicable tax rates	(185,048)	(61,365)
	Tax effect of items which are not deductible or assessable for taxation purposes:		
	Non-deductible expenses, including:		
	Tax losses for which no deferred tax asset was recognised	(23,092)	(30,459)
	Impairment in the South Stream project	(11,269)	-
24, 27	Provision for post-employment benefit obligations	(7,111)	(6,263)
27	Allowance for accounts receivable	-	(26,645)
14, 27	Impairment of goodwill	-	(9,524)
27	Provision under financial guarantees	-	(9,481)
	Other non-deductible expenses	(22,591)	(26,952)
15	Non-taxable profits of associates and joint ventures	21,312	9,210
	Changes in tax policy regarding making of impairment allowance of accounts receivable	71,406	-
	Other non-taxable income	36,351	11,848
	Profit tax expense	**(120,042)**	**(149,631)**

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the applicable statutory rates, including the prevailing rate of 20 % in the Russian Federation.

	Tax effects of taxable and deductible temporary differences:						
	Property, plant and equipment	Financial assets	Inven-tories	Tax losses carry forward	Retroactive gas price adjustments	Other deductible temporary differences	Total net deferred tax liabilities
31 December 2013	**(565,983)**	**(9,673)**	**(5,612)**	**10,701**	**4,712**	**6,986**	**(558,869)**
Differences recognition and reversals recognised in profit or loss	(54,771)	7,833	(2,765)	9,420	6,959	5,036	(28,288)
Differences recognition and reversals recognised in other comprehensive income	-	(5,488)	-	-	-	(1,453)	(6,941)
31 December 2014	**(620,754)**	**(7,328)**	**(8,377)**	**20,121**	**11,671**	**10,569**	**(594,098)**
Differences recognition and reversals recognised in profit or loss	(65,316)	10,737	(6,366)	(1,765)	8,929	35,962	(17,819)
Differences recognition and reversals recognised in other comprehensive income	-	(3,032)	-	-	-	(3,455)	(6,487)
31 December 2015	**(686,070)**	**377**	**(14,743)**	**18,356**	**20,600**	**43,076**	**(618,404)**

Taxable temporary differences recognised for the year ended 31 December 2015 and 31 December 2014 include the effect of depreciation premium on certain property, plant and equipment. As a result a deferred

(in millions of Russian Rubles)

22 PROFIT TAX (continued)

tax liability related to property, plant and equipment was recognised in the amount of RUB 35,052 million and RUB 28,540 million, respectively, with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the year ended 31 December 2015 and 31 December 2014.

The temporary differences associated with undistributed earnings of subsidiaries and associates amount to RUB 570,402 million and RUB 591,795 million as of 31 December 2015 and 31 December 2014, respectively. A deferred tax liability on these temporary differences was not recognised, because management controls the timing of the reversal of the temporary differences and believes that they will not reversed in the foreseeable future.

Effective 1 January 2012, 55 major Russian subsidiaries of PJSC Gazprom formed a consolidated group of taxpayers ("CGT") with PJSC Gazprom acting as the responsible tax payer. During 2013, additional nine Russian subsidiaries of PJSC Gazprom joined the CGT. During 2014, four Russian subsidiaries of PJSC Gazprom left the CGT. During 2015, additional two Russian subsidiaries of PJSC Gazprom joined the CGT. In accordance with the Russian tax legislation, tax deductible losses can be offset against taxable profits among the companies within the CGT to the extent those losses and profits are recognised for tax purposes in the reporting year and, thus, are included into the tax base of the CGT. Tax assets recognised on losses prior to the formation of the CGT are written off.

23 DERIVATIVE FINANCIAL INSTRUMENTS

The Group has outstanding commodity contracts measured at fair value. The fair value of derivatives is based on market quotes on measurement date or calculation using an agreed price formula.

Where appropriate, in order to manage currency risk the Group uses foreign currency derivatives.

The following table provides an analysis of the Group's position and fair value of derivatives outstanding as of the end of the reporting year. Fair values of derivatives are reflected at their gross value included in other assets and other liabilities in the consolidated balance sheet.

Fair value	**31 December**	
	2015	**2014**
Assets		
Commodity contracts	175,517	58,099
Foreign currency derivatives	4,123	6,568
Other derivatives	-	591
	179,640	**65,258**
Liabilities		
Commodity contracts	195,267	72,186
Foreign currency derivatives	82,719	62,116
Other derivatives	1,322	137
	279,308	**134,439**

Derivative financial instruments are mainly denominated in US dollars, Euros and Pounds sterling.

As of 31 December 2015 and 31 December 2014 the Group had outstanding foreign currency hedge contracts for a total notional value of USD 1,237 million and USD 1,642 million, respectively.

24 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December	
	2015	**2014**
Provision for post-employment benefit obligations	233,077	171,275
Provision for decommissioning and site restoration costs	160,648	104,168
Other	41,713	21,663
Total provisions for liabilities and charges	**435,438**	**297,106**

Provision for decommissioning and site restoration costs increased due to decrease in discount rate from 13.20 % to 9.39 % as of 31 December 2014 and 31 December 2015, respectively.

The Group operates post-employment benefits, which are recorded in the consolidated financial statements under IAS 19 Employee Benefits. Defined benefit plan covers the majority employees of the Group. The retirement benefit plan includes benefits of the following types: pension benefits paid to former employees

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24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

through the non-state pension fund “Gazfund” (“NPF Gazfund”), lump sum payment upon retirement, financial aid provided to pensioners, financial aid and compensation to cover funeral expenses in the event of an employee’s.

The amount of benefits depends on the period of the employees’ service (years of service), salary level at retirement, predetermined fixed amount or a combination of these factors.

Principal actuarial assumptions used:

	31 December 2015	31 December 2014
Discount rate (nominal)	9.5 %	12.5 %
Future salary and pension increases (nominal)	7.0 %	8.0 %
Retirement ages	females 55, males 58	females 54, males 58
Turnover ratio p.a.	Age-related curve, 3.8 % pa on average	

Weighted-average duration of obligations is 13 years. The assumptions relating to life expectancy at expected pension age were 19.3 years for a 58 year old man and 28.5 years for a 55 year old woman in 2015. The assumptions relating to life expectancy at expected pension age were 19.3 years for a 58 year old man and 29.5 years for a 54 year old woman in 2014.

The amounts associated with post-employment benefit obligations recognised in the consolidated balance sheet are as follows:

	31 December 2015		31 December 2014	
	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits	Funded benefits - provided through NPF Gazfund	Unfunded liabilities – other benefits
Present value of benefit obligations	(356,565)	(226,097)	(279,485)	(171,275)
Fair value of plan assets	349,585	-	391,227	-
Net balance (liability) asset	**(6,980)**	**(226,097)**	**111,742**	**(171,275)**

The net pension liabilities related to benefits provided by the pension plan NPF Gazfund in the amount of RUB 6,980 million as of 31 December 2015 are included within provisions for liabilities and charges.

The net pension assets related to benefits provided by the pension plan NPF Gazfund in the amount of RUB 111,742 million as of 31 December 2014 are included within other non-current assets.

Changes in the present value of the defined benefit obligations and fair value of plan assets for the years ended 31 December 2015 and 31 December 2014 are as follows:

	Funded liabilities - benefits provided through NPF Gazfund	Fair value of plan asset	Net (asset) liability	Unfunded liabilities–other post-employment benefits
Opening balance as of 31 December 2014	**279,485**	**(391,227)**	**(111,742)**	**171,275**
Current service cost	11,371	-	11,371	10,020
Past service cost	3,869	-	3,869	871
Net interest expense (income)	34,927	(49,135)	(14,208)	21,416
Total expenses included in staff cost	**50,167**	**(49,135)**	**1,032**	**32,307**
Remeasurements:				
Actuarial losses arising from changes in financial assumptions	54,041	-	54,041	36,609
Actuarial gains arising from changes in demographic assumptions	(3,433)	-	(3,433)	(3,336)
Actuarial (gains) losses - Experience	(12,080)	-	(12,080)	2,574
Return on assets excluding amounts included in net interest expense	-	94,479	94,479	-
Exchange differences	-	-	-	205
Total recognised in other comprehensive loss	**38,528**	**94,479**	**133,007**	**36,052**
Benefits paid	(11,615)	11,615	-	(15,755)
Contributions by employer	-	(15,317)	(15,317)	-
Business combinations	-	-	-	2,218
Closing balance as of 31 December 2015	**356,565**	**(349,585)**	**6,980**	**226,097**

(in millions of Russian Rubles)

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

	Funded liabilities - benefits provided through NPF Gazfund	Fair value of plan asset	Net (asset) liability	Unfunded liabilities–other post-employment benefits
Opening balance as of 31 December 2013	**318,208**	**(429,368)**	**(111,160)**	**198,202**
Current service cost	12,796	-	12,796	11,693
Past service cost	34	-	34	11
Net interest expense (income)	25,430	(34,349)	(8,919)	15,702
Total expenses included in staff cost	**38,260**	**(34,349)**	**3,911**	**27,406**
Remeasurements:				
Actuarial gains arising from changes in financial assumptions	(69,125)	-	(69,125)	(43,318)
Actuarial gains arising from changes in demographic assumptions	-	-	-	(99)
Actuarial losses - Experience	3,089	-	3,089	1,256
Return on assets excluding amounts nincluded in net interest expense	-	73,759	73,759	-
Total recognised in other comprehensive (income) loss	**(66,036)**	**73,759**	**7,723**	**(42,161)**
Benefits paid	(10,947)	10,947	-	(12,118)
Contributions by employer	-	(12,216)	(12,216)	-
Business combinations	-	-	-	(54)
Closing balance as of 31 December 2014	**279,485**	**(391,227)**	**(111,742)**	**171,275**

The major categories of plan assets as a fair value and percentage of total plan assets are as follows:

	31 December 2015		31 December 2014	
	Fair value	Percent in plan assets, %	Fair value	Percent in plan assets, %
Quoted plan asset, including	**159,946**	**45.8 %**	**124,194**	**31.7 %**
Mutual funds	75,409	21.6 %	40,692	10.4 %
Bonds	51,812	14.8 %	27,895	7.1 %
Shares	32,725	9.4 %	55,607	14.2 %
Other securities	-	-	-	-
Unquoted plan asset, including	**189,639**	**54.2 %**	**267,033**	**68.3 %**
Shares	158,334	45.3 %	186,609	47.7 %
Deposits	13,785	3.9 %	31,114	8.0 %
Mutual funds	12,178	3.5 %	49,310	12.6 %
Other securities	5,342	1.5 %	-	-
Total plan assets	**349,585**	**100 %**	**391,227**	**100 %**

The amount of ordinary shares of PJSC Gazprom included in the fair value of plan assets comprises RUB 16,702 million and RUB 21,338 million as of 31 December 2015 and 31 December 2014, respectively.

Non-quoted equities within plan assets are mostly represented by Gazprombank (Joint-stock Company) shares which are measured at fair value (Level 2) using market approach valuation techniques based on available market data.

For the years ended 31 December 2015 and 31 December 2014 actual return on plan assets was a loss of RUB 45,344 million and loss of RUB 39,410 million primarily caused by the change of the fair value of plan assets.

(in millions of Russian Rubles)

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2015 is presented below:

	Increase (decrease) of defined benefit obligation	Increase (decrease) of defined benefit obligation, %
Mortality rates lower by 20 %	24,039	4.18 %
Mortality rates higher by 20 %	(20,058)	(3.49 %)
Discount rate lower by 1 pp	58,324	10.15 %
Discount rate higher by 1 pp	(49,379)	(8.60 %)
Benefit growth lower by 1 pp	(50,878)	(8.86 %)
Benefit growth higher by 1 pp	59,207	10.31 %
Staff turnover lower by 1 pp for all ages	27,220	4.74 %
Staff turnover higher by 1 pp for all ages	(23,864)	(4.15 %)
Retirement ages lower by 1 year	25,672	4.47 %
Retirement ages higher by 1 year	(25,013)	(4.35 %)

The Group expects to contribute RUB 32,400 million to the defined benefit plans in 2016.

Retirement benefit plan parameters and related risks

As a rule, the above benefits are indexed in line with inflation rate or salary growth for benefits that depend on salary level. All retirement benefit plans of the Group are exposed to inflation risk.

In addition to the inflation risk, the pension plan of the Group is exposed to mortality risk.

25 EQUITY

Share capital

Share capital authorised, issued and paid totals RUB 325,194 million as of 31 December 2015 and 31 December 2014 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Russian Rubles.

Dividends

In 2015 PJSC Gazprom declared and paid dividends in the nominal amount of 7.20 Russian Rubles per share for the year ended 31 December 2014. In 2014 PJSC Gazprom declared and paid dividends in the nominal amount of 7.20 Russian Rubles per share for the year ended 31 December 2013.

Treasury shares

As of 31 December 2015 and 31 December 2014 subsidiaries of PJSC Gazprom held 723 million of the ordinary shares of PJSC Gazprom. Shares of PJSC Gazprom held by the subsidiaries represent 3.1 % of PJSC Gazprom shares as of 31 December 2015 and 31 December 2014. The management of the Group controls the voting rights of these shares.

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Russian Ruble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29 Financial Reporting in Hyperinflation Economies. Also, retained earnings and other reserves include translation differences arising on the translation of the net assets of foreign subsidiaries, associates and joint arrangements in the amount of RUB 899,336 million and RUB 628,321 million as of 31 December 2015 and 31 December 2014, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of these assets to governmental authorities and this process may continue. Social assets with a net book value of RUB 94 million and RUB 35 million have been transferred to governmental authorities during the years ended 31 December 2014 and 31 December 2015, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

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25 EQUITY (continued)

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with Russian Accounting Rules. For the year ended 31 December 2015 the statutory profit of the parent company was RUB 403,523 million. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

26 SALES

	Year ended 31 December 2015	Year ended 31 December 2014
Gas sales gross of excise tax and customs duties to customers in:		
Russian Federation	805,615	820,567
Former Soviet Union (excluding Russian Federation)	480,204	486,079
Europe and other countries	2,776,860	2,149,976
	4,062,679	3,456,622
Customs duties	(582,023)	(472,186)
Excise tax[1]	(79,881)	-
Retroactive gas price adjustments[2]	26,482	949
Total gas sales	3,427,257	2,985,385
Sales of refined products to customers in:		
Russian Federation	981,792	953,136
Former Soviet Union (excluding the Russian Federation)	105,335	79,874
Europe and other countries	468,464	586,204
Total sales of refined products	1,555,591	1,619,214
Sales of crude oil and gas condensate to customers in:		
Russian Federation	77,519	51,603
Former Soviet Union (excluding the Russian Federation)	27,580	16,013
Europe and other countries	155,509	141,618
Total sales of crude oil and gas condensate	260,608	209,234
Electric and heat energy sales:		
Russian Federation	403,084	409,087
Former Soviet Union (excluding the Russian Federation)	2,524	2,481
Europe and other countries	19,057	15,383
Total electric and heat energy sales	424,665	426,951
Gas transportation sales:		
Russian Federation	191,648	171,147
Former Soviet Union (excluding the Russian Federation)	2,302	1,687
Europe and other countries	15	8
Total gas transportation sales	193,965	172,842
Other revenues:		
Russian Federation	182,594	152,459
Former Soviet Union (excluding the Russian Federation)	6,497	4,757
Europe and other countries	22,141	18,969
Total other revenues	211,232	176,185
Total sales	**6,073,318**	**5,589,811**

[1] On 1 January 2015 changes came into effect to the Chapter 22 Excises of the Tax Code of the Russian Federation, according to which natural gas is subject to excise tax, if it is stipulated by international treaties of the Russian Federation. The disclosed information about revenue and excise tax reflects special aspects of the Group activities and also is made for the purpose of comparability of the financial figures.

[2] Retroactive gas price adjustments relate to gas deliveries in 2012-2014 for which a discount has been agreed or is in the process of negotiations. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made. The effects of retroactive gas price adjustments on sales for the years ended 31 December 2015 and 31 December 2014 was an increase of RUB 26,482 million and RUB 949 million, respectively, reflecting a decrease in a related accruals following estimates made and agreements reached prior to the issuance of respective consolidated financial statements.

(in millions of Russian Rubles)

27 OPERATING EXPENSES

	Year ended 31 December	
	2015	**2014**
Purchased gas and oil	1,048,472	792,723
Taxes other than profit tax	805,132	775,826
Staff costs	590,981	516,778
Transit of gas, oil and refined products	534,503	399,561
Depreciation	515,200	472,151
Materials	299,182	267,552
Cost of goods for resale, including refined products	193,348	292,150
Repairs and maintenance	161,578	172,395
Electricity and heating expenses	91,822	87,228
Rental expenses	35,600	33,292
Social expenses	32,485	46,429
Transportation services	32,218	33,431
Research and development expenses	30,588	19,653
Insurance expenses	27,214	29,096
Processing services	18,810	18,121
Derivatives (gains) losses	(88)	7,141
Foreign exchange rate differences on operating items	(25,581)	(243,438)
Other	365,847	300,279
	4,757,311	**4,020,368**
Changes in inventories of finished goods, work in progress and other effects	(121,809)	(76,699)
Total operating expenses	**4,635,502**	**3,943,669**

Gas purchase expenses included within purchased gas and oil amounted to RUB 819,327 million and RUB 575,639 million for the years ended 31 December 2015 and 31 December 2014, respectively.

Staff costs include RUB 35,557 million and RUB 31,317 million of expenses associated with post-employment benefit obligations for the years ended 31 December 2015 and 31 December 2014, respectively (see Note 24).

Taxes other than profit tax consist of:

	Year ended 31 December	
	2015	**2014**
MET	591,336	563,404
Property tax	112,568	89,010
Excise tax	88,580	112,533
Other taxes	12,648	10,879
Total taxes other than profit tax	**805,132**	**775,826**

The amount recognised in the consolidated statement of comprehensive income related to net impairment charges for impairment and other provisions are as follows:

		Year ended 31 December	
Notes		**2015**	**2014**
13	Charge for allowance for impairment of property, plant and equipment	129,482	76,464
	Charge for allowance for accounts receivable	81,994	133,225
	Charge for allowance for investments	1,454	6,499
11	Charge for allowance for inventory obsolescence	289	1,993
14	Charge for impairment of goodwill	-	47,620
18, 36	Charge for provision under financial guarantees	-	47,407
	Total net impairment charges for impairment and other provisions	**213,219**	**313,208**

(in millions of Russian Rubles)

28 FINANCE INCOME AND EXPENSES

	Year ended 31 December	
	2015	2014
Foreign exchange gains	878,181	322,821
Interest income	112,165	66,983
Total finance income	**990,346**	**389,804**
Foreign exchange losses	1,342,230	1,393,792
Interest expense	66,857	44,749
Total finance expenses	**1,409,087**	**1,438,541**

Total interest paid amounted to RUB 168,311 million and RUB 121,819 million for the years ended 31 December 2015 and 31 December 2014, respectively.

Foreign exchange gains and losses for the years ended 31 December 2015 and 31 December 2014 were recognised as a result of the appreciation of US Dollar and Euro against the Russian Ruble. Gains and losses primarily relate to revaluation of borrowings denominated in foreign currencies.

29 RECONCILIATION OF PROFIT (LOSS), DISCLOSED IN CONSOLIDATED STATEMENT OF FINANCIAL RESULTS, PREPARED IN ACCORDANCE WITH RUSSIAN ACCOUNTING RULES (RAR) TO PROFIT DISCLOSED IN IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2015	2014
RAR net profit (loss) for the year per consolidated statutory accounts	**304,804**	**(124,704)**
Effects of IFRS adjustments:		
Classification of revaluation of available-for-sale financial assets	(43,179)	8,859
Difference in share of net income of associates and joint ventures	(9,166)	(15,942)
Differences in depreciation of property, plant and equipment	388,723	287,212
Reversal of goodwill amortisation	62,184	62,218
Loan interest and foreign exchange losses capitalized	177,736	88,581
Impairment and other provisions, including provision for pension obligations and unused vacations	(48,406)	(154,441)
Accounting for finance leases	887	10,850
Write-off of research and development expenses capitalized for RAR purposes	(6,956)	(6,509)
Fair value adjustment on derivatives	88	(7,141)
Differences in fixed assets disposal	(1,975)	1,920
Differences in financial results from acquisition of subsidiaries	31,674	-
Other effects	(51,215)	6,289
IFRS profit for the year	**805,199**	**157,192**

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

Earnings per share attributable to owners of PJSC Gazprom have been calculated by dividing the profit for the year, attributable to the owners of PJSC Gazprom by the annual weighted average number of shares outstanding, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 25).

There were 23.0 billion weighted average shares outstanding for the years ended 31 December 2015 and 31 December 2014.

There are no dilutive financial instruments outstanding in the Group.

(in millions of Russian Rubles)

31 NET CASH PROVIDED BY OPERATING ACTIVITIES

Notes		Year ended 31 December 2015	2014
	Profit before profit tax	**925,241**	**306,823**
	Adjustments to profit before profit tax for:		
27	Depreciation	515,200	472,151
28	Net finance expense	418,741	1,048,737
15	Share of net income of associates and joint ventures	(106,560)	(46,051)
27	Charge for provisions	248,776	344,525
27	Derivatives (gains) losses	(88)	7,141
	(Gains) losses on disposal of available-for-sale financial assets	(9,121)	915
	Other	(6,952)	5,147
	Total effect of adjustments	1,059,996	1,832,565
	Cash flows from operating activities before working capital changes	1,985,237	2,139,388
	Decrease (increase) in non-current assets	1,088	(4,379)
	(Decrease) increase in non-current liabilities	(7,481)	5,221
		1,978,844	2,140,230
	Changes in working capital:		
	Increase in accounts receivable and prepayments	(732)	(84,076)
	Increase in inventories	(78,157)	(108,161)
	Decrease in other current assets	297,491	149,672
	Decrease in accounts payable and accrued charges, excluding interest, dividends and capital construction	(67,769)	(3,331)
	Settlements on taxes payable (other than profit tax)	5,195	17,552
	Decrease in available-for-sale financial assets and financial assets held for trading	784	16,557
	Total effect of working capital changes	156,812	(11,787)
	Profit tax paid	(104,729)	(212,674)
	Net cash from operating activities	**2,030,927**	**1,915,769**

Total taxes and other similar payments paid in cash for the years 2015 and 2014:

	Year ended 31 December 2015	2014
Customs duties	693,746	803,929
MET	599,433	561,402
Excise	219,105	147,586
Property tax	110,123	85,904
Insurance contributions to non-budget funds	108,151	74,686
Profit tax	104,729	212,674
Personal income tax	57,911	53,050
VAT	27,586	98,250
Other	25,880	25,512
Total taxes paid	**1,946,664**	**2,062,993**

32 SUBSIDIARIES

Significant subsidiaries

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December[1] 2015	2014
LLC Aviapredpriyatie Gazprom avia	Russia	100	100
WIBG GmbH[2]	Germany	100	-
OJSC Vostokgazprom	Russia	100	100
GAZPROM Schweiz AG	Switzerland	100	100
CJSC Gazprom Armenia	Armenia	100	100
LLC Gazprom VNIIGAZ	Russia	100	100
OJSC Gazprom gazoraspredelenie	Russia	100	100
JSC Gazprom gazoraspredelenie Sever	Russia	96	96
LLC Gazprom geologorazvedka	Russia	100	100
LLC Gazprom georesurs	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Gerosgaz Holdings B.V.	Netherlands	100	100

(in millions of Russian Rubles)

32 SUBSIDIARIES (continued)

Significant subsidiaries

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December[1] 2015	2014
Gazprom Global LNG Ltd.	United Kingdom	100	100
LLC Gazprom dobycha Astrakhan	Russia	100	100
LLC Gazprom dobycha Krasnodar	Russia	100	100
LLC Gazprom dobycha Nadym	Russia	100	100
LLC Gazprom dobycha Noyabrsk	Russia	100	100
LLC Gazprom dobycha Orenburg	Russia	100	100
LLC Gazprom dobycha Urengoy	Russia	100	100
LLC Gazprom dobycha shelf Yuzhno-Sakhalinsk	Russia	100	100
LLC Gazprom dobycha Yamburg	Russia	100	100
LLC Gazprom invest	Russia	100	100
LLC Gazprom invest Vostok	Russia	100	100
LLC Gazprom invest RGK	Russia	100	100
CJSC Gazprom invest Yug	Russia	100	100
LLC Gazprom investholding	Russia	100	100
Gazprom International Germany GmbH	Germany	100	100
LLC Gazprom inform	Russia	100	100
LLC Gazprom komplektatciya	Russia	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
LLC Gazprom mezhregiongaz	Russia	100	100
OJSC Gazprom neftekhim Salavat	Russia	100	100
PJSC Gazprom neft	Russia	96	96
LLC Gazpromneft-Orenburg[3]	Russia	100	100
Gazprom Neft Trading GmbH[3]	Austria	100	100
LLC Gazprom neft shelf[3]	Russia	100	100
LLC Gazprom pererabotka	Russia	100	100
LLC Gazprom podzemremont Orenburg	Russia	100	100
LLC Gazprom podzemremont Urengoy	Russia	100	100
LLC Gazprom PKhG	Russia	100	100
Gazprom Sakhalin Holdings B.V.	Netherlands	100	100
LLC Gazprom torgservis	Russia	100	100
OJSC Gazprom transgaz Belarus	Belorussia	100	100
LLC Gazprom transgaz Volgograd	Russia	100	100
LLC Gazprom transgaz Ekaterinburg	Russia	100	100
LLC Gazprom transgaz Kazan	Russia	100	100
LLC Gazprom transgaz Krasnodar	Russia	100	100
LLC Gazprom transgaz Makhachkala	Russia	100	100
LLC Gazprom transgaz Moskva	Russia	100	100
LLC Gazprom transgaz Nizhny Novgorod	Russia	100	100
LLC Gazprom transgaz Samara	Russia	100	100
LLC Gazrpom transgaz St. Petersburg	Russia	100	100
LLC Gazprom transgaz Saratov	Russia	100	100
LLC Gazprom transgaz Stavropol	Russia	100	100
LLC Gazprom transgaz Surgut	Russia	100	100
LLC Gazprom transgaz Tomsk	Russia	100	100
LLC Gazprom transgaz Ufa	Russia	100	100
LLC Gazprom transgaz Ukhta	Russia	100	100
LLC Gazprom transgaz Tchaikovsky	Russia	100	100
LLC Gazprom transgaz Yugorsk	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
LLC Gazprom tsentrremont	Russia	100	100
LLC Gazprom export	Russia	100	100
LLC Gazprom energo	Russia	100	100
LLC Gazprom energoholding	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
LLC Gazpromneft-Vostok[3]	Russia	100	100
JSC Gazpromneft-Kuzbass[3]	Russia	100	100
JSC Gazpromneft - MNPZ[3]	Russia	100	100
OJSC Gazpromneft-Noyabrskneftegaz[3]	Russia	100	100
JSC Gazpromneft-Omsk[3]	Russia	100	100
JSC Gazpromneft-ONPZ[3]	Russia	100	100

(in millions of Russian Rubles)

32 SUBSIDIARIES (continued)

Significant subsidiaries

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December[1] 2015	2014
JSC Gazpromneft-Severo-Zapad[3]	Russia	100	100
LLC Gazpromneftfinans[3]	Russia	100	100
LLC Gazpromneft-Khantos[3]	Russia	100	100
LLC Gazpromneft-Centr[3]	Russia	100	100
LLC Gazpromtrans	Russia	100	100
OJSC Gazpromtrubinvest	Russia	100	100
LLC Gazprom flot	Russia	100	100
OJSC Daltransgaz	Russia	100	100
LLC Zapolyarneft[3]	Russia	100	100
PJSC Krasnoyarskgazprom	Russia	75	75
PJSC MIPC	Russia	90	90
PJSC Mosenergo	Russia	53	53
Naftna Industrija Srbije a.d.[3]	Serbia	56	56
LLC Novourengoysky GCC	Russia	100	100
PJSC WGC-2	Russia	77	77
CJSC Purgaz	Russia	51	51
OJSC Regiongazholding	Russia	57	57
CJSC Rosshelf	Russia	57	57
South Stream Transport B.V.	Russia, Bulgaria	100	100
OJSC Severneftegazprom[4]	Russia	50	50
Sibir Energy Ltd.[3]	United Kingdom	100	100
LLC Sibmetakhim	Russia	100	100
OJSC Spetsgazavtotrans	Russia	51	51
OJSC TGC-1	Russia	52	52
OJSC Teploset Sankt-Peterburga	Russia	75	75
OJSC Tomskgazprom	Russia	100	100
LLC Faktoring-Finance	Russia	90	90
OJSC Tsentrgaz	Russia	100	100
JSC Tsentrenergogaz	Russia	66	66
JSC Yuzhuralneftegaz[3]	Russia	88	88
LLC Yamalgazinvest	Russia	100	100

[1] Cumulative share of the Group in charter capital of investees.
[2] On 30 September 2015 in accordance with the Swap Agreement the Group acquired the 100 % of the interest in WIBG GmbH (see Note 34).
[3] Subsidiaries of PJSC Gazprom neft.
[4] Group's portion of voting shares.

33 NON-CONTROLLING INTEREST

	Year ended 31 December 2015	2014
Non-controlling interest at the beginning of the year	**303,463**	**314,764**
Non-controlling interest share of net profit (loss) of subsidiaries[1]	18,143	(1,812)
Acquisition of the additional interest in LLC Gazprom Resurs Nortgaz	-	(8,110)
Acquisition of the additional interest in CJSC Gazprom Armenia	-	(3,467)
Acquisition of the additional interest in JSC Gazpromneft-MNPZ and its subsidiaries	-	(2,440)
Changes in interest in PJSC WGC-2	136	(2,750)
Changes in the non-controlling interest as a result of other acquisitions and disposals	(1,671)	739
Losses from cash flow hedges	(403)	(2,388)
Losses arising from change in fair value of available-for-sale financial assets	(7)	(6)
Remeasurements of post-employment benefit obligations	(160)	166
Dividends	(6,374)	(11,444)
Translation differences	11,909	20,211
Non-controlling interest at the end of the year	**325,036**	**303,463**

[1] Non-controlling interest share of net profit (loss) of subsidiaries includes share in impairment of assets in the amount of RUB 2,034 million and RUB 18,312 million for the years ended 31 December 2015 and 31 December 2014, respectively.

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

(in millions of Russian Rubles)

33 NON-CONTROLLING INTEREST (continued)

	Country of primary operation	Percent of share capital held by non-controlling interest[1]	Profit (loss) attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
As of and for the year ended 31 December 2015					
Gazprom neft Group[2]	Russia	4 %	9,201	110,396	3,342
Naftna Industrija Srbije a.d. Group	Serbia	46 %	3,262	75,485	1,700
Mosenergo Group	Russia	46 %	4,741	82,529	184
TGC-1 Group	Russia	48 %	3,497	58,941	419
WGC-2 Group	Russia	19 %	472	29,367	167
As of and for the year ended 31 December 2014					
Gazprom neft Group[2]	Russia	4 %	8,609	92,473	4,578
Naftna Industrija Srbije a.d. Group	Serbia	46 %	5,081	61,775	2,314
Mosenergo Group	Russia	46 %	(1,817)	77,693	734
TGC-1 Group	Russia	48 %	(9,912)	55,936	310
WGC-2 Group	Russia	19 %	(690)	29,246	-

[1] Effective share held by non-controlling interest in charter capital of investments.
[2] Including non-controlling interest in Naftna Industrija Srbije a.d. Group.

The summarised financial information of these subsidiaries before inter-company eliminations was as follows:

	Gazprom neft Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
As of and for the year ended 31 December 2015					
Current assets	511,348	56,620	67,777	19,673	34,896
Non-current assets	2,180,933	243,131	193,364	151,250	218,397
Current liabilities	346,534	43,006	23,725	20,617	49,652
Non-current liabilities	938,860	76,400	57,890	32,637	60,493
Revenue	1,467,943	183,022	171,932	69,585	112,465
Profit for the year	80,455	7,071	6,533	6,586	2,961
Total comprehensive income for the year	115,253	7,071	6,469	6,440	2,665
Net cash from (used in):					
operating activities	366,747	27,267	21,924	10,332	9,400
investing activities	(431,349)	(18,379)	(25,028)	(9,687)	(25,915)
financing activities	119,240	(2,481)	(921)	(1,201)	10,784
As of and for the year ended 31 December 2014					
Current assets	463,429	62,066	60,702	20,017	33,171
Non-current assets	1,869,660	192,646	207,771	144,572	186,013
Current liabilities	216,750	42,726	22,812	16,866	18,675
Non-current liabilities	789,078	62,027	59,318	36,023	60,158
Revenue	1,409,010	153,706	164,018	69,064	116,265
Profit (loss) for the year	99,969	11,053	6,179	(23,026)	9,604
Total comprehensive income (loss) for the year	122,310	11,053	6,249	(22,912)	9,997
Net cash from (used in):					
operating activities	373,055	22,715	13,686	11,775	14,643
investing activities	(484,912)	(19,314)	(22,463)	(5,837)	(16,576)
financing activities	42,361	(2,338)	15,738	(3,948)	9,233

(in millions of Russian Rubles)

33 NON-CONTROLLING INTEREST (continued)

The rights of the non-controlling shareholders of the presented subgroups are determined by the respective laws of country of incorporation and the charter documents of the subsidiaries.

34 ACQUISITION OF SUBSIDIARIES

Asset swap with Wintershall Holding GmbH

On 30 September 2015 PJSC Gazprom and Wintershall Holding GmbH completed the asset swap which was initially agreed in December 2013. The Swap Agreement has retroactive economic effect starting from 1 April 2013.

According to the Swap Agreement 25.01 % of interest in the capital of LLC Achim Development and 9.00 % of ordinary shares, one class A preference share and one class B preference share of JSC Achim Trading which were recognised under other non-current assets in the consolidated financial statements of the Group have been transferred to Wintershall Holding GmbH in return for the 100.00 % of the interest in WIBG GmbH and for 50.00 % of the interest in Wintershall Noordzee B.V. and Wintershall Services B.V. WIBG GmbH holds an equity interest of 50.02 % and 50.00 % in W & G Beteiligungs-GmbH & Co. KG and in WIEH GmbH & Co. KG, respectively.

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

Prior to the swap transaction the Group held an equity interest of 49.98 % in W & G Beteiligungs-GmbH & Co. KG and of 50.00 % in WIEH GmbH & Co. KG. These subgroups were accounted for using the equity method. In addition at the acquisition date the Group held an equity interest of 33.33 % in WINGAS Storage UK Ltd., in which W & G Beteiligungs-GmbH & Co. KG held an equity interest of 50.00 %.

In substance, the Group acquired the remaining shares in the natural gas trading and storage companies W & G Beteiligungs-GmbH & Co. KG and WIEH GmbH & Co. KG and in their subsidiaries. Consequently as of 30 September 2015, the Group obtained control over these companies.

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

The following table summarizes the fair values of transferred assets at the acquisition date:

	Fair value
Fair value of transferred shares and investments accounted for using the equity method before the business combination	64,059
Pre-existing relationships	25,885
Preliminarily compensation payments	(2,170)
Total	**87,774**

In accordance with IFRS 3 Business combinations the Group measured shares of LLC Achim Development and JSC Achim Trading at fair value evaluated by an independent appraiser CJSC Deloitte & Touche CIS at the acquisition date. On 31 December 2015 the Group recognised the gain from the revaluation of disposed investments to their fair value in the amount of RUB 20,137 million in the consolidated financial statements of comprehensive income within other operating expenses.

Previously held by the Group investments in W & G Beteiligungs-GmbH & Co. KG, WIEH GmbH & Co. KG and WINGAS Storage UK Ltd. were measured at fair value at the acquisition date. On 31 December 2015 the gain from the revaluation of investments accounted for using the equity method to fair value is recognised in the consolidated financial statement of comprehensive income within other operating expenses in the amount of RUB 18,087 million.

In connection with derecognition of equity-accounted investments the Group recognised the loss in profit and loss within other operating expenses in the amount of RUB 9,034 million previously recognised in other comprehensive loss arising mainly from hedge transactions.

In accordance with IFRS 3 Business Combinations, the Group recognised the acquired assets and liabilities based upon their provisional fair values. Final fair value should be recognised in the consolidated financial statements within twelve months of the acquisition date. All changes in fair values will be recorded retrospectively from the acquisition date.

(in millions of Russian Rubles)

34 ACQUISITION OF SUBSIDIARIES (continued)

Provisional fair value of assets acquired and liabilities assumed is as follows:

	Fair value
Current assets	
Cash and cash equivalents	24,247
Accounts receivable and prepayments	117,414
Inventories	47,658
	189,319
Non-current assets	
Property, plant and equipment	45,500
Investments in associates and joint ventures	956
Long-term accounts receivable and prepayments	40,175
Other non-current assets	9,078
	95,709
Total assets	**285,028**
Current liabilities	
Accounts payable, accruals and provisions for liabilities and charges	104,150
Short-term borrowings, promissory notes and current portion of long-term borrowings	29,066
	133,216
Non-current liabilities	
Long-term borrowings, promissory notes	179
Provisions for liabilities and charges	18,679
Deferred tax liabilities	4,865
Other non-current liabilities	30,184
	53,907
Total liabilities	**187,123**
Net assets at the acquisition date	**97,905**

Preliminary result of the asset swap is as follows:

	31 December 2015
Fair value of transferred assets including preliminarily compensation payments	87,774
Non-controlling interest measured at its proportionate share of the acquirees's net assets	262
Fair value of acquired assets	97,905
Gain from a bargain purchase	**9,869**

The gain from a bargain purchase identified as the excess of the fair value of assets acquired and liabilities assumed over the fair value of transferred assets is mainly related to the decrease of the energy market prices since the conception of the transaction. The gain from a bargain purchase is recognised in other operating income in the consolidated financial statement of comprehensive income.

Fair value of acquired accounts receivables amounted to RUB 157,589 million at the acquisition date. The amount of accounts receivables at the acquisition date amounts to RUB 75,517 million. The best estimate of cash flows, that are expected not to be recovered, amounts to RUB 1,729 million at the acquisition date.

At the acquisition date contingencies related to judicial proceedings with fair value of RUB 2,707 million are accounted for within current provisions for liabilities and chargers. The probability of unfavorable outcome of filed claim is estimated as medium.

If the acquisition occurred as of 1 January 2015 sales of the Group and the Group's profit before profit tax for the year ended 31 December 2015 would be higher by RUB 395,732 million and RUB 7,034 million, respectively.

Acquisition of Shtokman Development AG

In July 2015 the Group became an owner of the 100 % of shares of Shtokman Development AG. Before the acquisition date the Group held an equity interest of 75 % in the company and accounted the investment as a joint venture using the equity method. At the acquisition date the investment in Shtokman Development AG was fully impaired. The impairment provision amounted to RUB 27,378 million (see Note 15).

(in millions of Russian Rubles)

34 ACQUISITION OF SUBSIDIARIES (continued)

The Group acquired remaining 25 % of the shares of Shtokman Development AG from Total Shtokman B.V. for 25 thousand Swiss Franc (RUB 2 million) according to the terms of the Shareholder Agreement. The payment was made by the cash.

According to IFRS 3 Business combinations the Group recognised the acquired assets and liabilities assumed based upon their provisional fair values. Final fair value should be recognised in the consolidated financial statements within twelve months of the acquisition date. All changes in fair values will be recorded retrospectively from the acquisition date.

In compliance with IFRS 3 Business combinations preliminary estimate of fair value of construction in progress is recognised as nil. As at the date of assessment decisions concerning the use of the assets under construction are not made.

Provisional fair value of acquired assets and liabilities assumed of Shtokman Development AG is as follows.

	Fair value
Current assets	
Cash and cash equivalents	1,767
Accounts receivable and prepayments	38
Inventories	1
VAT recoverable	216
	2,022
Non-current assets	
Property, plant and equipment	252
Long-term accounts receivable and prepayments	32
Other non-current assets	8
	292
Total assets	**2,314**
Current liabilities	
Accounts payable, accruals and provisions for liabilities and charges	30
Other taxes payable	9
	39
Non-current liabilities	
Provisions for liabilities and charges	321
Other non-current liabilities	14
	335
Total liabilities	**374**
Net assets at the acquisition date	**1,940**
Acquisition cost	**2**
Gain from a bargain purchase	**1,938**

Acquisition of the controlling interest in South Stream Transport B.V.

In December 2014 the Group became the owner of 100 % of the interest in South Stream Transport B.V., the company responsible for the offshore part of the South Stream project. Until 29 December 2014, South Stream Transport B.V. was a joint project held by the Group (50 %), ENI International B.V. (20 %), EDF International S.A.S. (15 %) and Wintershall Holding GmbH (15 %). On 29 December 2014, the Group acquired the remaining 50 % of the shares of South Stream Transport B.V. from the minority shareholders for consideration of EUR 883 million paid in cash. South Stream Transport B.V. was established for the planning, construction, and subsequent operation of the offshore pipeline through the Black Sea and had no notable operating activities up to and as of the purchase date other than the management of construction. Accordingly, this acquisition is outside the definition of business as defined in IFRS 3 Business Combinations and was considered by the Group as an acquisition of assets. The cost of the acquisition has been allocated based on the relative fair values of the assets (largely comprised of pipeline under construction), and liabilities acquired. Assets under construction in the amount of RUB 127,778 million are included in the line “acquisition of subsidiaries” as disclosed in Note 13. Capital expenditure commitments for the construction of the pipeline contracted as of 31 December 2014, but not yet incurred amounts to EUR 4,400 million.

(in millions of Russian Rubles)

35 RELATED PARTIES

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

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

Government (Russian Federation)

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

As of 31 December 2015 38.373 % of PJSC Gazprom's issued shares were directly owned by the Government. Another 11.859 % were owned by Government controlled entities.

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

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

Parties under control of the Government

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

As of 31 December 2015 prices of natural gas sales, gas transportation and electricity tariffs in Russia are regulated by the FAS. Until 21 July 2015 these functions were performed by the FTS.

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

As of 31 December 2015 and 31 December 2014 and for the years ended 31 December 2015 and 31 December 2014, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	As of 31 December 2015		Year ended 31 December 2015	
	Assets	**Liabilities**	**Revenues**	**Expenses**
Transactions and balances with the Government				
Current profit tax	78,678	3,816	-	85,542
Insurance contributions to non-budget funds	688	7,369	-	126,042
VAT recoverable / payable	400,295	54,990	-	-
Customs duties	46,446	-	-	-
Other taxes	2,411	85,132	-	800,605
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	70,439	-
Electricity and heating sales	-	-	190,891	-
Gas transportation sales	-	-	42,445	-
Other services sales	-	-	3,581	-
Accounts receivable	40,431	-	-	-
Oil and refined products transportation expenses	-	-	-	118,161
Accounts payable	-	14,062	-	-
Loans	-	300,003	-	-
Interest expense	-	-	-	17,205
Short-term financial assets	9,859	-	-	-
Available-for-sale long-term financial assets	6,485	-	-	-

(in millions of Russian Rubles)

35 RELATED PARTIES (continued)

	As of 31 December 2014		Year ended 31 December 2014	
	Assets	**Liabilities**	**Revenues**	**Expenses**
Transactions and balances with the Government				
Current profit tax	74,744	3,926	-	112,613
Insurance contributions to non-budget funds	621	5,649	-	98,097
VAT recoverable / payable	451,406	57,058	-	-
Customs duties	85,432	-	-	-
Other taxes	4,788	91,569	-	772,972
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	70,072	-
Electricity and heating sales	-	-	192,550	-
Gas transportation sales	-	-	34,296	-
Other services sales	-	-	2,398	-
Accounts receivable	45,694	-	-	-
Oil and refined products transportation expenses	-	-	-	99,102
Accounts payable	-	13,639	-	-
Loans	-	140,168	-	-
Interest expense	-	-	-	8,768
Short-term financial assets	7,444	-	-	-
Available-for-sale long-term financial assets	5,308	-	-	-

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

In the normal course of business the Group incurs electricity and heating expenses (see Note 27). A part of these expenses relates to purchases from the entities under Government control. Due to the specifics of the electricity market in the Russian Federation, these purchases can not be accurately separated from the purchases from private companies.

See the consolidated statement of changes in equity for returns of social assets to governmental authorities during the years ended 31 December 2015 and 31 December 2014. See Note 13 for net book values as of 31 December 2015 and 31 December 2014 of social assets vested to the Group at privatisation.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RUB 4,801 million and RUB 4,393 million for the years ended 31 December 2015 and 31 December 2014, respectively. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and a one-time retirement payment from the Group.

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

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

(in millions of Russian Rubles)

35 RELATED PARTIES (continued)

Associates and joint ventures

For the years ended 31 December 2015 and 31 December 2014 and as of 31 December 2015 and 31 December 2014 the Group had the following significant transactions and balances with associates and joint ventures.

	Year ended 31 December 2015	Year ended 31 December 2014
	Revenues	
Gas sales		
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries[1, 2]	123,156	130,533
WIEH GmbH & Co. KG[2]	109,935	132,773
Panrusgaz Gas Trading Plc	69,345	56,523
JSV Moldovagaz	31,950	32,421
Gasum OY	24,999	29,987
Bosphorus Gaz Corporation A.S.	19,735	23,097
CJSC Gazprom YRGM Trading[3]	17,312	13,025
JSC Latvijas Gaze	13,338	8,715
JSC Gazprom YRGM Development[3]	12,366	9,304
VEMEX s.r.o. and its subsidiaries	7,166	37
SGT EuRoPol GAZ S.A.	5,927	4,684
Overgaz Inc. AD	4,944	3,932
KazRosGaz LLP	3,598	-
WIEE AG[2]	1,344	3,861
AB Lietuvos dujos[4]	-	4,152
Gas transportation sales		
CJSC Gazprom YRGM Trading[3]	23,641	21,878
JSC Gazprom YRGM Development[3]	16,886	15,627
KazRosGaz LLP	2,299	1,682
Gas condensate, crude oil and refined products sales		
OJSC NGK Slavneft and its subsidiaries	44,075	29,263
JSC SOVEKS	4,674	5,631
LLC NPP Neftekhimia	3,054	2,629
Poliom Ltd	2,744	1,843
Sakhalin Energy Investment Company Ltd.	2,233	-
LLC Gazpromneft – Aero Sheremetyevo[5]	-	3,022
Operator services sales		
CJSC Messoyakhaneftegaz	31,142	9,960
Gas refining services sales		
KazRosGaz LLP	5,940	5,712
	Expenses	
Purchased gas		
CJSC Gazprom YRGM Trading[3]	62,560	59,151
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries[1, 2]	57,182	66,575
LLC SeverEnergiya and its subsidiaries	48,714	16,486
JSC Gazprom YRGM Development[3]	44,708	42,265
KazRosGaz LLP	44,624	28,428
Sakhalin Energy Investment Company Ltd.	20,226	14,838
CJSC Northgas	8,819	8,515
Purchased transit of gas		
Nord Stream AG	73,966	55,471
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries[1]	24,386	11,306
SGT EuRoPol GAZ S.A.	17,881	13,143
JSV Moldovagaz	3,027	1,987
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries[1, 2]	-	7,949

(in millions of Russian Rubles)

35 RELATED PARTIES (continued)

	Year ended 31 December	
	2015	2014
	Expenses	
Purchased crude oil and refined products		
OJSC NGK Slavneft and its subsidiaries	95,752	83,225
Sakhalin Energy Investment Company Ltd.	9,140	19,243
Purchased services of gas and gas condensate extraction		
JSC Achimgaz	28,798	20,513
Purchased processing services		
OJSC NGK Slavneft and its subsidiaries	14,179	12,838

[1] In May 2014 the shares in all gas transportation companies that belonged to W&G Beteiligungs-GmbH & Co. KG were transferred to WIGA Transport Beteiligungs-GmbH & Co. KG.
[2] In September 2015 W&G Beteiligungs-GmbH & Co. KG and its subsidiaries, WIEH GmbH & Co. KG, WIEE AG (formerly Wintershall Erdgas Handelshaus Zug AG) became subsidiaries of the Group (see Note 34).
[3] CJSC Gazprom YRGM Trading and JSC Gazprom YRGM Development are not associates and joint ventures.
[4] In accordance with the provisions of the Third Energy Package of the European Union regarding the split between the gas transmission and distribution activities in August 2013 AB Lietuvos dujos transferred assets, liabilities and rights related to gas transportation to AB Amber Grid, an associate of the Group. In June 2014 the Group sold its 37 % interests in associates, AB Lietuvos dujos and AB Amber Grid, to companies controlled by the Republic of Lithuania for EUR 121 million.
[5] In March 2014 the Group acquired 100 % share in LLC Aero TO the only asset of which is 50 % share in LLC Gazpromneft-Aero Sheremetyevo. As a result the Group's effective share in LLC Gazpromneft-Aero Sheremetyevo increased from 47.84 % to 95.68 % and the Group obtained control over LLC Gazpromneft-Aero Sheremetyevo.

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

	31 December 2015		31 December 2014	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
Gazprombank (Joint-stock Company) and its subsidiaries	35,831	-	2,125	-
CJSC Messoyakhaneftegaz	19,742	-	1,869	-
Overgaz Inc. AD	8,813	-	9,246	-
OJSC NGK Slavneft and its subsidiaries	8,415	-	10,701	-
Panrusgas Gas Trading Plc	7,434	-	3,523	-
JSV Moldovagaz[1]	4,435	-	1,281	-
Wintershall AG	3,064	-	2,567	-
CJSC Gazprom YRGM Trading	2,756	-	2,082	-
Gasum OY	2,579	-	5,353	-
JSC Gazprom YRGM Development	1,968	-	1,492	-
VEMEX s.r.o.	1,790	-	1,367	-
Sakhalin Energy Investment Company Ltd.	1,149	-	493	-
Bosphorus Gaz Corporation A.S.	314	-	1,349	-
CJSC Northgas	12	-	1,952	-
WIEH GmbH & Co.KG	-	-	20,739	-
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	-	-	17,448	-
LLC Yamal razvitie	-	-	1,272	-
WIEE AG	-	-	1,081	-
Cash balances				
Gazprombank (Joint-stock Company) and its subsidiaries	883,194	-	637,788	-
Long-term accounts receivable and prepayments				
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	15,933	-	13,663	-
CJSC Messoyakhaneftegaz	15,172	-	10,672	-
Etzel Kavernenbetriebsgesellschaft mbH & Co. KG	4,695	-	5,293	-
Erdgasspeicher Peissen GmbH	4,285	-	3,745	-
Wintershall Noordzee B.V.	3,742	-	-	-

(in millions of Russian Rubles)

35 RELATED PARTIES (continued)

	31 December 2015		31 December 2014	
	Assets	**Liabilities**	**Assets**	**Liabilities**
LLC Yamal razvitie	1,460	-	10,395	-
Gazprombank (Joint-stock Company) and its subsidiaries	255	-	4,119	-
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	-	-	26,161	-
Short-term accounts payable				
CJSC Gazprom YRGM Trading	-	7,739	-	7,988
Nord Stream AG	-	7,170	-	6,098
LLC SeverEnergia and its subsidiaries	-	5,755	-	3,368
JSC Gazprom YRGM Development	-	5,690	-	5,260
JSC Achimgaz	-	4,506	-	3,188
KazRosGaz LLP	-	3,370	-	2,925
SGT EuRoPol GAZ S.A.	-	2,710	-	2,272
Gasum OY	-	2,260	-	-
JSC Latvijas Gaze	-	1,806	-	214
OJSC NGK Slavneft and its subsidiaries	-	1,510	-	1,926
Sakhalin Energy Investment Company Ltd.	-	854	-	1,440
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	-	-	-	6,464
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint-stock Company) and its subsidiaries	-	15,635	-	24,397
Long-term borrowings				
Gazprombank (Joint-stock Company) and its subsidiaries	-	114,793	-	36,490

[1] Net of impairment allowance on accounts receivable in the amount of RUB 380,942 million and RUB 273,143 million as of 31 December 2015 and 31 December 2014, respectively.

Investments in associates and joint ventures are disclosed in Note 15.

Financial guarantees issued by the Group for the associates and joint ventures are disclosed in Note 36.

36 COMMITMENTS AND CONTINGENCIES

Financial guarantees

Notes		31 December 2015	31 December 2014
	Outstanding guarantees issued for:		
18, 27	Ostchem Holding Limited	61,404	47,407
	Blackrock Capital Investments Limited	9,946	7,675
	Sakhalin Energy Investment Company Ltd.	-	136,490
	LLC Production Company VIS	-	7,016
	EM Interfinance Limited	-	3,065
	Other	36,001	75,104
	Total financial guarantees	**107,351**	**276,757**

In 2015 and 2014 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 1,018 million and USD 3,814 million as of 31 December 2015 and 31 December 2014, respectively, as well as amounts denominated in Euros of EUR 72 million and EUR 356 million as of 31 December 2015 and 31 December 2014, respectively.

In June 2008 the Group provided a guarantee to the Bank of Tokyo-Mitsubishi UFJ Ltd. for Sakhalin Energy Investment Company Ltd. under the credit facility up to the amount of the Group's share (50 %) in the obligations of Sakhalin Energy Investment Company Ltd. toward the Bank of Tokyo-Mitsubishi UFJ Ltd. As of 31 December 2015 and 31 December 2014 the above guarantee amounted to RUB nil million (USD nil million) and RUB 136,490 million (USD 2,426 million), respectively.

36 COMMITMENTS AND CONTINGENCIES (continued)

In December 2014 the Group provided a guarantee to Gazprombank (Joint-stock Company) related to debts from Ostchem Holding Limited under the credit facility for financing of operating activities. As of 31 December 2015 and 31 December 2014 the above guarantee amounted to RUB 61,404 million (USD 843 million) and RUB 47,407 million (USD 843 million), respectively, and was fully provided. Change in the value of guarantee is mainly attributed to the exchange difference between US Dollar and Russian Ruble.

In 2006 the Group issued guarantees to Asset Repackaging Trust Five B.V. (registered in Netherlands) in respect of bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by SGT EuRoPol GAZ S.A. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. In December 2015 loans issued by EM Interfinance Limited were redeemed. As a result as of 31 December 2015 and 31 December 2014 the guarantees issued for Blackrock Capital Investments Limited and EM Interfinance Limited amounted to RUB 9,946 million (USD 136 million) and RUB 10,740 million (USD 191 million), respectively.

In July 2012 the Group issued a guarantee to PJSC Sberbank for LLC Production company VIS as a security of credit facility for financing of construction projects for Gazprom Group. As of 31 December 2014 the above guarantee amounted to RUB 7,016 million. As of 31 December 2015 the debt liabilities were redeemed.

Other

The Group has transportation agreements with certain of its associates and joint ventures (see Note 35).

Capital commitments

The total investment program related to gas, oil and power assets for 2016 is RUB 1,528,652 million.

Operating lease commitments

As of 31 December 2015 and 31 December 2014 the Group does not have significant liabilities related to operating leases.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2015 no loss is expected to result from these long-term commitments.

37 OPERATING RISKS

Operating environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. Due to the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings of the Group.

The future economic direction of the Russian Federation is largely dependent upon the world economic situation, effectiveness of economic, financial and monetary measures undertaken by the Government of the Russian Federation, together with tax, legal, regulatory, and political developments.

Taxation

The tax, currency and customs legislation in the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of

37 OPERATING RISKS (continued)

31 December 2015 is appropriate and all of the Group's material tax, currency and customs positions will be sustainable.

Legal proceedings

On 16 June 2014, PJSC Gazprom submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against NJSC Naftogaz Ukraine to recover unpaid debt for gas supplied under the Contract No. KP dated 19 January 2009 regarding sale and purchase of natural gas in the years 2009-2019 (the "Contract No. KP"), and related interest charged. On 12 June 2015, PJSC Gazprom submitted to arbitration a review on the claim from NJSC Naftogaz Ukraine and new counter-claim, in which clarified its claims totalling to USD 29,200 million. On 9 October 2015 NJSC Naftogaz Ukraine sent a response on the claim from PJSC Gazprom. On 14 March 2016 PJSC Gazprom sent an answer on the response of NJSC Naftogaz Ukraine and increased the claim amount to USD 31,750 million.

At the same time on 16 June 2014, NJSC Naftogaz Ukraine submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom seeking a retroactive revision of the price, compensation of all overpaid amounts starting from 20 May 2011 (according to plaintiff's estimates – not less than USD 6,000 million) and cancellation of the Contract No. KP prohibition on reexport of natural gas.

On 21 July 2014, both cases were consolidated. Oral hearing of the case is expected in September – October 2016. Decision of the arbitration panel is scheduled for late 2016 or early 2017.

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

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

(2) to acknowledge that certain provisions of the Contract No. TCGU, 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 ("EU");

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

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

On 28 November 2014 PJSC Gazprom filed its response to the request of arbitration. On 11 December 2014 the arbitration panel was formed. On 28 January 2015 the arbitration court made a decision not to combine the case with the above ones. On 30 April 2015 NJSC Naftogaz Ukraine filed a claim, significantly increasing the amount of the claims, according to various estimates, up to USD 11,000-16,000 million. Oral hearing of the case is expected late November-early December 2016 and decision of the arbitration panel is expected by the end of January 2017.

On 3 October 2012, the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders' agreement with AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5 billion compensation (as of 31 December 2015 – RUB 115,410 million). PJSC Gazprom did not agree to the claims and on 9 November 2012, filed with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, response to the request for arbitration. Arbitration panel was formed and hearing on the merits took place from 1 to 9 July 2015. On 30 September 2015 the parties submitted additional written opinions based on analysis of hearing materials including witness statement and expert statement. The arbitrators' decision is being expected up to 30 June 2016.

In August 2012 the European Commission initiated an investigation into a potential breach of the EU antimonopoly law by PJSC Gazprom. In April 2015 the European Commission adopted a Statement of Objections in the course of the ongoing antitrust investigation of PJSC Gazprom activity in the EU. The European Commission extended the deadline for providing a formal response to the Statement of objections

37 OPERATING RISKS (continued)

until September 2015. In September 2015 PJSC Gazprom filed its proposal of antitrust investigation settlement to the European Commission. In December 2015 PJSC Gazprom's representatives and the European Commission took part in closed-door oral hearings where PJSC Gazprom provided arguments which rendered the raised claims groundless. An oral hearing is just one of the stages of the ongoing antitrust investigation. Currently the parties continue discussing ways of reaching mutually satisfactory solution. PJSC Gazprom considers the claims brought by the European Commission to be unsubstantiated and expects the situation to be resolved in accordance with the agreement reached earlier between the Government of the Russian Federation and the European Commission. Currently it's impossible to assess a potential negative impact of this ongoing investigation on activity of PJSC Gazprom in Europe and on financial position of PJSC Gazprom.

On 16 December 2015 South Stream Transport B.V., the subsidiary of the Group, was served with an official notification by the Secretariat of the Arbitration Court of the International Chamber of Commerce stating that Saipem S.p.A. submitted a request for arbitration against South Stream Transport B.V. in view of unilateral termination by the latter of the agreement dated 14 March 2014 for the construction of the "South Stream" pipeline. In its request Saipem S.p.A. claimed to receive compensation for the work performed, reimbursement for the expenses incurred and for the termination of the agreement in the amount of about EUR 760 million plus interest (as of 31 December 2015 - RUB 60,570 million). On 16 February 2016 South Stream Transport B.V. sent a response to the request of Saipem S.p.A. for arbitration, where it rejected all the claims raised by Saipem S.p.A. and declared its intention to file a counterclaim. Saipem S.p.A. in its response as of 8 April 2016 to the counter-claim of South Stream Tranport B.V. declared the groundlessness of the accusations. Currently the Arbitral Tribunal has been formed, parties and the Tribunal are arranging the schedule of the arbitration.

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

Sanctions

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

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

1) transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity or newly issued share capital, property or rights to property in respect of a number of Russian energy companies, including PJSC Gazprom Neft;

2) to carry out operations, to provide funding or otherwise make transactions related to new borrowings with maturity of longer than 30 days or newly issued share capital, property or rights to property of a number of Russian companies of the banking sector, including Gazprombank (Joint-stock Company);

3) providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of potential exploration and production of oil in deep water, Arctic offshore, or shale formations in the Russian Federation, or in territorial waters claimed by the Russian Federation with participation of Russian companies, including PJSC Gazprom and PJSC Gazprom Neft. Since 7 August 2015 restriction includes the Yuzhno-Kirinskoye field located in the Sea of Okhotsk.

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

PJSC Gazprom is not expressly stated in the number of entities against whom the EU sanctions are imposed. However, PJSC Gazprom Neft and Gazprombank (Joint-stock Company), as well as their subsidiaries in which they own more than 50 percent interest in capital are subject to certain financial restrictions imposed by the EU. In addition, the EU imposed sanctions in relation to certain sectors of the Russian economy, affecting some of the activities of the Group in the field of oil production.

The sanctions imposed by the EU prohibit all citizens of countries-EU members, as well as to all legal entities and bodies established or created under the laws of the country-a member of the EU (both within the EU and

37 OPERATING RISKS (continued)

abroad), as well as all legal entities, bodies in connection with any economic activities carried out in whole or in part within the EU:

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

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

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

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

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

In June 2015 Canada imposed additional sanctions on the Russian energy sector, including PJSC Gazprom, PJSC Gazprom Neft and other oil and gas companies of the Russian Federation.

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

In November and December 2015 the Russian Federation adopted a number of special economic measures towards the Republic of Turkey. Thus a decision about suspension of the activity of the Russian-Turkish Intergovernmental Commission on Trade and Economic Cooperation is adopted.

Moreover the following projects have been suspended: negotiation process with the Turkish party on the Draft Agreement between the Government of the Russian Federation and the Government of the Republic of Turkey about trade in services and investments, Draft Medium-Term Programme of trade and economic, technical, scientific and cultural collaboration between the Government of the Russian Federation and the Government of the Republic of Turkey for the years 2016-2019 and on establishment of the Russian-Turkish fund on financing investment projects in the Russian Federation and the Republic of Turkey.

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

38 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

Risks are managed centrally and to some extent at the level of subsidiaries in accordance with Group policies.

(in millions of Russian Rubles)

38 FINANCIAL RISK FACTORS (continued)

Market risk

Market risk is a risk that changes in market prices, such as foreign currency exchange rates, interest rates, commodity prices and prices of marketable securities, will affect the Group's financial results or the value of its holdings of financial instruments.

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The carrying amounts of the Group's financial instruments are denominated in the following currencies:

Notes		Russian Ruble	US dollar	Euro	Other	Total
	31 December 2015					
	Financial assets					
	Current					
8	Cash and cash equivalents	660,664	468,936	170,407	59,088	1,359,095
9	Short-term financial assets (excluding equity securities)	10,089	146	-	-	10,235
10	Trade and other accounts receivable	467,587	217,425	216,775	105,198	1,006,985
	Non-current					
16	Long-term accounts receivable (excluding prepayments)	123,506	10,060	66,856	12,704	213,126
17	Available-for-sale long-term financial assets (excluding equity securities)	171	-	-	-	171
	Total financial assets	**1,262,017**	**696,567**	**454,038**	**176,990**	**2,589,612**
	Financial liabilities					
	Current					
18	Accounts payable and accrued charges (excluding derivative financial instruments)	713,374	121,705	128,627	60,224	1,023,930
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	92,676	461,694	91,793	209	646,372
	Non-current					
21	Long-term borrowings and promissory notes	282,490	1,569,153	907,203	36,997	2,795,843
	Total financial liabilities	**1,088,540**	**2,152,552**	**1,127,623**	**97,430**	**4,466,145**

Notes		Russian Ruble	US dollar	Euro	Other	Total
	31 December 2014					
	Financial assets					
	Current					
8	Cash and cash equivalents	655,021	278,278	63,910	40,982	1,038,191
9	Short-term financial assets (excluding equity securities)	7,364	281	-	7	7,652
10	Trade and other accounts receivable	331,765	335,635	157,876	88,183	913,459
	Non-current					
16	Long-term accounts receivable (excluding prepayments)	170,652	2,914	6,946	738	181,250
17	Available-for-sale long-term financial assets (excluding equity securities)	727	110	-	-	837
	Total financial assets	**1,165,529**	**617,218**	**228,732**	**129,910**	**2,141,389**
	Financial liabilities					
	Current					
18	Accounts payable and accrued charges (excluding derivative financial instruments)	624,890	189,329	134,432	48,120	996,771
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	40,970	219,498	203,729	585	464,782
	Non-current					
21	Long-term borrowings and promissory notes	263,732	1,279,396	652,233	28,681	2,224,042
	Total financial liabilities	**929,592**	**1,688,223**	**990,394**	**77,386**	**3,685,595**

See discussion of derivative financial instruments in Note 23.

(in millions of Russian Rubles)

38 FINANCIAL RISK FACTORS (continued)

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in selected foreign currencies.

As of 31 December 2015, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 291,197 million, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. As of 31 December 2014, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 214,201 million, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. The effect of related Russian Ruble strengthening against the US dollar would have been approximately the same amount with opposite impact.

As of 31 December 2015, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 134,717 million, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. As of 31 December 2014, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 152,332 million, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables.

The effect of related Russian Ruble strengthening against the Euro would have been approximately the same amount with opposite impact.

(b) Cash flow and fair value interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group's interest rate risk primarily arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The table below summarises the balance between long-term borrowings at fixed and at variable interest rates:

Notes	**Long-term borrowings and promissory notes**	**31 December 2015**	**31 December 2014 года**
21	At fixed rate	2,431,823	2,044,351
21	At variable rate	958,390	591,553
		3,390,213	**2,635,904**

The Group does not have a formal policy of determining how much the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether obtaining financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

During the years ended 31 December 2015 and 31 December 2014 the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2015, if benchmark interest rates on US dollar- and Euro-denominated borrowings at these dates had been 5 % higher with all other variables held constant, profit before profit tax would have been lower by RUB 47,920 million for 2014, mainly as a result of higher interest expense on floating rate borrowings. As of 31 December 2014, if benchmark interest rates on US dollar- and Euro-denominated borrowings at these dates had been 5 % higher with all other variables held constant, profit before profit tax would have been lower by RUB 29,578 million for 2014, mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in benchmark interest rates is approximately equal and opposite.

(c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows.

38 FINANCIAL RISK FACTORS (continued)

The Group's overall strategy in production and sales of natural gas, crude oil and related products is centrally managed. Natural gas export prices to Europe and other countries are generally based on a formula linked to oil product prices, which in turn are linked to crude oil prices.

The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2015, if the average gas prices related to the export market had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 262,164 million for 2015. As of 31 December 2014, if the average gas prices related to the export market had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 216,481 million for 2014.

The Russian gas tariffs are regulated by the FAS and are as such less subject to significant price fluctuations.

The Group assesses on regular basis the potential scenarios of future fluctuation in commodity prices and their impacts on operational and investment decisions. However, in the current environment management estimates may materially differ from actual future impact on the Group's financial position.

(d) Securities price risk

The Group is exposed to movements in the equity securities prices because of financial assets held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss (see Notes 9 and 17).

As of 31 December 2015 and 31 December 2014, if London Stock Exchange equity index, which affects the major part of Group's equity securities, had decreased by 20 % with all other variables held constant, assuming the Group's equity instruments moved according to the historically high correlation with the index, Group's total comprehensive income for the year would have been RUB 47,016 million and RUB 41,970 million lower, respectively.

The Group is also exposed to equity securities prices used to assess the fair value of pension plan assets held by NPF Gazfund (see Note 24).

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations. The maximum exposure to credit risk is the value of the assets which might be lost.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable. Credit risks related to accounts receivable are systematically monitored, taking into account customer's financial position, past experience and other factors.

Management systematically reviews ageing analysis of receivables and uses this information for calculation of impairment provision (see Note 10). Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customers default risk and country risk. Group operates with various customers and substantial part of sales relates to major customers.

Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash and cash equivalents are deposited only with banks that are considered by the Group to have a minimal risk of default.

The Group's maximum exposure to credit risk is presented in the table below.

(in millions of Russian Rubles)

38 FINANCIAL RISK FACTORS (continued)

Notes		31 December 2015	31 December 2015
8	Cash and cash equivalents	1,359,095	1,038,191
9	Debt securities	10,235	8,489
10, 16	Long-term and short-term trade and other accounts receivable	1,223,088	1,096,276
36	Financial guarantees	107,351	276,757
	Total maximum exposure to credit risk	**2,699,769**	**2,419,713**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group liquidity is managed centrally. The management of the Group monitors the planned cash inflow and outflow.

Important factor in the Group’s liquidity risk management is an access to a wide range of funding through capital markets and banks. Management aims is to maintain flexibility in financing sources by having committed facilities available.

The table below analyses the Group’s financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of 31 December 2015					
Short-term and long-term loans and borrowings and promissory notes	437,493	389,112	627,330	1,726,618	1,285,790
Accounts payable and accrued charges (excluding derivative financial instruments and provision under financial guarantees)	875,809	86,717	-	-	-
Derivative financial instruments:	99,054	51,014	61,777	50,090	17,373
including foreign currency hedge contracts	22,610	935	16,813	32,466	3,434
Financial guarantees	69,090	2,229	5,915	14,927	15,190
As of 31 December 2014					
Short-term and long-term loans and borrowings and promissory notes	304,667	293,712	521,201	1,206,995	1,215,224
Accounts payable and accrued charges (excluding derivative financial instruments and provision under financial guarantees)	861,135	88,229	-	-	-
Derivative financial instruments:	46,478	20,342	31,589	34,201	1,829
including foreign currency hedge contracts	8,576	1,345	16,751	29,811	1,829
Financial guarantees	60,276	3,886	4,856	51,939	155,800

The Group’s borrowing facilities do not usually include financial covenants which could trigger accelerated reimbursement of financing facilities. For those borrowing facilities where the Group has financial covenants, the Group is in compliance. If the financial covenants are not met, the Group reclassifies long term borrowing facilities into short term.

Capital risk management

The Group considers equity and debt to be the principal elements of capital management. The Group’s objectives when managing capital are to safeguard the Group’s position as a leading global energy company by further increasing the reliability of natural gas supplies and diversifying activities in the energy sector, both in the domestic and foreign markets.

In order to maintain or adjust the capital structure, the Group may revise its investment program, attract new or repay existing loans and borrowings or sell certain non-core assets.

The Group considers its target debt to equity ratio at the level of not more than 40 %.

On the Group level capital is monitored on the basis of the net debt to adjusted EBITDA ratio. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt (short-term

(in millions of Russian Rubles)

38 FINANCIAL RISK FACTORS (continued)

borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable) less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

Adjusted EBITDA is calculated as operating profit less depreciation and less provision for impairment of assets and other provisions (excluding provisions for accounts receivable and prepayments).

The net debt to adjusted EBITDA ratios at 31 December 2015 and 31 December 2014 were as follows:

	31 December	
	2015	**2014**
Total debt	3,442,215	2,688,824
Less: cash and cash equivalents	(1,359,095)	(1,038,191)
Net debt	2,083,120	1,650,633
Adjusted EBITDA	1,874,726	1,962,558
Net debt / Adjusted EBITDA ratio	**1.11**	**0.84**

PJSC Gazprom has an investment grade credit rating of BB+ (negative outlook) by Standard & Poor's and BBB- (negative outlook) by Fitch Ratings as of 31 December 2015.

39 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

a) Financial instruments in Level 1

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

b) Financial instruments in Level 2

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

c) Financial instruments in Level 3

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

Long-term accounts receivables are fair valued at Level 3 (see Note 16), long-term borrowings – Level 2 (see Note 21).

As of 31 December 2015 and 31 December 2014 the Group had the following assets and liabilities that are measured at fair value:

(in millions of Russian Rubles)

39 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Notes		31 December 2015			
		Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
9	**Financial assets held for trading:**				
	Equity securities	303	-	-	303
	Bonds	9,673	-	-	9,673
9	**Available-for-sale financial assets:**				
	Equity securities	2,032	-	-	2,032
	Bonds	146	-	-	146
	Promissory notes	-	416	-	416
	Total short-term financial assets	**12,154**	**416**	**-**	**12,570**
17	**Available-for-sale financial assets:**				
	Equity securities	188,142	40,584	6,710	235,436
	Promissory notes	-	171	-	171
	Total available-for-sale long-term financial assets	**188,142**	**40,755**	**6,710**	**235,607**
23	Derivative financial instruments	7,079	167,630	4,931	179,640
	Total assets	**207,375**	**208,801**	**11,641**	**427,817**
23	Derivative financial instruments	16,135	259,391	3,782	279,308
	Total liabilities	**16,135**	**259,391**	**3,782**	**279,308**

Notes		31 December 2014			
		Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
9	**Financial assets held for trading:**				
	Equity securities	220	-	-	220
	Bonds	6,498	-	-	6,498
9	**Available-for-sale financial assets:**				
	Equity securities	2,863	-	-	2,863
	Promissory notes	-	1,154	-	1,154
	Total short-term financial assets	**9,581**	**1,154**	**-**	**10,735**
17	**Available-for-sale financial assets:**				
	Equity securities	139,108	55,155	6,724	200,987
	Bonds	110	-	-	110
	Promissory notes	-	727	-	727
	Total available-for-sale long-term financial assets	**139,218**	**55,882**	**6,724**	**201,824**
23	Derivative financial instruments	7,833	56,478	947	65,258
	Total assets	**156,632**	**113,514**	**7,671**	**277,817**
23	Derivative financial instruments	11,185	122,871	383	134,439
	Total liabilities	**11,185**	**122,871**	**383**	**134,439**

The derivative financial instruments include natural gas contracts and are categorised in Levels 1, 2 and 3 of the fair value hierarchy. The contracts in Level 1 are valued using active market price of identical assets and liabilities. Due to absence of quoted prices or other observable, market-corroborated data the contracts in Level 2 are valued using internally developed models by the Group. These models include inputs such as: quoted forward prices, time value, volatility factors, current market prices, contractual prices and expected volumes of the underlying instruments. Where necessary, the price curves are extrapolated to the expiry of the contracts using all available external pricing information, historic and long-term pricing relationships. These valuations are categorised in Level 3.

(in millions of Russian Rubles)

40 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Foreign currency hedge contracts are categorised in Level 2. The Group uses estimation of fair value of foreign currency hedge contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Group management. No significant ineffectiveness occurred during the reporting year.

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the period. For the year ended 31 December 2015 and 31 December 2014 the Group has reclassified available-for-sale investments losses from other comprehensive income into the profit or loss in the amount of RUB 37 million and RUB 4,489 million, respectively.

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

In connection with its derivative activities, the Group generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Group with the right to, in the event of a default by the counterparty (such as bankruptcy or a failure to pay or perform), net counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty.

The following financial assets and liabilities are subject to offsetting, enforceable master netting agreements and similar agreements:

	Gross amounts before offsetting	Amounts offset	Net amounts after offsetting in the consolidated balance sheet	Amounts subject to netting agreements
31 December 2015				
Financial assets				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,377,852	156,312	1,221,540	-
Derivative financial instruments	733,689	554,049	179,640	26,284
Financial liabilities				
Accounts payable and accrued charges (excluding derivative financial instruments)	1,180,319	156,312	1,024,007	-
Derivative financial instruments	833,357	554,049	279,308	26,284
31 December 2014				
Financial assets				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,109,964	15,255	1,094,709	40,023
Derivative financial instruments	321,568	256,310	65,258	49,150
Financial liabilities				
Accounts payable and accrued charges (excluding derivative financial instruments)	1,012,026	15,255	996,771	40,023
Derivative financial instruments	390,749	256,310	134,439	49,150

41 POST BALANCE SHEET EVENTS

Financial investments

In January 2016 PJSC Gazprom has sold its equity interest of 25 % in Gasum OY to the Government of Finland for EUR 251 million.

Borrowings and loans

In January 2016 the Group obtained a long-term loan from PJSC Sberbank in the amount of USD 165 million at an interest rate of 4.9 % due in 2018.

In March 2016 the Group issued Loan Participation Notes in the amount of 500 million of Swiss Francs at an interest rate of 3.375 % due in 2018 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In March 2016 the Group obtained a long-term loan from Bank of China Limited, London branch in the amount of EUR 2,000 million at an interest rate of EURIBOR + 3.5 % due in 2021.

In March 2016 the Group issued Russian bonds in the amount of RUB 25,000 million at an interest rate of 10.65 % due in 2046. Under the terms of the bonds bondholders can execute the right of early redemption in 2021.

In January-March 2016 the Group signed agreements to obtain long-term loans from PJSC VTB Bank in the total amount of RUB 100,000 million at an interest rate within the range of current key rate of the Central Bank of the Russian Federation + 2 % – the Central Bank of the Russian Federation + 2.014 % due in 2021.

Legal proceedings

On 3 February 2016 under the EU Regulation № 1/2003 on the implementation of competition policy stipulated by Articles 101 and 102 of the EU Agreement the European Commission filed an official request to PJSC Gazprom for presenting information regarding the alleged infringement by PJSC Gazprom of the EU competition laws within the framework of gas supply to Bulgaria. The response to the request for information to the European Commission was filed by PJSC Gazprom on 7 April 2016. PJSC Gazprom’s terms of contractual relationships with customers are defined by international legal obligations, commercial reasonableness and market conditions.

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ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ
ФИНАНСОВЫЕ И БУХГАЛТЕРСКИЕ КОНСУЛЬТАНТЫ
ФБК
№ 484583
МОСКВА