



PJSC GAZPROM

IFRS Consolidated Financial Statements with Independent Auditor's Report

31 December 2019

Moscow | 2020



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Independent Auditor's Report

To the Shareholders of PJSC Gazprom

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Gazprom ("PJSC Gazprom") and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Rules of Independence of the Auditors and Audit Organisations and the Code of Professional Ethics of the Auditors, which are in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Revenue recognition

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

We assessed the consistency in the application of the revenue recognition accounting policy applicable to various types of revenue and geographic regions. Our audit procedures in respect of the risk of material misstatement of revenue included, in particular, evaluation of the design of controls and performance of substantive procedures in respect of the sales transactions. Based on the results of our audit procedures, we considered the position of the Group's management on the revenue recognition to be acceptable.

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

Information about the approaches to revenue recognition is disclosed in Note 5 “Summary of significant accounting policies” to the consolidated financial statements, information about sales, including information by geographic segments, is disclosed in Note 27 “Sales” to the consolidated financial statements.

Impairment of property, plant and equipment

Due to the material carrying amount of property, plant and equipment, continued volatility of macroeconomic parameters, high level of subjectivity of the underlying assumptions, judgments and estimates made by the management to conduct the impairment analysis, we consider this area to be one of the most significant audit areas. Furthermore, a significant decrease in prices for energy resources and the change in demand may result in the impairment of the Group’s assets.

As at the reporting date, the Group measured the recoverable amount of property, plant and equipment in respect of cash-generating units based on the estimated value in use. Our audit procedures in respect of this area included testing of the principles used to forecast future cash flows, analysis of the methodology used by the Group to test property, plant and equipment for impairment and consistency of its application by the Group. We paid special attention to the analysis of significant assumptions underlying the impairment test procedures in respect of various cash-generating units. The significant assumptions, in particular, included determining discount rates, forecasting prices for energy resources and exchange rates, as well as estimating volumes of production and sales. This analysis revealed that the significant assumptions applied by the Group’s management in calculating the recoverable amount of the assets as at the end of the reporting period were within the acceptable range and corresponded to the current economic environment.

Information about the measurement methods and significant assumptions applied to test property, plant and equipment for impairment is disclosed in Note 5 “Summary of significant accounting policies” to the consolidated financial statements, information about property, plant and equipment and their impairment testing, including the sensitivity analysis to determine whether the models are sensitive to changes in the significant assumptions, is disclosed in Note 13 “Property, plant and equipment” to the consolidated financial statements.

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

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

During the reporting period, the Group continued to be a party to a number of significant litigations, including litigations with NJSC Naftogaz of Ukraine and Ukraine. Procedures we performed included analysis of agreements entered into by the Group with NJSC Naftogaz of Ukraine and Ukraine in December 2019 to settle all outstanding litigations between them, discussions of significant matters with the Group’s staff responsible for providing judicial and legal support to its activities, evaluation of terms underlying the recognition of liabilities, as well as the evaluation of disclosures for sufficiency

and completeness. Based on the results of the procedures performed, we considered the estimates and approaches applied by the management, including the disclosures made, to be consistent and acceptable.

Information about litigations is disclosed in Note 38 “Operating risks” to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of PJSC Gazprom for 2019 and the Quarterly issuer’s report of PJSC Gazprom for the 2 quarter of 2020 but does not include the consolidated financial statements and our auditor’s report thereon. The Annual Report of PJSC Gazprom for 2019 and the Quarterly issuer’s report of PJSC Gazprom for the 2 quarter of 2020 are expected to be made available to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

When we read the Annual report of PJSC Gazprom for 2019 and the Quarterly issuer’s report of PJSC Gazprom for the 2 quarter of 2020, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Group's management;
- d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

President of FBK, LLC

Engagement partner on the audit
resulting in this independent
auditor's report



S.M. Shapiguzov
(by virtue of the Charter,
audit qualification certificate 01-001230)

K.S. Shirikova, FCCA
(audit qualification certificate 01-000712)

Date of the Independent Auditor's Report
27 April 2020

Audited entity

Name:

Public Joint Stock Company Gazprom
(PJSC Gazprom).

Address of the legal entity within its location:

16, Nametkina St., Moscow, 117420, Russian Federation.

State registration:

Registered by the Moscow Registration Chamber on 25 February 1993,
registration number 022.726.

The registration entry was made in the Unified State Register of Legal
Entities on 2 August 2002 under primary state registration number
1027700070518.

Auditor

Name:

FBK, LLC

Address of the legal entity within its location:

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

State registration:

Registered by the Moscow Registration Chamber on 15 November 1993,
registration number 484.583.

The registration entry was made in the Unified State Register of Legal
Entities on 24 July 2002 under primary state registration number
1027700058286.

Membership in a self-regulatory organization of auditors:

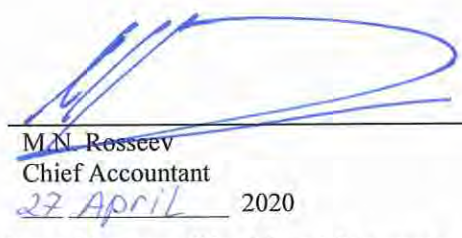
Member of Self-regulatory organization of auditors Association
"Sodruzhestvo".

Primary number of registration entry in the register of auditors and audit
organizations of the self-regulatory organization of auditors
11506030481.

PJSC Gazprom
Consolidated Balance Sheet
as of 31 December 2019
(in millions of Russian Rubles)

Notes		31 December	
		2019	2018
	Assets		
	Current assets		
8	Cash and cash equivalents	696,057	849,419
9	Short-term financial assets	57,571	26,859
10	Accounts receivable and prepayments	1,040,340	1,222,735
11	Inventories	946,361	909,677
	VAT recoverable	142,545	150,425
12	Other current assets	945,279	1,053,115
		3,828,153	4,212,230
	Non-current assets		
13	Property, plant and equipment	14,856,448	13,809,434
14	Right-of-use assets	214,244	-
15	Goodwill	130,028	108,097
16	Investments in associates and joint ventures	1,182,862	1,097,446
17	Long-term accounts receivable and prepayments	846,735	636,305
18	Long-term financial assets	434,282	416,666
12	Other non-current assets	389,596	530,262
		18,054,195	16,598,210
	Total assets	21,882,348	20,810,440
	Liabilities and equity		
	Current liabilities		
19	Accounts payable, provisions and other liabilities	1,422,116	1,522,101
	Current profit tax payable	39,709	34,708
20	Taxes other than on profit and fees payable	291,449	347,825
21	Short-term borrowings, promissory notes and current portion of long-term borrowings	774,202	569,061
		2,527,476	2,473,695
	Non-current liabilities		
22	Long-term borrowings, promissory notes	3,089,702	3,294,761
25	Provisions	606,783	406,322
23	Deferred tax liabilities	768,448	748,751
	Long-term lease liabilities	205,493	-
	Other non-current liabilities	68,759	110,758
		4,739,185	4,560,592
	Total liabilities	7,266,661	7,034,287
	Equity		
26	Share capital	325,194	325,194
26	Treasury shares	(331)	(235,919)
26	Retained earnings and other reserves	13,779,970	13,210,734
		14,104,833	13,300,009
34	Non-controlling interest	510,854	476,144
	Total equity	14,615,687	13,776,153
	Total liabilities and equity	21,882,348	20,810,440


A.B. Miller
Chairman of the Management Committee
27 April 2020


M.N. Rosseev
Chief Accountant
27 April 2020

The accompanying notes on pages 12 to 84 are an integral part of these consolidated financial statements.

PJSC Gazprom
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019
(in millions of Russian Rubles)

Notes		Year ended 31 December	
		2019	2018
27	Sales	7,659,623	8,224,177
	Net (loss) gain from trading activity	(24,957)	18,015
28	Operating expenses	(6,387,071)	(6,181,191)
28	Impairment loss on financial assets	(127,738)	(130,971)
	Operating profit	1,119,857	1,930,030
29	Finance income	654,916	503,091
29	Finance expense	(354,835)	(813,042)
16	Share of profit of associates and joint ventures	207,127	232,483
	Profit before profit tax	1,627,065	1,852,562
	Current profit tax expense	(327,618)	(278,233)
	Deferred profit tax expense	(29,930)	(45,333)
23	Profit tax	(357,548)	(323,566)
	Profit for the year	1,269,517	1,528,996
	Other comprehensive income (loss):		
	Items that will not be reclassified to profit or loss:		
	Gain arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	22,631	148,963
25	Remeasurement of provision for post-employment benefits	(186,066)	19,854
	Total other comprehensive (loss) income that will not be reclassified to profit or loss	(163,435)	168,817
	Items that may be reclassified subsequently to profit or loss:		
16	Share of other comprehensive (loss) income of associates and joint ventures	(4,276)	13,923
	Translation differences	(182,165)	222,221
	Gain from hedging operations, net of tax	13,321	10,082
	Total other comprehensive (loss) income that may be reclassified subsequently to profit or loss	(173,120)	246,226
	Total other comprehensive (loss) income for the year, net of tax	(336,555)	415,043
	Comprehensive income for the year	932,962	1,944,039
	Profit for the year attributable to:		
	Owners of PJSC Gazprom	1,202,887	1,456,270
34	Non-controlling interest	66,630	72,726
		1,269,517	1,528,996
	Comprehensive income for the year attributable to:		
	Owners of PJSC Gazprom	877,328	1,858,486
	Non-controlling interest	55,634	85,553
		932,962	1,944,039
31	Basic and diluted earnings per share attributable to the owners of PJSC Gazprom (in Russian Rubles)	53.47	65.89

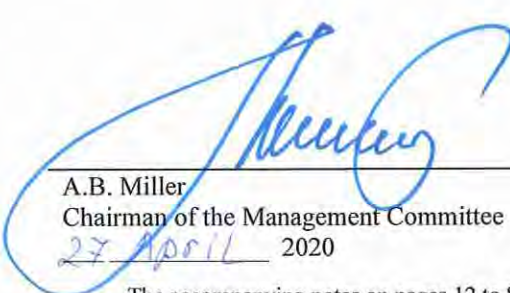
A.B. Miller
Chairman of the Management Committee
27 April 2020

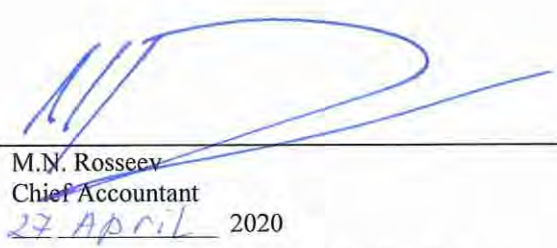
M.N. Rosseev
Chief Accountant
27 April 2020

The accompanying notes on pages 12 to 84 are an integral part of these consolidated financial statements.

PJSC Gazprom
Consolidated Statement of Cash Flows
for the Year Ended 31 December 2019
(in millions of Russian Rubles)

Notes		Year ended 31 December	
		2019	2018
	Cash flows from operating activities		
32	Net cash from operating activities	1,709,384	1,617,384
	Cash flows from investing activities		
	Capital expenditures	(1,775,923)	(1,639,474)
29	Interest capitalised and paid	(122,848)	(134,886)
	Net change in loans issued	(172,088)	22,099
	Acquisition of subsidiaries, net of cash acquired	(6,808)	(2,252)
	Investments in associates and joint ventures	(72,587)	(48,267)
	Interest received	83,167	85,744
	Change in long-term financial assets measured at fair value through other comprehensive income	10,370	12,255
	Proceeds from associates and joint ventures	181,404	128,622
	Proceeds from the sale of subsidiaries	1,217	1,054
	Placement of long-term bank deposits	(3,354)	(5,726)
	Repayment of long-term bank deposits	1,331	43,131
	Other	(61,990)	(80,018)
	Net cash used in investing activities	(1,938,109)	(1,617,718)
	Cash flows from financing activities		
39	Proceeds from long-term borrowings	1,043,467	1,239,745
39	Repayment of long-term borrowings (including current portion of long-term borrowings)	(813,294)	(1,138,451)
39	Proceeds from short-term borrowings	117,418	57,717
39	Repayment of short-term borrowings	(49,728)	(53,492)
	Repayment of lease liabilities	(42,603)	-
39	Dividends paid	(379,595)	(188,313)
29, 39	Interest paid	(48,180)	(38,288)
	Acquisition of non-controlling interests in subsidiaries	(124)	(289)
	Proceeds from sale of treasury shares	323,514	-
	Proceeds from sale of non-controlling interests in subsidiaries	-	22,358
	Other	1,500	2,943
	Net cash from (used in) financing activities	152,375	(96,070)
	Effect of foreign exchange rate changes on cash and cash equivalents	(77,012)	76,816
	Decrease in cash and cash equivalents	(153,362)	(19,588)
8	Cash and cash equivalents at the beginning of the reporting year	849,419	869,007
8	Cash and cash equivalents at the end of the reporting year	696,057	849,419


A.B. Miller
Chairman of the Management Committee
27 April 2020


M.N. Rosseev
Chief Accountant
27 April 2020

The accompanying notes on pages 12 to 84 are an integral part of these consolidated financial statements.

PJSC Gazprom
Consolidated Statement of Changes in Equity
for the Year Ended 31 December 2019
(in millions of Russian Rubles)

		Equity attributable to the owners of PJSC Gazprom						
Notes		Number of shares out- standing (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total	Non- controlling interest	Total equity
	Balance as of 31 December 2017	22.1	325,194	(235,919)	11,539,811	11,629,086	386,395	12,015,481
	Effect of changes in accounting policies	-	-	-	(13,086)	(13,086)	(140)	(13,226)
	Balance as of 1 January 2018 (restated)	22.1	325,194	(235,919)	11,526,725	11,616,000	386,255	12,002,255
34	Profit for the year	-	-	-	1,456,270	1,456,270	72,726	1,528,996
	Other comprehensive income (loss):							
	Gain (loss) arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	-	-	-	149,580	149,580	(617)	148,963
34	Remeasurement of provision for post-employment benefits	-	-	-	19,732	19,732	122	19,854
25, 34	Share of other comprehensive income of associates and joint ventures	-	-	-	13,923	13,923	-	13,923
16	Translation differences	-	-	-	209,531	209,531	12,690	222,221
34	Gain from hedging operations, net of tax	-	-	-	9,450	9,450	632	10,082
34	Comprehensive income for the year	-	-	-	1,858,486	1,858,486	85,553	1,944,039
	Change in non-controlling interest							
34	in subsidiaries	-	-	-	3,260	3,260	19,471	22,731
	Return of social assets to the balance of governmental authorities	-	-	-	(50)	(50)	-	(50)
26	Dividends declared	-	-	-	(177,687)	(177,687)	(15,135)	(192,822)
34	Balance as of 31 December 2018	22.1	325,194	(235,919)	13,210,734	13,300,009	476,144	13,776,153
5	Effect of changes in accounting policies	-	-	-	(29,316)	(29,316)	(870)	(30,186)
	Balance as of 1 January 2019 (restated)	22.1	325,194	(235,919)	13,181,418	13,270,693	475,274	13,745,967
34	Profit for the year	-	-	-	1,202,887	1,202,887	66,630	1,269,517
	Other comprehensive income (loss):							
	Gain arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	-	-	-	22,631	22,631	-	22,631
	Remeasurement of provision for post-employment benefits	-	-	-	(185,788)	(185,788)	(278)	(186,066)
25, 34	Share of other comprehensive loss of associates and joint ventures	-	-	-	(4,276)	(4,276)	-	(4,276)
16	Translation differences	-	-	-	(171,433)	(171,433)	(10,732)	(182,165)
34	Gain from hedging operations, net of tax	-	-	-	13,307	13,307	14	13,321
34	Comprehensive income for the year	-	-	-	877,328	877,328	55,634	932,962
	Change in non-controlling interest							
34	in subsidiaries	-	-	-	423	423	(4,081)	(3,658)
	Return of social assets to the balance of governmental authorities	-	-	-	(13)	(13)	-	(13)
26	Treasury shares transactions	1.5	-	235,588	87,901	323,489	-	323,489
26	Dividends declared	-	-	-	(367,087)	(367,087)	(15,973)	(383,060)
34	Balance as of 31 December 2019	23.6	325,194	(331)	13,779,970	14,104,833	510,854	14,615,687

A.B. Miller
Chairman of the Management Committee
27 April 2020

M.N. Rosseev
Chief Accountant
27 April 2020

The accompanying notes on pages 12 to 84 are an integral part of these consolidated financial statements.

1 General Information

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

The Group is involved in the following activities:

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

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

The average number of employees during 2019 and 2018 was 462 thousand persons.

2 Economic Environment in the Russian Federation

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

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

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

- as of 31 December 2019 – 61.9057;
- as of 31 December 2018 – 69.4706 (as of 31 December 2017 – 57.6002).

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

- as of 31 December 2019 – 69.3406;
- as of 31 December 2018 – 79.4605 (as of 31 December 2017 – 68.8668).

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

3 Basis of Presentation

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 assets and liabilities presented at the fair value (Note 40). The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented in these consolidated financial statements, unless otherwise stated.

4 Scope of Consolidation

As described in Note 5, the consolidated financial statements include consolidated subsidiaries, associates, joint ventures and operations of the Group. Significant change in the Group's structure in 2019 is described below.

In December 2019 the Group acquired 100 % of ordinary shares of JSC REP Holding (abbreviated name – JSC REPH) for RUB 10,000 million with payment in cash. 25 % of ordinary shares of JSC REPH were acquired from JSC Gazprombank – Asset Management, a subsidiary of Gazprombank (Joint-stock Company), for RUB 2,500 million (see Note 35).

5 Summary of Significant Accounting Policies

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

5.1 Consolidation of Subsidiaries, Associates and Joint Arrangements

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 substantive rights over the investee. Protective rights of other investors, such as those that relate to making 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 when control over their operations is transferred to the Group (the acquisition date) and are deconsolidated from the date on which control ceases.

All inter-company transactions, balances and unrealised gain 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 entities under common control. The costs of an acquisition are measured at the fair value of the assets transferred, shares issued and liabilities incurred or assumed at the date of acquisition. Acquisition-related costs are expensed as incurred. The acquisition date is a date when a business combination is achieved, and when a business combination is achieved in stages the acquisition date is a date of each equity interest purchase.

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, rather than by adjusting goodwill.

Goodwill and Non-Controlling Interest

The excess of the consideration transferred, the amount of any non-controlling interest and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share in the identifiable net assets acquired is recorded as goodwill. If actual cost of acquisition 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 a cash-generating unit or a group of cash-generating units.

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 value at the acquisition date, and any non-controlling interest in the acquiree is stated at the non-controlling interest in the net fair value of those items.

5 Summary of Significant Accounting Policies (continued)

Joint Arrangements

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

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligation for the liabilities, relating to the arrangement. Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output of 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. With regards to joint arrangements, where the Group acts as a joint venture participant, 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 is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. Associates are accounted for using the equity method. The Group's share of its associates' post-acquisition profit or loss 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 there is an evidence of the impairment of the asset transferred.

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

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

5.2 Financial Instruments

5.2.1 Classification and Measurement of Financial Assets

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

Financial Assets Measured Subsequently at Amortised Cost

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

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of difference between that initial amount and the maturity amount and, for financial assets, adjusted for any allowance for expected credit losses.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Group estimates expected cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. The calculation includes all fees and amounts paid or received between parties of the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

5 Summary of Significant Accounting Policies (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense in profit or loss over the relevant period.

This category of financial assets of the Group mainly includes cash and cash equivalents, restricted cash, deposits, accounts receivable, including loans receivable.

Cash and Cash Equivalents and Restricted Cash

Cash comprises cash on hand and bank balances. Cash equivalents comprise short-term financial assets which are readily convertible to cash and have an original maturity of three months or less. Restricted cash includes cash and cash equivalents which are not to be used for any purpose other than those specified in the terms of the financing and other agreements or under banking regulations. Restricted cash are excluded from cash and cash equivalents in the consolidated statement of cash flows.

Accounts Receivable

Accounts receivable, including loans receivable, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Accounts receivable are carried at amortised cost using the effective interest method.

Financial Assets Measured Subsequently at Fair Value with Changes Recognised Through Other Comprehensive Income

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

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

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

This category of financial assets of the Group mainly includes equity instruments for which the Group has made a decision to recognise changes in fair value in other comprehensive income.

Financial Assets Measured Subsequently at Fair Value with Changes Recognised Through Profit or Loss

Financial assets that do not meet the criteria of recognition as financial assets measured at amortised cost or measured at fair value through other comprehensive income are measured at fair value through profit or loss.

Such financial assets of the Group mainly include derivative financial instruments and financial instruments held for trading, as well as some equity instruments for which the Group has not made a decision to recognise changes in their fair value in other comprehensive income.

Impairment of Financial Assets

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

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

5 Summary of Significant Accounting Policies (continued)

At each balance sheet date the Group assesses whether there is objective evidence of a significant increase in credit risk for a financial asset or a group of financial assets. If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the allowance for expected credit losses for financial asset is measured at an amount equal to 12-month expected credit losses.

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

The accrual (reversal) of the allowance for expected credit losses for financial assets is recognised in the consolidated statement of comprehensive income within impairment loss (reversal of impairment loss) on financial assets.

5.2.2 Classification and Measurement of Financial Liabilities

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

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

Financial liabilities of the Group measured at amortised cost mainly include borrowings and accounts payable.

Financial liabilities of the Group measured at fair value through profit or loss mainly include derivative financial instruments. The Group does not choose to classify any financial liabilities as measured at fair value through profit or loss.

Borrowings

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

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 fair value. After initial recognition financial guarantee contracts are measured at the higher of the allowance for expected credit losses and the amount initially recognised less total income recognised in accordance with IFRS 15 Revenue from Contracts with Customers.

Financial guarantee contracts of the Group mainly include guarantees issued and independent guarantees provided.

5.2.3 Derivative Financial Instruments

The Group uses a variety of derivative financial instruments, including forward and foreign currency, commodities and securities option contracts. The derivative financial instruments are recognised in the consolidated financial statements at fair value. Gain or loss from change in the fair value of the derivative financial instruments is recognised in profit or loss of the consolidated statement of comprehensive income in the period in which it raised.

The fair value of the derivative financial instruments is determined using market information and valuation techniques based on prevailing market interest rates for similar financial instruments.

5 Summary of Significant Accounting Policies (continued)

As part of its activities, the Group enters into contracts to buy / sell gas, electric power and other commodities at the European liquid trading platforms. This activity provides for a large number of buy / sell transactions completed within short periods, which, coupled with the Group's transportation and storage capacities, aims to generate profit.

Some of these contracts can be settled net in accordance with IFRS 9 Financial Instruments, because a contract to buy / sell a commodity is settled within a short period for the purpose of generating profit from short-term fluctuations in price or dealer's margin. Such contracts are, therefore, concluded not for the purpose of the receipt or delivery of a non-financial asset in accordance with the Group's expected purchase, sale or usage requirements. Consequently, such contracts to buy or sell a non-financial item are regulated by IFRS 9 Financial Instruments and are recognised as derivative financial instruments at fair value, with changes in fair value recognised in "Derivatives (gain) loss" within operating expenses of the consolidated statement of comprehensive income.

5.2.4 Hedge Accounting

For derivatives recognised as hedging instruments, the Group applies hedge accounting in accordance with the requirements of IFRS 9 Financial Instruments. The Group applies the cash flow hedge to manage variability in cash flows that results from fluctuations in foreign exchange rates attributable to highly probable forecast transactions.

A qualifying hedging instrument is designated in its entirety as a hedging instrument.

The effective portion of fair value changes of hedging instrument is recognised in other comprehensive income. Gain or loss related to the ineffective portion of changes in the fair value of the hedging instrument are immediately transferred to profit or loss.

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

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

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

5.3 Fair Value

Fair value is a price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of accounts receivable in the consolidated financial statements is measured by discounting the value of future cash flows at the current market rate of interest used for similar borrowings at the reporting date.

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

The fair value of publicly quoted financial instruments in the consolidated financial statements is measured based on quoted market closing prices at the date nearest to the reporting date.

5.4 Value Added Tax

In the Russian Federation the value added tax ("VAT") is payable on the difference between output VAT on sales of goods (works, services) and recoverable input VAT charged by suppliers of goods (works, services). Starting from 1 January 2019 the VAT rate changed from 18 % to 20 %. The output VAT tax base is determined on the earliest of the following dates: either the date of the shipment of goods (works, services) or the date of payment or advance payment received for future supplies of goods (works, services). Input VAT is recovered when purchased goods (works, services) are accounted for and other necessary VAT recovery requirements provided by the tax legislation are met.

5 Summary of Significant Accounting Policies (continued)

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

Deductible VAT related to purchases of goods (works, services) (input VAT) and also VAT overpayments (recoverable VAT) are recognised in the consolidated balance sheet within current assets, while VAT payable to the state budget is disclosed separately as a current liability. VAT presented within other non-current assets relates to assets under construction and is expected to be recovered more than 12 months after the balance sheet date.

5.5 Mineral Extraction Tax

Mineral extraction tax ("MET") applied to the extraction of hydrocarbons, including natural fuel gas, gas condensate and oil, is accrued in proportion to the volume of extracted minerals.

In the Russian Federation, the MET rate formula for natural fuel and gas condensate has been used since 1 July 2014 instead of the fixed MET rate.

Since 1 January 2015 MET rate for natural fuel gas has been defined as the set of indicators:

- 1) the base rate of RUB 35 per thousand cubic meters of natural fuel gas;
- 2) the base value of a unit of fuel equivalent calculated based on various macroeconomic indicators, including oil and gas prices;
- 3) the coefficient representing the degree of difficulty of extracting natural fuel gas and (or) gas condensate from raw hydrocarbon fields;
- 4) the indicator representing the transportation costs of natural fuel gas.

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

- 1) the base rate of RUB 42 per ton for extracted gas condensate;
- 2) the base value of a unit of fuel equivalent calculated taking into account various macroeconomic indicators, including oil and gas prices;
- 3) the coefficient representing the degree of difficulty of extracting natural fuel gas and (or) gas condensate from raw hydrocarbon deposits;
- 4) the adjustment coefficient.

A zero MET rate is applied to natural fuel gas and gas condensate extracted in a number of regions of the Russian Federation subject to the respective requirements of the tax law.

In the Russian Federation MET applied to extracted oil is calculated on a monthly basis by way of multiplying the volume of extracted mineral by the fixed tax rate (RUB 919 per ton from 2017) adjusted for a coefficient that takes into account dynamics of global oil prices, as well as the indicator which reflects specific aspects of oil extraction. A zero rate is also applied to oil extracted in a number of regions of the Russian Federation subject to the respective requirements of the tax law.

MET is also applied to the extraction of common mineral resources (also under a combined license).

MET is included in operating expenses.

5.6 Customs Duties

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

Pertaining to the sales of oil and oil products to countries outside the Customs union according to Federal Law No.239-FZ dated 3 December 2012, starting from 1 April 2013 under Resolution of the Government of the Russian Federation No.276 dated 29 March 2013 the export customs duty calculation methodology for

5 Summary of Significant Accounting Policies (continued)

crude 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.

Sales are recognised net of the amount of customs duties.

5.7 Excise Tax

Effective from 1 January 2015, natural gas is subject to a 30 % excise tax rate, 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's activities, excise tax is imposed on the transfers of excisable refined oil products produced at the Group's refineries from customer-supplied raw materials to the Group companies owning the raw materials. The Group considers the excise tax on refined oil products produced from customer-supplied raw materials as operating expenses. These taxes are not netted with sales of refined oil products presented in the consolidated statement of comprehensive income.

5.8 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 overheads but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses and production completion costs.

5.9 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 ("successful exploratory wells"). Under the successful efforts method, costs of successful development and exploratory wells are capitalised. Costs of unsuccessful exploratory wells are expensed as they are recognised unproductive. 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. Gain or loss arising from the disposal of property, plant and equipment is included within the profit or loss in 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.

Borrowing costs 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 for general purposes and used for obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by the Group 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 Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Foreign exchange rate differences to the extent that they are regarded as an adjustment of interest costs are included in the borrowing costs eligible for capitalisation.

Depreciation 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 generally 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 engineers.

5 Summary of Significant Accounting Policies (continued)

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

	<u>Years</u>
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 on the unit-of-production method, as it is the more generally accepted international industry practice. The difference between straight line and units-of-production methods 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 in the consolidated financial statements only upon the termination of responsibilities of operational management of such 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 future benefits which are expected to flow from the use of the assets and bears all associated operational and custody risks. Disposals of these assets are considered to be shareholders 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.

5.10 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 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 of group of assets generating 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 are any indications that impairment exists at the balance sheet date. Goodwill is allocated to cash-generating unit. In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit, including goodwill, is compared with its recoverable amount.

The amount of the reduction of the recoverable amount of assets below the carrying value is recorded within the profit or loss of the consolidated statement of comprehensive income in the period in which the reduction is identified. Impairment allowances, except for those relating to goodwill, are reversed with recognition of respective gain 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.

5.11 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 in the consolidated financial statements for all temporary differences arising between the tax basis of assets and liabilities and their carrying value included in the consolidated financial statements. Deferred tax assets are recorded only to the extent that it is probable that future taxable profit will be available against which the deferred tax assets will be realised or if such assets can be offset against existing deferred tax liabilities. Deferred tax assets and liabilities are measured at tax rates that are expected to apply in the period when the assets are realised or the liabilities are settled, based on tax rates that have been enacted or enactment of which in the foreseeable future was reliably known as of the reporting date. Deferred income taxes are recorded for all temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the decrease of the temporary differences can be controlled and it is probable that the temporary differences will not decrease in the foreseeable future.

5 Summary of Significant Accounting Policies (continued)

5.12 Foreign Currency Transactions

Items included in the financial statements of each of the Group's subsidiaries 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 the 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 the Russian Rubles at the official foreign exchange rates at the reporting date. Foreign currency transactions are accounted for at the foreign exchange rate prevailing at the date of the transaction. Gain or loss resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the reporting date is recognised as foreign exchange gain or loss within the profit or loss of the consolidated statement of comprehensive income.

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

There are currency control rules relating to conversion of the Russian Rubles into other currencies. The Russian Ruble is not freely convertible currency in most countries outside of the Russian Federation.

5.13 Provisions

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

5.14 Equity

Treasury Shares

The cost of acquisition of the shares of PJSC Gazprom by the Group's entities, including any attributable transaction costs is deducted from total equity until they are re-sold. When such shares are subsequently sold, any consideration received net of profit tax is included in equity. Treasury shares are recorded at weighted average cost. Gain (loss) arising from treasury shares transactions is recognised in the consolidated statement of changes in equity, net of associated costs including tax payments.

Dividends

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

5.15 Revenue Recognition

Revenue from contracts with customers is measured at the fair value of the consideration received or receivable. Revenue is recognised when (or as) the entity satisfies a performance obligation by transfer of the promised good or service (i.e. the asset) to the customer. The asset is transferred when (or as) the customer obtains control over such an asset. The moment of control transfer varies depending on the terms of the contract with customer.

Sales of 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 the title passes and are stated in the consolidated financial statements net of VAT and other similar compulsory payments. Gas transportation sales are recognised when gas transportation services are provided, as evidenced by delivery of gas in accordance with the contract.

Prices of natural gas and tariffs for transportation of gas to final consumers in the Russian Federation are regulated by the Federal Antimonopoly Service ("FAS"). Prices for gas sold to European countries are mainly calculated by formulas based on the number of oil product prices, in accordance with the terms of long-term contracts. Prices for gas exported to countries of the former Soviet Union are defined in various ways, including using formulas similar to those used in contracts with European customers.

5 Summary of Significant Accounting Policies (continued)

Net Gain (Loss) From Trading Activity

Contracts to buy or sell commodities at the European liquid trading platforms, where gas, electric power and other commodities are traded, entered into at the European liquid trading platforms for the purpose of generating profit from short-term fluctuations in price rather than out of the Group's expected purchase, sale or usage requirements are recognised at fair value. These contracts are considered as derivative financial instruments and regulated by IFRS 9 Financial Instruments for valuation as well as for information disclosure purposes. Income and expenses which arise at the moment of contract fulfilment are recognised on a net basis in profit or loss in the line "Net gain (loss) from trading activity" of the consolidated statement of comprehensive income.

5.16 Interest

Interest income and expense are recognised in profit or loss of the consolidated statement of comprehensive income for all interest-bearing financial instruments on an accrual basis using the effective interest method. Interest income includes nominal interest and accrued discount and premiums. If the collection of loans issued becomes doubtful, 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.

5.17 Research and Development

Research expenditures are recognised as expenses as incurred. Development expenditures are recognised as intangible assets (within other non-current assets) if only future economic benefits are expected to flow from such expenditures. Other development expenditures are recognised as expenses as incurred. However, development expenditures previously recognised as expenses are not capitalised in subsequent periods, even if the asset recognition criteria are subsequently met.

5.18 Employee Benefits

Pension and Other Post-Employment Benefits

The Group applies post-employment and other employee benefits system, which is recorded as defined benefit plan in the consolidated financial statements under IAS 19 Employee Benefits. Pension benefits are provided to the majority of employees of the Group. The cost of providing pension benefits is recognised using the projected unit credit method. The cost of providing pension benefits is accrued and charged to staff costs within operating expenses of the consolidated statement of comprehensive income as a provision for post-employment benefits, to allocate the regular expenses over the service lives of employees.

The provision for post-employment benefits is measured at the present value of the projected cash outflows using interest rates applied to government securities, which have the term to maturity approximately corresponding to the term of the related provision.

Actuarial gains and losses on pension plan assets and liabilities arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they occur (see Note 25).

Past service cost is recognised immediately in profit or loss in the consolidated statement of comprehensive income when it occurs for the period of a pension plan amendment.

Plan assets are measured at fair value and are subject to certain limitations (see Note 25). Fair value of pension plan assets is based on market quotes. When no pension plan assets' market price is available, the fair value of assets is estimated by different valuation techniques, including discounted expected cash flows, estimated using a discount rate that reflects both the risk associated with the pension 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 are recorded as a defined contribution plan, are expensed when incurred and are included within staff costs in operating expenses. The costs of providing other discretionary pension benefits (including constructive obligations) are accrued and charged to profit or loss of the consolidated statement of comprehensive income to allocate the regular expenses over the average remaining service lives of employees.

Social Expenses

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

5 Summary of Significant Accounting Policies (continued)

5.19 Recent Accounting Pronouncements

Application of IFRS 16 Leases

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

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

The Group applied the following practical expedients:

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

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

The table below represents reconciliation between operating lease commitments in accordance with IAS 17 Leases and lease liabilities at the date of initial application of IFRS 16 Leases:

Minimum lease payments under operating lease as of 31 December 2018	357,532
Differences with lease liabilities in accordance with IFRS 16 Leases	
Applying judgement on extension and termination of contracts	21,901
Separation of a service component from lease payments	(32,786)
Exemption from recognition of short-term leases and leases for which the underlying asset is of low value	(4,936)
Exemption from recognition of leases with variable payments	(1,555)
Other	2,455
Undiscounted lease liabilities recognised at the date of initial application of IFRS 16 Leases	342,611
Effect of discounting	(107,944)
Lease liabilities in accordance with IFRS 16 Leases	234,667
Previously recognised finance lease liabilities	25,489
Lease liabilities in accordance with IFRS 16 Leases as of 1 January 2019	260,156

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

The difference between the carrying amount of assets and liabilities and their carrying amount at the date of initial application was recognised in the opening balance of retained earnings and other reserves and non-controlling interest in the consolidated statement of changes in equity of the Group as of 1 January 2019.

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

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5 Summary of Significant Accounting Policies (continued)

Notes	31 December 2018	Effect of IFRS 16 Leases application	1 January 2019
Assets			
Accounts receivable and prepayments	1,222,735	17,046	1,239,781
13, 14 Property, plant and equipment	13,809,434	(41,082)	13,768,352
14 Right-of-use assets	-	221,367	221,367
Other non-current assets	<u>530,262</u>	<u>(15)</u>	<u>530,247</u>
Total assets	20,810,440	197,316	21,007,756
Liabilities and equity			
Accounts payable, provisions and other liabilities	1,522,101	32,339	1,554,440
23 Deferred tax liabilities	748,751	(6,988)	741,763
Long-term lease liabilities	-	225,986	225,986
Other long-term liabilities	<u>110,758</u>	<u>(23,835)</u>	<u>86,923</u>
Total liabilities	7,034,287	227,502	7,261,789
Equity			
Retained earnings and other reserves	<u>13,210,734</u>	<u>(29,316)</u>	<u>13,181,418</u>
	13,300,009	(29,316)	13,270,693
Non-controlling interest	<u>476,144</u>	<u>(870)</u>	<u>475,274</u>
Total equity	13,776,153	(30,186)	13,745,967
Total liabilities and equity	20,810,440	197,316	21,007,756

Accounting policy applied from 1 January 2019

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

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

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

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

The Group applies a practical expedient to the contracts with fixed payments which include a service component and accounts for each lease component and associated non-lease components as a single lease component for all the classes of underlying assets except for vessels. The Group recognises a service component for vessel lease contracts as current period expenses if the share of such non-lease payments can be reliably determined.

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

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

- the amount of the initial measurement of the lease liability;
- lease payments made at or before the commencement date, less any lease incentives received;

5 Summary of Significant Accounting Policies (continued)

- any initial direct costs;
- an estimate of costs of dismantling and removing the underlying asset, restoring the site on which it is located or the underlying asset.

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

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

Application of Interpretations and Amendments to Standards

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

- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual reporting periods beginning on or after 1 January 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.
- The amendments to IAS 28 Investments in Associates and Joint Ventures (issued in October 2017 and effective for annual reporting periods beginning on or after 1 January 2019). These amendments clarify that long-term interests in an associate or joint venture that form part of the net investments in the associate or joint venture should be accounted for in accordance with IFRS 9 Financial Instruments.
- The amendments to IFRS 9 Financial Instruments (issued in October 2017 and effective for annual reporting periods beginning on or after 1 January 2019). These amendments enable to measure at amortised cost some prepayable financial assets with negative compensation.
- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual reporting periods beginning on or after 1 January 2019). These amendments clarify which borrowing costs are eligible for capitalisation in particular circumstances.
- The amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements (issued in December 2017 and effective for annual reporting periods beginning on or after 1 January 2019). The amendments clarify how obtaining control (or joint control) of a business that is a joint operation should be accounted if the entity already holds an interest in that business.
- The amendments to IAS 12 Income Taxes (issued in December 2017 and effective for annual reporting periods beginning on or after 1 January 2019). These amendments clarify income tax consequences of payments on instruments classified as equity.
- The amendments to IAS 19 Employee Benefits (issued in February 2018 and effective for annual reporting periods beginning on or after 1 January 2019). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs.

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

Amendments to Existing Standards that are not yet Effective and have not been Early Adopted by the Group

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

- The amendments to IFRS 3 Business Combinations (issued in October 2018 and effective for annual reporting periods beginning on or after 1 January 2020). These amendments clarify the definition of a business and simplify assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

5 Summary of Significant Accounting Policies (continued)

- The amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (issued in October 2018 and effective for annual reporting periods beginning on or after 1 January 2020). The amendments clarify and bring into line the definition of the term “materiality”, as well as provide recommendations for improving the consistency in its application when referenced in IFRS.
- The amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (issued in September 2019 and effective for annual periods beginning on or after 1 January 2020). Amendments are related to the reform of basic interest rates and clarify the requirements for hedge accounting.
- The amendments to IAS 1 Presentation of Financial Statements (issued in January 2020 and effective for annual periods beginning on or after 1 January 2022). Amendments clarify the criteria for classifying obligations as short-term or long-term.

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

6 Critical Judgements and Estimates in Applying Accounting Policies

The preparation of consolidated financial statements requires management to make estimates and assumptions that may affect the reported amount of assets and liabilities as well as information in notes to the consolidated financial statements. Management also makes certain judgements in the process of applying the accounting policies. These estimates and judgements are continually analysed based on historical experience and other information, including forecasts and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from specified estimates, and management’s estimates can be revised in the future, either negatively or positively, depending upon the outcome of changes in expectations based on the facts surrounding each estimate.

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

6.1 Consolidation of Subsidiaries

Management’s judgements are involved in the assessment of control and the method of accounting of various investments in subsidiaries in the Group’s consolidated financial statements taking into account voting rights and contractual arrangements with other investors.

6.2 Tax Legislation

Tax, currency and customs legislation of the Russian Federation is subject to varying interpretations (see Note 38).

Profit tax liabilities are determined by management in accordance with the current tax legislation. 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 Allowances

Loss Allowance for Expected Credit Losses of Accounts Receivable

An allowance for expected credit losses of accounts receivable is based on the Group’s management’s assessment of expected credit losses for the accounts receivable lifetime. Credit losses are the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate. If there is deterioration in any major customer’s creditworthiness or actual defaults are higher or lower than the estimates, the actual results could differ from these estimates. The accruals (and reversals) of allowance for expected credit losses of accounts receivable may be material (see Notes 10, 17).

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 in relation to certain variables as volumes of production and extraction, prices on natural gas, oil and refined products, electrical power, operating costs, capital expenditures, hydrocarbon reserves estimates, and also macroeconomic factors such as inflation and discount rates.

6 Critical Judgements and Estimates in Applying Accounting Policies (continued)

In addition, assumptions are applied in determining the cash-generating units assessed for impairment. For the purposes of goodwill impairment test, management considers gas production, transportation and distribution activities as part of single gas cash-generating unit and assesses 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 production are based on their expected production volumes, which include both proved and explored reserves as well as certain volumes of those that are expected to constitute proved and probable reserves in the future.

Change in impairment allowance of property, plant and equipment, right-of-use assets and goodwill is disclosed in Notes 13, 14, 15 and 28.

Accounting for Impairment

Accounting for impairment includes allowances against assets under construction, 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 prepared on or around the reporting date.

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

6.4 Decommissioning and Site Restoration Costs

Decommissioning and site restoration costs that may occur at the end of the operating life of certain Group's production facilities 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 profit or 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 decommissioning and site restoration provision that result from changes in the estimated timing or amount of cash outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRSs prescribe the recording of provisions for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgement. This judgement is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Provisions for decommissioning and site restoration are subject to change because of change in laws and regulations, and their interpretation.

6.5 Useful Lives of Property, Plant and Equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers such factors as 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 Group's management estimates, the impact on depreciation would be an increase by RUB 68,612 million or a decrease for the year ended 31 December 2019 (2018: by RUB 64,342 million).

Based on the terms included in the licenses and past experience, management believes that hydrocarbon production licenses, which are expected to be productive after 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 of Financial Instruments

Determination of the fair value of contracts for the purchase (sale) of energy carriers, commodity futures and swaps is based on market data received on measurement date (Level 1 in accordance with the fair value hierarchy). Customary valuation models are used to value financial instruments which are not traded in active market. The fair value is calculated based on inputs that are observable either directly or indirectly (Level 2 in accordance with the fair value hierarchy).

6 Critical Judgements and Estimates in Applying Accounting Policies (continued)

Contracts not based on observable market data belong to Level 3 in accordance with the fair value hierarchy. Management's best estimates based on models internally developed by the Group are used for the valuation of fair value these instruments. Where the valuation technique employed incorporates significant volume of input data for which market information is not available, such as long-term price assumptions, contracts have been categorised as Level 3 in accordance with the fair value hierarchy (see Note 40).

The assessment of the significance of input of the fair value measurement requires judgement and may affect the placement of financial instruments 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 value of the assets acquired and liabilities received as of the date of acquisition. The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. A significant amount of judgement is involved in estimating the individual fair value of property, plant and equipment and identifiable intangible assets.

The estimates used in determining fair value 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 Pension Plan Assets and Liabilities

Pension plan liabilities are estimated using actuarial techniques and assumptions (see Note 25). Actual results may differ from the estimates, and the Group's estimates may be adjusted in the future based on changes in economic and financial conditions. In addition, certain pension plan assets related to JSC NPF GAZFOND are recorded at fair value, determined using estimation techniques. Management makes judgements with respect to the selection of valuation models applied, the amount and timing of cash flows and other assumptions including discount rate. The recognition of pension plan assets is limited to the estimated present value of future benefits available to the Group in relation to this plan. The value of future benefits is determined using actuarial techniques and assumptions. The impact of the limitation of the net pension plan asset in accordance with IAS 19 Employee Benefits is disclosed in Note 25. The value of pension plan assets and the limitations may be adjusted in the future.

6.9 Joint Arrangements

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

6.10 Accounting for lease liabilities and right-of-use assets

When measuring the present value of lease payments, the Group applies professional judgement to determine the incremental borrowing rate if the discount rate is not implicit in the lease. When determining the incremental borrowing rate, the Group management analyses borrowings over a similar term in a similar period. If there are no borrowings with similar characteristics the discount rate is determined on the basis of the risk-free rate, adjusted for the credit risk of the Group determined on the basis of its quoted bonds.

Assessment of the non-cancellable period is subject to management judgement, which takes into account all relevant facts and circumstances that create an economic incentive for the Group to exercise or not to exercise an option to extend the lease. These facts and circumstances include the need to extend the lease to continue operations, the period of construction and exploitation of assets on leased lands, useful lives of leased assets, potential dismantling and relocation costs.

7 Segment Information

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

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

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

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

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

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

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

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

The Governing bodies of the Group assess the performance, assets and liabilities of the reportable segments including on the basis of the internal financial information. The effects of certain significant transactions and events, such as business acquisitions, and the effects of some adjustments that may be considered necessary to reconcile the internal financial information of the Group to the corresponding data presented in the consolidated financial statements are reviewed by the Governing bodies on a central basis and not allocated to the reportable segments. Financial income and expense are not allocated to the reportable segments.

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7 Segment Information (continued)

	Production of gas	Transportation of gas	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 2019									
Sales of segments	973,657	1,188,798	4,076,204	59,073	1,585,846	2,132,761	518,373	324,204	10,858,916
Inter-segment sales	950,146	973,463	298,985	54,425	833,056	21,580	-	-	3,131,655
External sales	23,511	215,335	3,777,219	4,648	752,790	2,111,181	518,373	324,204	7,727,261
Financial result of segments	4,984	109,410	359,145	5,818	403,601	15,992	40,830	(9,544)	930,236
Depreciation	172,233	476,182	18,308	29,637	156,064	48,838	61,297	52,545	1,015,104
Share of profit of associates and joint ventures	5,347	25,716	3,502	-	145,662	4,630	81	22,189	207,127
Year ended									
31 December 2018									
Sales of segments	1,017,044	1,173,837	4,568,746	58,675	1,528,932	2,187,170	522,095	363,993	11,420,492
Inter-segment sales	990,737	948,164	291,382	54,211	793,979	7,398	-	-	3,085,871
External sales	26,307	225,673	4,277,364	4,464	734,953	2,179,772	522,095	363,993	8,334,621
Financial result of segments	3,106	49,423	807,214	5,533	390,663	180,863	53,010	37,111	1,526,923
Depreciation	180,753	495,814	16,760	28,873	131,352	39,542	62,642	42,934	998,670
Share of profit of associates and joint ventures	9,226	24,975	707	-	151,422	4,046	65	42,042	232,483

Segments' Production of gas and Distribution of gas sales compose gas sales, segment's Gas storage sales are included in other sales.

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

Notes	Year ended 31 December	
	2019	2018
Financial result of reportable segments	939,780	1,489,812
Financial result of other segments	(9,544)	37,111
Total financial result of segments	930,236	1,526,923
Difference in depreciation ¹	299,875	350,677
Expenses associated with provision for post-employment benefits	11,255	123,421
29 Net finance (expense) income	300,081	(309,951)
16 Share of profit of associates and joint ventures	207,127	232,483
28 Derivatives (loss) gain	15,225	(1,849)
Other	(136,734)	(69,142)
Total profit before profit tax in the consolidated statement of comprehensive income	1,627,065	1,852,562

¹ The difference in depreciation mainly relates to adjustments of property, plant and equipment under Russian statutory accounting to comply with IFRS, such as reversal of revaluation of property, plant and equipment recorded under Russian statutory accounting or adjustments related to operating of the Group in hyperinflation which is not recorded under Russian statutory accounting.

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

	Year ended 31 December	
	2019	2018
External sales of reportable segments	7,403,057	7,970,628
External sales of other segments	324,204	363,993
Total external sales of segments	7,727,261	8,334,621
Differences in external sales ¹	(67,638)	(110,444)
Total sales in the consolidated statement of comprehensive income	7,659,623	8,224,177

¹ The differences in external sales relate to adjustments of external sales under Russian statutory accounting to comply with IFRS, such as elimination of sales of materials to subcontractors and other adjustments.

Segment assets consist primarily of property, plant and equipment, accounts receivable and prepayments, investments in associates and joint ventures and inventories. Cash and cash equivalents, VAT recoverable, goodwill, financial assets and other current and non-current assets are not allocated to the segments and managed on a central basis.

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7 Segment Information (continued)

The Group's assets are primarily located in the Russian Federation. Information on non-current assets by geographic regions is not disclosed due to the fact that the carrying value of non-current assets located outside the Russian Federation is insignificant.

	Production of gas	Transportation of gas	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
As of 31 December 2019									
Assets of segments	2,736,680	7,000,467	1,691,356	370,887	3,053,664	2,555,819	882,264	1,612,910	19,904,047
Investments in associates and joint ventures	15,583	183,176	37,638	2	546,493	22,992	1,100	375,878	1,182,862
Capital expenditures ¹	360,215	464,203	25,827	14,268	316,011	437,758	79,001	121,394	1,818,677
As of 31 December 2018									
Assets of segments	2,743,944	7,023,399	1,719,640	393,700	2,898,071	2,059,715	911,036	1,428,467	19,177,972
Investments in associates and joint ventures	25,211	200,307	21,476	2	570,760	20,714	1,517	257,459	1,097,446
Capital expenditures ²	308,007	640,063	39,078	19,391	257,932	309,417	72,907	149,089	1,795,884

¹ Capital expenditures for the year ended 31 December 2019.

² Capital expenditures for the year ended 31 December 2018.

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

		31 December	
Notes		2019	2018
	Assets of reportable segments	18,291,137	17,749,505
	Assets of other segments	1,612,910	1,428,467
	Total assets of segments	19,904,047	19,177,972
	Difference in property, plant and equipment, net ¹	(1,216,329)	(1,602,553)
13	Borrowing costs capitalised	919,491	808,251
8	Cash and cash equivalents	696,057	849,419
9	Short-term financial assets	57,571	26,859
	VAT recoverable	142,545	150,425
12	Other current assets	945,279	1,053,115
14	Right-of-use assets	73,857	-
15	Goodwill	130,028	108,097
18	Long-term financial assets	434,282	416,666
12	Other non-current assets	389,596	530,262
	Inter-segment assets	(917,888)	(956,216)
	Other	323,812	248,143
	Total assets in the consolidated balance sheet	21,882,348	20,810,440

¹ The difference in property, plant and equipment relates to adjustments of property, plant and equipment under Russian statutory accounting to comply with IFRS, such as reversal of revaluation of property, plant and equipment recorded under Russian statutory accounting or adjustments related to operating of the Group in hyperinflation which are not recorded under Russian statutory accounting.

Segment liabilities mainly comprise accounts payable arising in the course of operating activities. Current profit tax payable, deferred tax liabilities, long-term provisions (except for provision for decommissioning and site restoration), long-term and short-term borrowings, including current portion of long-term borrowings, short-term and long-term promissory notes payable and other non-current liabilities are not allocated to the reportable segments and managed on a central basis.

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7 Segment Information (continued)

	31 December	
	2019	2018
Distribution of gas	827,063	905,778
Refining	604,614	546,611
Production of crude oil and gas condensate	371,326	216,553
Production of gas	370,591	314,613
Transportation of gas	282,634	305,569
Electric and heat energy generation and sales	114,430	96,869
Gas storage	28,999	25,250
All other segments	<u>224,718</u>	<u>325,644</u>
Total liabilities of segments	2,824,375	2,736,887

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

Notes	31 December	
	2019	2018
Liabilities of reportable segments	2,599,657	2,411,243
Liabilities of other segments	<u>224,718</u>	<u>325,644</u>
Total liabilities of segments	2,824,375	2,736,887
Short-term lease liabilities	20,567	-
Current profit tax payable	39,709	34,708
Short-term borrowings, promissory notes and current portion of long-term borrowings	774,202	569,061
Long-term borrowings, promissory notes	3,089,702	3,294,761
Long-term provisions (except for provision for decommissioning and site restoration)	326,888	239,523
Deferred tax liabilities	768,448	748,751
Long-term lease liabilities	50,686	-
Other non-current liabilities	68,759	110,758
Dividends	3,667	7,586
Inter-segment liabilities	(917,888)	(956,216)
Other	<u>217,546</u>	<u>248,468</u>
Total liabilities in the consolidated balance sheet	7,266,661	7,034,287

8 Cash and Cash Equivalents

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

	31 December	
	2019	2018
Cash on hand and bank balances payable on demand	571,715	531,432
Term deposits with original maturity of three months or less	<u>124,342</u>	<u>317,987</u>
Total cash and cash equivalents	696,057	849,419

Fair values of cash and cash equivalents approximate the carrying values.

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

	31 December	
	2019	2018
Cash on hand	650	823
External credit investment rating	470,399	189,112
External credit non-investment rating	108,704	482,717
No external credit rating	<u>116,304</u>	<u>176,767</u>
Total cash and cash equivalents	696,057	849,419

The sovereign credit rating of the Russian Federation published by Standard & Poor's is BBB- with a stable outlook as of 31 December 2019 and 31 December 2018.

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9 Short-Term Financial Assets

	31 December	
	2019	2018
Financial assets measured at fair value with changes recognised through profit or loss:	30,634	26,827
Bonds	30,405	25,868
Equity securities	229	959
Financial assets measured at fair value with changes recognised through other comprehensive income:	3,012	32
Equity securities	3,010	-
Promissory notes	2	32
Financial assets measured at amortised cost:	23,925	-
Promissory notes	23,925	-
Total short-term financial assets	57,571	26,859

Analysis of 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 conditionally shown under Standard & Poor's classification.

	31 December	
	2019	2018
Investment rating	22,152	12,724
Non-investment rating	26,043	5,254
No external credit rating	6,137	7,922
	54,332	25,900

10 Accounts Receivable and Prepayments

	31 December	
	2019	2018
Financial assets		
Trade accounts receivable	756,746	912,109
Other accounts receivable	104,273	159,494
Loans receivable	103,476	70,891
	964,495	1,142,494
Non-financial assets		
Advances paid and prepayments	75,845	80,241
Total accounts receivable and prepayments	1,040,340	1,222,735

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

Trade accounts receivable are presented net of allowance for expected credit losses in the amount of RUB 841,298 million and RUB 957,770 million as of 31 December 2019 and 31 December 2018, respectively.

Loans receivable are presented net of allowance for expected credit losses in the amount of RUB 14,343 million and RUB 10,801 million as of 31 December 2019 and 31 December 2018, respectively.

Other accounts receivable are presented net of allowance for expected credit losses in the amount of RUB 28,499 million and RUB 24,461 million as of 31 December 2019 and 31 December 2018, respectively.

Advances paid and prepayments are presented net of impairment allowance in the amount of RUB 5,720 million and RUB 12,314 million as of 31 December 2019 and 31 December 2018, respectively.

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

	31 December	
	2019	2018
Short-term trade accounts receivable neither past due nor credit-impaired	644,323	796,358
Short-term trade accounts receivable past due and for which allowance for expected credit losses was accrued	885,639	996,425
Amount of allowance for expected credit losses of trade accounts receivable	(841,298)	(957,770)
Short-term trade accounts receivable past due but not credit-impaired	68,082	77,096
Total short-term trade accounts receivable	756,746	912,109

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10 Accounts Receivable and Prepayments (continued)

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

	31 December	
	2019	2018
Europe and other countries gas, crude oil, gas condensate and refined products trade accounts receivable	347,040	458,990
Domestic gas, crude oil, gas condensate and refined products trade accounts receivable	158,359	191,250
Former Soviet Union countries (excluding the Russian Federation) gas, crude oil, gas condensate and refined products trade accounts receivable	28,650	7,422
Electricity and heat trade accounts receivable	44,861	76,434
Gas transportation services trade accounts receivable	3,589	4,906
Other trade accounts receivable	<u>61,824</u>	<u>57,356</u>
Total trade accounts receivable neither past due nor credit-impaired	644,323	796,358

As of 31 December 2019 and 31 December 2018 credit-impaired accounts receivable mainly relate to gas sales to certain Russian regions and Former Soviet Union countries. In management's view the accounts receivable will be settled. The ageing analysis from the due date of these accounts receivable is as follows:

Ageing from the due date	Gross book value		Allowance for expected credit losses		Net book value	
	31 December		31 December		31 December	
	2019	2018	2019	2018	2019	2018
up to 6 months	82,834	105,661	(51,046)	(80,059)	31,788	25,602
from 6 to 12 months	58,932	84,552	(51,555)	(76,384)	7,377	8,168
from 1 to 3 years	153,229	214,674	(149,168)	(209,864)	4,061	4,810
more than 3 years	<u>590,644</u>	<u>591,538</u>	<u>(589,529)</u>	<u>(591,463)</u>	<u>1,115</u>	<u>75</u>
	885,639	996,425	(841,298)	(957,770)	44,341	38,655

Change in the Group's allowance for expected credit losses of trade and other accounts receivable is as follows:

	Trade receivables		Other receivables	
	Year ended 31 December		Year ended 31 December	
	2019	2018	2019	2018
Allowance for expected credit losses of accounts receivable at the beginning of the year	957,770	752,629	24,462	20,815
Effect of changes in accounting policies	-	1,990	-	55
Accrual of allowance for expected credit losses of accounts receivable ¹	178,320	143,365	7,530	18,880
Write-off of accounts receivable during the year ²	(167,852)	(7,463)	(2,149)	(2,481)
Reversal of previously accrued allowance for expected credit losses of accounts receivable ¹	(61,603)	(17,537)	(1,247)	(12,960)
Reclassification to other lines	-	(6,287)	-	-
Foreign exchange rate differences	<u>(65,337)</u>	<u>91,073</u>	<u>(97)</u>	<u>153</u>
Allowance for expected credit losses of accounts receivable at the end of the year	841,298	957,770	28,499	24,462

¹ The accrual and release of allowance for expected credit losses of trade and other accounts receivable have been included in the line "(Impairment loss) reversal of impairment loss on financial assets" in the consolidated statement of comprehensive income.

² If there is no probability of cash receipt for the credit-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 accounts receivable is as follows:

Ageing from the due date	31 December	
	2019	2018
up to 6 months	56,905	63,078
from 6 to 12 months	7,723	6,790
from 1 to 3 years	3,019	4,382
more than 3 years	<u>435</u>	<u>2,846</u>
	68,082	77,096

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11 Inventories

	31 December	
	2019	2018
Gas in pipelines and storages	561,927	502,051
Materials and supplies (net of allowance for obsolescence of RUB 6,493 million and RUB 4,251 million as of 31 December 2019 and 31 December 2018, respectively)	195,069	166,994
Goods for resale (net of allowance for obsolescence of RUB 4,286 million and RUB 1,321 million as of 31 December 2019 and 31 December 2018, respectively)	69,357	113,537
Crude oil and refined products	<u>120,008</u>	<u>127,095</u>
Total inventories	946,361	909,677

In 2019, the Group made borrowings secured by inventories, the carrying value of the pledged inventories amounted to RUB 70,168 million as of 31 December 2019.

12 Other Current and Non-Current Assets

Other current assets are provided in the table below.

Notes	31 December	
	2019	2018
Financial assets		
Short-term deposits	673,145	796,140
40 Derivative financial instruments	<u>109,954</u>	<u>107,868</u>
	783,099	904,008
Non-financial assets		
Prepaid VAT	115,775	119,208
Prepaid profit tax	10,247	6,117
Other	<u>36,158</u>	<u>23,782</u>
	162,180	149,107
Total other current assets	945,279	1,053,115

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

Notes	31 December	
	2019	2018
Financial assets		
40 Derivative financial instruments	19,770	37,393
Long-term deposits	<u>3,277</u>	<u>1,432</u>
	23,047	38,825
Non-financial assets		
Intangible assets	64,380	52,753
VAT recoverable related to assets under construction	41,348	41,905
25 Net pension plan assets	26,547	140,878
Other	<u>234,274</u>	<u>255,901</u>
	366,549	491,437
Total other non-current assets	389,596	530,262

The estimated fair value of short-term and long-term deposits approximates their carrying value.

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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 2017								
Cost	3,855,207	2,031,839	5,016,429	3,834,813	618,135	96,791	3,574,247	19,027,461
Accumulated depreciation	(1,510,136)	(713,095)	(2,286,278)	(1,293,573)	(255,034)	(43,336)	-	(6,101,452)
Impairment allowance	(445)	(78,112)	(72,488)	(34,265)	(6,368)	-	(189,252)	(380,930)
Net book value as of 31 December 2017	2,344,626	1,240,632	2,657,663	2,506,975	356,733	53,455	3,384,995	12,545,079
Cost								
Additions	123	5,992	14,947	3,879	2,200	-	1,924,151	1,951,292
Transfers	147,077	153,073	478,514	304,787	3,268	3,207	(1,089,926)	-
Disposals	(11,264)	(60,297)	(107,237)	(95,433)	(4,668)	(11,731)	(41,132)	(331,762)
Translation differences	11,230	69,499	46,604	31,608	18,137	212	109,191	286,481
Accumulated depreciation and impairment allowance								
Depreciation	(86,640)	(88,444)	(319,657)	(134,655)	(11,570)	(2,457)	-	(643,423)
Disposals	7,929	10,017	68,056	23,956	-	547	3,499	114,004
Translation differences	(7,328)	(25,771)	(22,548)	(14,461)	(10,213)	(52)	(10,456)	(90,829)
Change in impairment allowance	(72)	(16,621)	(11,179)	2,304	(723)	-	4,883	(21,408)
allowance accrual	(72)	(16,621)	(11,179)	-	(723)	-	(18,710)	(47,305)
allowance release	-	-	-	2,304	-	-	23,593	25,897
As of 31 December 2018								
Cost	4,002,373	2,200,106	5,449,258	4,079,654	637,072	88,479	4,476,531	20,933,473
Accumulated depreciation	(1,596,247)	(808,942)	(2,561,530)	(1,418,724)	(276,016)	(45,298)	-	(6,706,757)
Impairment allowance	(445)	(103,084)	(82,565)	(31,970)	(7,892)	-	(191,326)	(417,282)
Net book value as of 31 December 2018	2,405,681	1,288,080	2,805,163	2,628,960	353,164	43,181	4,285,205	13,809,434
Cost								
Reclassification to right-of-use assets	-	-	(106,451)	(6,426)	-	-	-	(112,877)
Additions	12	81,559	32,488	36,892	3,679	-	1,995,835	2,150,465
Transfers	530,393	194,462	412,902	531,869	10,028	4,552	(1,684,206)	-
Disposals	(4,395)	(17,925)	(66,624)	(36,169)	(5,920)	(2,664)	(133,816)	(267,513)
Translation differences	(6,604)	(48,496)	(40,128)	(27,066)	(10,896)	(321)	(129,569)	(263,080)
Accumulated depreciation and impairment allowance								
Reclassification to right-of-use assets	-	-	69,467	2,328	-	-	-	71,795
Depreciation	(88,825)	(91,384)	(341,568)	(149,764)	(12,126)	(2,457)	-	(686,124)
Disposals	3,982	7,790	53,830	17,406	129	843	21,507	105,487
Translation differences	4,532	20,419	20,491	11,749	7,574	67	2,355	67,187
Change in impairment allowance	-	(5,317)	(12,892)	(7,072)	-	-	6,955	(18,326)
allowance accrual	-	(6,469)	(12,892)	(7,072)	-	-	(38,876)	(65,309)
allowance release	-	1,152	-	-	-	-	45,831	46,983
As of 31 December 2019								
Cost	4,521,779	2,409,706	5,681,445	4,578,754	633,963	90,046	4,524,775	22,440,468
Accumulated depreciation	(1,676,558)	(877,779)	(2,762,736)	(1,537,014)	(281,732)	(46,845)	-	(7,182,664)
Impairment allowance	(445)	(102,739)	(92,031)	(39,033)	(6,599)	-	(160,509)	(401,356)
Net book value as of 31 December 2019	2,844,776	1,429,188	2,826,678	3,002,707	345,632	43,201	4,364,266	14,856,448

At the each balance sheet date management assess whether there is any indication that the recoverable value has declined below the carrying value of assets, including goodwill.

As of 31 December 2019 and 31 December 2018 the Group conducted a test of assets for the purposes of making a decision on the possible accrual or release of previously recognised impairment.

For the impairment test the Group's assets are grouped into cash-generating units ("CGU") and their recoverable amount has been determined on the basis of the values in their use. The values in use of each

13 Property, Plant and Equipment (continued)

CGU have been calculated by the Group as the present values of forecasted future cash flows discounted using the rates derived from the weighted average cost of capital of the Group, as adjusted, where applicable, to take into account any specific risks of business operations related assets.

The Group applied discount rates ranging from 4.71 % to 12.30 % and from 5.38 % to 13.00 % as of 31 December 2019 and 31 December 2018, respectively. Cash flows were forecasted based on actual operating results, budgets and other corporate documents containing forward-looking data.

The cash flow forecast covered periods commensurate with expected useful lives of the respective assets. To extrapolate cash flows beyond the periods, which are not included in the corporate documents containing forecast data, estimated growth rates were used.

The most significant CGU is the group of assets that constitute a unified gas supply system ("UGSS").

As of 31 December 2019 and 31 December 2018 the test did not reveal any impairment of the CGU relating to UGSS, assets for production, transportation and refining of gas in the Eastern Siberia and the Far East. The main assumptions that affect the forecast of cash flows for the UGSS are the gas price and the US Dollar exchange rate. A 23 % reduction in the gas price for gas exports to Europe from forecast prices would require the recognition of impairment loss of assets for these CGU. A weakening of the Russian Ruble against the US Dollar by more than 2 % would have a positive impact on the amount of cash flows in the functional currency, and, as a result, would lead to compensation for the impairment loss due to falling prices.

As of 31 December 2019 based on the result of the impairment test the Group recognised an impairment allowance in the amount of RUB 25,281 million for the following CGU:

- exploration and production of oil;
- electric and heat energy generation and sales.

As of 31 December 2018 based on the result of the impairment test the Group recognised an impairment allowance in the amount of RUB 26,291 million for the following CGU:

- exploration and production of oil;
- gas storage outside the Russian Federation;
- electric and heat energy generation and sales.

Impairment allowance of assets under construction primarily relate to assets for which it is not yet probable that there will be future economic benefits.

In 2019, for assets under construction related to the Turkish Stream project:

- release of impairment loss in the amount of RUB 45,585 million was recognised in connection with the project entering the final stage of construction and removal of the existed uncertainties regarding its realisation;
- impairment loss was recognised for assets in Bulgaria in the amount of RUB 11,188 million due to the lack of probability of the future economic benefits from their use.

The assets of the Turkish Stream project belong to the Transportation of gas segment.

Social assets (rest houses, housing, schools and medical facilities) included in the property, plant and equipment which were vested to the Group at privatisation have a net book value of RUB 45 million and RUB 69 million as of 31 December 2019 and 31 December 2018, respectively.

Included in additions above are capitalised borrowing costs of RUB 154,516 million and RUB 182,351 million for the years ended 31 December 2019 and 31 December 2018, respectively. Capitalisation rates of 5.52 % and 6.21 % were used representing the weighted average borrowing cost including exchange differences on foreign currency borrowings for the years ended 31 December 2019 and 31 December 2018, respectively. Capitalisation rate excluding exchange losses on foreign currency borrowings were 5.50 % and 5.76 % for the years ended 31 December 2019 and 31 December 2018, respectively.

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13 Property, Plant and Equipment (continued)

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

	Year ended 31 December	
	2019	2018
Exploration and evaluation assets at the beginning of the year	319,678	281,157
Additions	80,322	57,248
Translation differences	(5,353)	7,556
Reclassification	(4,240)	(2,886)
Disposals	(57,286) ¹	(23,397) ²
Exploration and evaluation assets at the end of the year	333,121	319,678

¹ Including impairment allowance in the amount of RUB 512 million.

² Including impairment allowance in the amount of RUB 215 million.

14 Right-of-Use Assets

Notes	Operating assets	Social assets	Total
Year ended 31 December 2019			
Net book value as of 31 December 2018	-	-	-
Initial recognition	148,877	31,408	180,285
5, 13 Reclassification from property, plant and equipment	<u>41,082</u>	-	<u>41,082</u>
Net book value as of 1 January 2019	189,959	31,408	221,367
Reclassification	25,992	(25,992)	-
Depreciation	(37,726)	(1,424)	(39,150)
28 Impairment allowance accrual	(6,007)	-	(6,007)
Additions as a result of new leases	40,995	3,622	44,617
Effect of modification and changes of estimates in lease contracts	(150)	(108)	(258)
Translation differences	<u>(6,325)</u>	-	<u>(6,325)</u>
Net book value as of 31 December 2019	206,738	7,506	214,244
As of 31 December 2019			
Cost	250,471	8,930	259,401
Accumulated depreciation and impairment allowance	<u>(43,733)</u>	<u>(1,424)</u>	<u>(45,157)</u>
Net book value as of 31 December 2019	206,738	7,506	214,244

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

The total cash outflow under lease agreements amounted to RUB 59,450 million for the year ended 31 December 2019.

15 Goodwill

Change in goodwill occurred as a result of subsidiaries acquisition is presented in the table below.

Notes	Year ended 31 December	
	2019	2018
Goodwill at the beginning of the year	108,097	105,469
35 Additions	22,999	-
Translation differences	(879)	2,629
Impairment	(187)	-
Disposals	<u>(2)</u>	<u>(1)</u>
Goodwill at the end of the year	130,028	108,097

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

	31 December	
	2019	2018
Gas production, transportation and distribution	44,105	44,115
Production of crude oil and gas condensate	34,598	35,469
Electric and heat energy generation and sales	28,326	28,513
Production and maintenance of turbocompressor and power equipment	<u>22,999</u>	<u>-</u>
Total goodwill	130,028	108,097

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15 Goodwil (continued)

Management has assessed the existence of indications of goodwill impairment. The procedure of calculating of the recoverable amount of a group of cash-generating units is described in Note 13.

As a result of this assessment the Group recognised impairment loss on goodwill in the amount of RUB 187 million and RUB nil million for the years ended 31 December 2019 and 31 December 2018, respectively.

16 Investments in Associates and Joint Ventures

Notes			Carrying value as of		Share of profit (loss) of associates and joint ventures for the year ended	
			31 December 2019	31 December 2018	31 December 2019	31 December 2018
36, 39	Gazprombank (Joint-stock Company) and its subsidiaries	Associate	211,171	166,218	11,585	13,126
36, 39	Sakhalin Energy Investment Company Ltd.	Associate	176,333	196,679	67,220	64,071
36	PJSC NGK Slavneft and its subsidiaries	Joint venture	159,420	152,495	8,912	11,882
36	JSC Arcticgas ¹	Joint venture	136,262	146,246	39,849	40,451
36, 39	Nord Stream AG	Joint venture	83,107	100,138	17,840	17,547
36	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries ²	Joint venture	52,159	55,867	7,519	6,694
36	JSC Messoyakhaneftegaz	Joint venture	45,350	36,837	25,814	28,172
36	JSC Gazstroyprom	Associate	43,129	-	1,911	-
36	JSC Achimgaz	Joint venture	34,888	37,310	14,079	13,399
25, 36	JSC NPF GAZFOND ³	Associate	32,729	28,861	3,868	28,861
36	JSC EUROPOL GAZ	Associate	30,117	33,894	357	734
36	Wintershall AG	Associate	15,590	18,026	(175)	(4)
36	KazRosGas LLP	Joint venture	12,949	11,758	2,580	464
36	CJSC Northgas	Joint venture	10,526	7,986	3,090	3,700
36	Wintershall Noordzee B.V.	Joint venture	5,309	8,125	(2,013)	383
36	JSC Latvijas Gaze and its subsidiaries	Associate	3,481	4,027	499	635
	Other (net of allowance for investments impairment in the amount of RUB 22,037 million and RUB 26,092 million as of 31 December 2019 and 31 December 2018, respectively)		<u>130,342</u>	<u>92,979</u>	<u>4,192</u>	<u>2,368</u>
			1,182,862	1,097,446	207,127	232,483

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

² In December 2019 WIGA Transport Beteiligungs-GmbH & Co. KG was reclassified from an associate into a joint venture due to amendments made to the company's Articles of Association, accordingly the investment into WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries as of 31 December 2019 became accounted for as the investment into a joint venture.

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

Changes in the carrying amount of investment in associates and joint ventures are as follows:

	Year ended 31 December	
	2019	2018
Investments in associates and joint ventures at the beginning of the year	1,097,446	867,445
Share of profit of associates and joint ventures	207,127	232,483
Distributions from associates and joint ventures	(180,936)	(124,662)
Share of other comprehensive (loss) income of associates and joint ventures	(4,276)	13,923
Translation differences	(52,096)	68,454
Other acquisitions and disposals	<u>115,597</u>	<u>39,803</u>
Investments in associates and joint ventures at the end of the year	1,182,862	1,097,446

The estimated fair values of the Group's investments in associates and joint ventures which are based on published price quotations are as follows:

	31 December	
	2019	2018
JSC Latvijas Gaze	9,281	11,046

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16 Investments in Associates and Joint Ventures (continued)

Significant associates and joint ventures

	Country of primary operations	Country of incorporation	Nature of operations	Ownership interest as of 31 December	
				2019	2018
JSC Arcticgas	Russia	Russia	Production of oil and petroleum gas	50	50
JSC Achimgaz	Russia	Russia	Exploration and production of gas and gas condensate	50	50
WIGA Transport Beteiligungs- GmbH & Co. KG	Germany	Germany	Gas transportation	50	50
Wintershall AG	Libya	Germany	Production of oil and gas sales	49	49
Gaz Project Development Central Asia AG	Uzbekistan	Switzerland	Gas production	50	50
Gazprombank (Joint-stock Company) ¹	Russia	Russia	Banking Customer's and contractor's functions under construction contracts	48	48
JSC Gazstroyprom	Russia	Russia	Non-state pension provision	49	-
JSC NPF GAZFOND ¹	Russia	Russia	Transportation and gas sales	42	42
JSC EUROPOL GAZ	Poland	Poland	Gas processing and sales of gas and refined products	48	48
KazRosGas LLP	Kazakhstan	Kazakhstan	Gas processing and sales of gas and refined products	50	50
JSC Latvijas Gaze	Latvia	Latvia	Sale and distribution of gas	34	34
JSC Messoyakhaneftegaz	Russia	Russia	Production of oil and petroleum gas	50	50
JSV Moldovagaz	Moldova	Moldova	Transportation and gas sales	50	50
Nord Stream AG ²	Russia, Germany	Switzerland	Gas transportation Production and sales of gas and gas condensate	51	51
CJSC Northgas	Russia	Russia	Gas sales	50	50
Panrusgas Co.	Hungary	Hungary	Gas sales, construction	40	40
Prometheus Gas S.A.	Greece	Greece	Gas sales, construction	50	50
Sakhalin Energy Investment Company Ltd.	Russia	Bermuda Islands	Production of oil, LNG Production, processing and sales of oil	50	50
PJSC NGK Slavneft	Russia	Russia	oil	50	50

¹ Share in voting shares.

² Investment in the company is accounted under the equity method of accounting, as the Group did not obtain control due to its corporate governance structure.

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

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

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

	PJSC NGK Slavneft and its subsidiaries	Gazprombank (Joint-stock Company) and its subsidiaries¹	Sakhalin Energy Investment Company Ltd.
<u>As of 31 December 2019 and for the year ended 31 December 2019</u>			
Cash and cash equivalents	2,771	739,024	27,748
Other current assets (excluding cash and cash equivalents)	97,774	5,066,684	107,141
Other non-current assets	<u>502,000</u>	<u>682,101</u>	<u>799,744</u>
Total assets	602,545	6,487,809	934,633
Current financial liabilities (excluding trade payables)	22,919	4,872,924	63,414
Other current liabilities (including trade payables)	65,474	113,674	128,715
Non-current financial liabilities	123,882	844,960	118,176
Other non-current liabilities	<u>66,392</u>	<u>28,468</u>	<u>271,661</u>
Total liabilities	278,667	5,860,026	581,966

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16 Investments in Associates and Joint Ventures (continued)

	PJSC NGK Slavneft and its subsidiaries	Gazprombank (Joint-stock Company) and its subsidiaries¹	Sakhalin Energy Investment Company Ltd.
Net assets (including non-controlling interest)	323,878	627,783	352,667
Ownership interest	50 %	48 %	50 %
Carrying value of investment	159,420	211,171	176,333
Revenue	316,084	270,566	386,709
Depreciation	(45,162)	(52,881)	(113,439)
Interest income	543	409,459	4,024
Interest expense	(6,755)	(266,705)	(12,915)
Profit tax expense	(8,644)	(15,429)	(73,600)
Profit for the year	18,653	45,359	134,439
Other comprehensive income for the year	(520)	(5,614)	(136)
Comprehensive income for the year	18,133	39,745	134,303
Dividends received from associates and joint ventures	(3)	(3,089)	(65,466)
<u>As of 31 December 2018 and for the year ended</u>			
<u>31 December 2018</u>			
Cash and cash equivalents	3,448	1,049,343	32,675
Other current assets (excluding cash and cash equivalents)	89,057	4,648,318	156,895
Other non-current assets	459,041	740,041	913,361
Total assets	551,546	6,437,702	1,102,931
Current financial liabilities (excluding trade payables)	1,991	4,913,146	103,463
Other current liabilities (including trade payables)	60,520	127,054	142,865
Non-current financial liabilities	126,151	861,842	155,143
Other non-current liabilities	58,301	13,301	308,104
Total liabilities	246,963	5,915,343	709,575
Net assets (including non-controlling interest)	304,583	522,359	393,356
Ownership interest	50 %	48 %	50 %
Carrying value of investment	152,495	166,218	196,679
Revenue	314,332	287,415	392,816
Depreciation	(45,022)	(44,972)	(119,098)
Interest income	368	373,482	3,685
Interest expense	(5,276)	(234,801)	(13,590)
Profit tax expense	(7,682)	(13,521)	(81,586)
Profit for the year	24,926	41,086	128,142
Other comprehensive income for the year	137	3,496	986
Comprehensive income for the year	25,063	44,582	129,128
Dividends received from associates and joint ventures	-	(3,086)	(74,433)

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

	Assets	Liabilities	Revenues	Profit (loss)
<u>As of 31 December 2019 and for the year ended</u>				
<u>31 December 2019</u>				
JSC Gazstroyrom	463,598	375,581	105,988	3,774
JSC NPF GAZFOND	454,054	375,224	-	24,168
JSC Arcticgas	419,362	171,170	196,395	79,696
Nord Stream AG	392,013	229,056	77,823	34,981
WIGA Transport Beteiligungs-GmbH & Co. KG				
and its subsidiaries	284,526	173,024	76,215	15,498
JSC Messoyakhaneftegaz	221,692	131,417	141,449	51,632
JSC Achimgaz	103,132	33,354	68,882	28,158
JSC EUROPOL GAZ	64,028	1,287	15,164	782
Wintershall AG	58,940	36,092	8,898	(358)
Wintershall Noordzee B.V.	46,049	37,318	7,933	(4,025)
CJSC Northgas	45,993	24,006	21,136	6,179
KazRosGas LLP	33,382	7,483	51,611	5,159
JSC Latvijas Gaze and its subsidiaries	19,880	5,584	22,893	1,469

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16 Investments in Associates and Joint Ventures (continued)

	Assets	Liabilities	Revenues	Profit (loss)
As of 31 December 2018 and for the year ended				
31 December 2018				
Nord Stream AG	489,723	293,372	79,469	34,405
JSC Arcticgas	439,148	168,497	195,581	81,823
JSC NPF GAZFOND	427,516	358,003	-	14,616
WIGA Transport Beteiligungs-GmbH & Co. KG				
and its subsidiaries	321,523	188,493	76,008	13,780
JSC Messoyakhaneftegaz	202,430	129,175	125,521	56,344
JSC Achimgaz	93,125	18,504	41,217	26,798
Wintershall AG	78,622	53,527	11,561	(8)
JSC EUROPOL GAZ	72,453	1,843	15,752	1,490
Wintershall Noordzee B.V.	54,408	39,943	14,643	765
CJSC Northgas	46,496	29,589	23,337	7,399
KazRosGas LLP	27,622	4,106	44,347	1,825
JSC Latvijas Gaze and its subsidiaries	25,210	8,067	26,095	1,865

17 Long-Term Accounts Receivable and Prepayments

	31 December	
	2019	2018
Financial assets		
Long-term accounts receivable	323,411	151,131
Long-term sublease receivables	15,008	-
	338,419	151,131
Non-financial assets		
Long-term prepayments	22,525	20,991
Advances for assets under construction	485,791	464,183
	508,316	485,174
Total long-term accounts receivable and prepayments	846,735	636,305

Long-term accounts receivable are presented net of allowance for expected credit losses in the amount of RUB 11,628 million and RUB 12,031 million as of 31 December 2019 and 31 December 2018, respectively. Prepayments and advances paid for assets under construction are presented net of impairment allowance in the amount of RUB 8,305 million and RUB 7,868 million as of 31 December 2019 and 31 December 2018, respectively.

As of 31 December 2019 and 31 December 2018 long-term accounts receivable and prepayments with carrying value RUB 360,944 million and RUB 172,122 million have an estimated fair value RUB 360,944 million and RUB 149,766 million, respectively.

	31 December	
	2019	2018
Long-term accounts receivable neither past due nor credit-impaired	355,704	172,101
Long-term accounts receivable past due and for which allowance for expected credit losses was accrued	12,552	12,040
Allowance for expected credit losses of long-term accounts receivable	(11,628)	(12,031)
Long-term accounts receivable past due but not credit-impaired	4,316	12
Total long-term accounts receivable and prepayments	360,944	172,122

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17 Long-Term Accounts Receivable and Prepayments (continued)

	31 December	
	2019	2018
Loans receivable	214,179	59,983
Long-term trade accounts receivable	39,554	40,525
Other long-term accounts receivable ¹	101,971	71,593
Total long-term accounts receivable neither past due nor credit-impaired	355,704	172,101

¹ Other long-term accounts receivable includes prepayments in the amount of RUB 22,525 million and RUB 20,991 million as of 31 December 2019 and 31 December 2018, respectively.

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

Movement of the Group's allowance for expected credit losses of long-term accounts receivable is presented in the table below.

	Year ended 31 December	
	2019	2018
Allowance for expected credit losses of accounts receivable at the beginning of the year	12,031	8,810
Effect of changes in accounting policies	-	569
Accrual of allowance for expected credit losses of accounts receivable ¹	2,762	3,405
Reversal of previously accrued allowance for expected credit losses of accounts receivable ¹	(1,990)	(819)
Foreign exchange rate differences	(1,175)	66
Allowance for expected credit losses of accounts receivable at the end of the year	11,628	12,031

¹ The accrual and release of allowance for expected credit losses of long-term accounts receivable have been included in the line "Impairment loss on financial assets" in the consolidated statement of comprehensive income.

18 Long-Term Financial Assets

	31 December	
	2019	2018
Financial assets measured at fair value with changes recognised through profit or loss:	2,447	2,131
Equity securities	2,447	2,131
Financial assets measured at fair value with changes recognised through other comprehensive income:	431,835	414,535
Equity securities ¹	431,551	414,273
Promissory notes	284	262
Total long-term financial assets	434,282	416,666

¹ As of 31 December 2019 and 31 December 2018 equity securities measured at fair value with changes recognised through other comprehensive income include PJSC NOVATEK shares in the amount of RUB 380,811 million and RUB 360,336 million, respectively.

Long-term financial assets are shown net of allowance for expected credit losses of RUB 34 million and RUB 35 million as of 31 December 2019 and 31 December 2018, respectively.

Long-term financial assets measured at fair value with changes recognised through other comprehensive income include promissory notes on Group companies' balances which are assessed by management as of high credit quality.

Movement in long-term financial assets is presented in the table below.

	Year ended 31 December	
	2019	2018
Long-term financial assets at the beginning of the year	416,666	268,432
Increase in fair value of long-term financial assets	23,131	148,963
Acquisition of long-term financial assets	551	1,387
Disposal of long-term financial assets	(2,874)	(2,113)
Reclassification to short-term financial assets	(3,010)	-
Translation differences	(183)	-
Release (accrual) of allowance for expected credit losses of long-term financial assets	1	(3)
Long-term financial assets at the end of the year	434,282	416,666

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18 Long-Term Financial Assets (continued)

As of the reporting date the maximum exposure to credit risk for this category of assets equals to the fair value of the promissory notes classified as financial assets measured at fair value with changes recognised through other comprehensive income. The fair value of financial assets measured at fair value with changes recognised through other comprehensive income mainly has been determined using the quoted market prices (see Note 40).

19 Accounts Payable and Provisions

Notes	31 December	
	2019	2018
Financial liabilities		
Trade accounts payable	498,181	473,027
Accounts payable for acquisition of property, plant and equipment	331,364	319,660
40 Derivative financial instruments	99,998	99,490
Lease liabilities	42,020	-
Other accounts payable ¹	<u>304,682</u>	<u>463,672</u>
	1,276,245	1,355,849
Non-financial liabilities		
Advances received	143,934	164,167
Accruals and deferred income	<u>1,937</u>	<u>2,085</u>
	<u>145,871</u>	<u>166,252</u>
Total accounts payable and provisions	1,422,116	1,522,101

¹ As of 31 December 2019 and 31 December 2018 other accounts payable include RUB 93,542 million and RUB 33,228 million of accruals for probable price adjustments related to natural gas deliveries made from 2014 to 2019, respectively.

Fair values of these liabilities approximate the carrying values.

20 Taxes Other than on Profit and Fees Payable

	31 December	
	2019	2018
VAT	116,007	151,936
MET	86,712	114,078
Property tax	34,755	37,301
Excise tax	26,126	21,227
Other taxes	<u>27,849</u>	<u>23,283</u>
Total taxes and fees payable	291,449	347,825

21 Short-Term Borrowings, Promissory Notes and Current Portion of Long-Term Borrowings

	31 December	
	2019	2018
Short-term borrowings and promissory notes:		
Borrowings and promissory notes denominated in Russian Rubles	89,119	66,839
Foreign currency denominated borrowings	<u>64,706</u>	<u>8,052</u>
	153,825	74,891
Current portion of long-term borrowings (see Note 22)	<u>620,377</u>	<u>494,170</u>
Total short-term borrowings, promissory notes and current portion of long-term borrowings	774,202	569,061

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

	31 December	
	2019	2018
Fixed rate short-term borrowings denominated in Russian Rubles	7.08 %	7.95 %
Fixed rate foreign currency denominated short-term borrowings	-	7.83 %
Variable rate short-term borrowings denominated in Russian Rubles	6.76 %	9.75 %
Variable rate foreign currency denominated short-term borrowings	1.42 %	3.48 %

Fair values of these liabilities approximate the carrying values.

PJSC Gazprom
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22 Long-Term Borrowings, Promissory Notes

	Currency	Final maturity	31 December 2019	2018
Long-term borrowings, promissory notes:				
Intesa Sanpaolo Bank Luxembourg S.A. ¹	Euro	2021	153,452	-
Gazprombank (Joint-stock Company)	Russian Ruble	2027	101,018	-
Loan participation notes issued in September 2012 ²	US Dollar	2022	93,999	105,485
Loan participation notes issued in November 2013 ²	US Dollar	2023	93,370	104,779
Intesa Sanpaolo Bank Luxembourg S.A. ¹	Euro	2023	82,865	94,883
Loan participation notes issued in March 2007 ³	US Dollar	2022	82,136	92,174
Loan participation notes issued in August 2007 ³	US Dollar	2037	79,497	89,212
Loan participation notes issued in February 2019 ³	US Dollar	2026	78,246	-
J.P. Morgan Europe Limited ¹	Euro	2023	76,029	87,087
Loan participation notes issued in April 2004 ³	US Dollar	2034	75,407	84,622
Loan participation notes issued in March 2013 ³	Euro	2020	71,183	81,578
Loan participation notes issued in November 2018 ³	Euro	2024	70,686	79,045
Loan participation notes issued in November 2016 ³	Euro	2023	69,210	79,268
	British Pound			
Loan participation notes issued in April 2017 ^{3,4}	Sterling	2024	68,120	78,028
Loan participation notes issued in July 2012 ³	US Dollar	2022	63,285	71,018
Bank of China Limited, London branch	Euro	2021	59,461	113,580
J.P. Morgan Europe Limited ¹	Euro	2022	59,150	78,987
Loan participation notes issued in February 2013 ³	US Dollar	2028	56,826	63,770
Loan participation notes issued in February 2014 ³	Euro	2021	53,590	61,412
Loan participation notes issued in March 2018 ³	Euro	2026	52,569	60,239
Loan participation notes issued in November 2017 ³	Euro	2024	51,719	59,243
Loan participation notes issued in February 2013 ³	US Dollar	2020	50,293	56,438
UniCredit S.p.A.	Euro	2025	48,379	55,427
Loan participation notes issued in March 2018 ³	Swiss Franc	2023	47,964	53,161
Loan participation notes issued in March 2017 ³	US Dollar	2027	46,647	52,340
UniCredit S.p.A.	Euro	2022	44,586	55,329
	British Pound			
Loan participation notes issued in September 2013 ^{3,4}	Sterling	2020	41,937	48,058
Credit Agricole CIB	Euro	2023	41,455	47,467
Loan participation notes issued in November 2011 ³	US Dollar	2021	38,122	42,780
Loan issued in December 2018 ⁵	Japanese yen	2028	36,373	40,411
Loan participation notes issued in March 2013 ³	Euro	2025	35,853	41,089
Credit Agricole CIB	Euro	2022	34,706	55,722
Natixis ¹	Euro	2024	34,582	-
MUFG Bank Ltd.	Euro	2023	34,425	-
PJSC Sberbank	Euro	2023	33,687	29,861
Wintershall Nederland Transport and Trading B.V. ⁶	Euro	2034	32,378	-
Uniper Gas Transportation and Finance B.V. ⁶	Euro	2034	32,378	-
OMV Gas Marketing Trading & Finance B.V. ⁶	Euro	2034	32,378	-
Shell Exploration and Production (LXXI) B.V. ⁶	Euro	2034	32,378	-
Engie Energy Management Holding				
Switzerland AG ⁶	Euro	2034	32,378	-
Loan participation notes issued in November 2016 ^{3,4}	Swiss Franc	2021	32,281	36,943
Loan participation notes issued in July 2017 ^{3,4}	Swiss Franc	2022	31,637	36,207
PJSC Sberbank	Russian Ruble	2022	30,084	-
Citibank Europe plc ¹	Euro	2023	29,288	33,537
ING Bank, a branch of ING-DiBa AG	Euro	2023	27,606	31,611
China Construction Bank Corporation, Beijing branch ¹	US Dollar	2020	27,205	61,151

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22 Long-Term Borrowings, Promissory Notes (continued)

	Currency	Final maturity	31 December 2019	2018
Wintershall Nederland Transport and Trading B.V. ⁶	Euro	2035	26,775	26,978
Uniper Gas Transportation and Finance B.V. ⁶	Euro	2035	26,775	26,978
OMV Gas Marketing Trading & Finance B.V. ⁶	Euro	2035	26,773	26,975
Shell Exploration and Production (LXXI) B.V. ⁶	Euro	2035	26,773	26,975
Engie Energy Management Holding Switzerland AG ⁶	Euro	2035	26,773	26,975
Russian bonds issued in March 2018 ²	Russian Ruble	2024	25,542	25,538
Russian bonds issued in October 2017 ²	Russian Ruble	2022	25,382	25,376
Russian bonds issued in November 2019 ²	Russian Ruble	2024	25,166	-
UniCredit S.p.A. ¹	Euro	2021	24,257	6,339
Gazprombank (Joint-stock Company)	Russian Ruble	2022	22,700	-
JSC ALFA-BANK	US Dollar	2021	22,607	27,803
Russian bonds issued in December 2019 ²	Russian Ruble	2029	20,012	-
Gazprombank (Joint-stock Company)	Russian Ruble	2022	19,450	-
J.P. Morgan Europe Limited ¹	Euro	2020	18,308	42,007
PJSC Sberbank	Euro	2022	16,952	19,149
VTB Bank (Europe) SE	Euro	2027	15,613	20,276
Russian bonds issued in July 2019 ⁷	Russian Ruble	2024	15,535	-
Russian bonds issued in July 2018 ⁸	Russian Ruble	2048	15,513	15,509
Russian bonds issued in July 2018 ⁸	Russian Ruble	2048	15,513	15,509
Russian bonds issued in February 2017 ⁷	Russian Ruble	2027	15,508	15,505
Russian bonds issued in February 2017 ⁷	Russian Ruble	2027	15,508	15,505
Russian bonds issued in August 2017 ²	Russian Ruble	2024	15,487	15,482
Russian bonds issued in April 2017 ²	Russian Ruble	2022	15,289	15,282
Russian bonds issued in June 2019 ⁷	Russian Ruble	2022	15,089	-
Russian bonds issued in November 2013 ⁸	Russian Ruble	2043	15,081	15,074
Russian bonds issued in November 2013 ⁸	Russian Ruble	2043	15,081	15,074
Gazprombank (Joint-stock Company)	Russian Ruble	2025	15,000	15,000
JSC BANK "ROSSIYA"	Russian Ruble	2022	15,000	15,281
Gazprombank (Joint-stock Company)	Russian Ruble	2024	15,000	15,000
PJSC CREDIT BANK OF MOSCOW	Russian Ruble	2024	14,925	-
PJSC VTB Bank	Euro	2022	13,858	-
Deutsche Bank Luxembourg S.A.	Euro	2022	11,772	15,943
UniCredit Bank Austria AG	Euro	2021	11,116	21,254
Russian bonds issued in July 2018 ⁸	Russian Ruble	2033	10,342	10,340
Russian bonds issued in August 2016 ²	Russian Ruble	2046	10,324	10,322
Russian bonds issued in February 2011 ²	Russian Ruble	2021	10,321	10,319
Russian bonds issued in February 2018 ⁷	Russian Ruble	2028	10,247	10,245
Russian bonds issued in February 2018 ⁷	Russian Ruble	2028	10,247	10,245
JSC ALFA-BANK	Russian Ruble	2023	10,073	10,007
PJSC Promsvyazbank	Russian Ruble	2023	10,039	-
Russian bonds issued in December 2017 ²	Russian Ruble	2024	10,025	10,023
BNP Paribas S.A. ¹	Euro	2022	8,499	12,986
Russian bonds issued in June 2016 ²	Russian Ruble	2046	1,185	10,067
Loan participation notes issued in April 2009 ³	US Dollar	2019	-	159,040
Loan participation notes issued in October 2013 ³	Swiss Franc	2019	-	35,474
Wintershall Nederland Transport and Trading B.V. ⁶	Euro	2019	-	26,245
Uniper Gas Transportation and Finance B.V. ⁶	Euro	2019	-	26,245
Shell Exploration and Production (LXXI) B.V. ⁶	Euro	2019	-	26,245
OMV Gas Marketing Trading & Finance B.V. ⁶	Euro	2019	-	26,245
Engie Energy Management Holding Switzerland AG ⁶	Euro	2019	-	26,243
Gazprombank (Joint-stock Company)	US Dollar	2019	-	25,009
Gazprombank (Joint-stock Company)	US Dollar	2019	-	22,925
PJSC Sberbank	Euro	2019	-	19,143

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22 Long-Term Borrowings, Promissory Notes (continued)

	Currency	Final maturity	31 December	
			2019	2018
Mizuho Bank Ltd. ¹	US Dollar	2019	-	17,339
Other long-term borrowings, promissory notes	Various	Various	497,826	515,495
Total long-term borrowings, promissory notes			3,710,079	3,788,931
Less current portion of long-term borrowings			(620,377)	(494,170)
			3,089,702	3,294,761

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

² Issuer of these bonds is PJSC Gazprom Neft.

³ Issuer of these bonds is Gaz Capital S.A. Bonds were issued under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

⁴ According to the signed agreements between the bond issuer Gas Capital S.A. and the banks, settlements for the bonds are made in Euro (up to achieve of a coefficient based on the ratio of currency exchange rates set in the agreements).

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

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

⁷ Issuer of these bonds is Gazprom capital LLC.

⁸ Issuer of these bonds is PJSC Gazprom.

	31 December	
	2019	2018
Long-term borrowings and promissory notes denominated in Russian Rubles (including current portion of RUB 44,396 million and RUB 46,611 million as of 31 December 2019 and 31 December 2018, respectively)	845,269	694,548
denominated in foreign currency (including current portion of RUB 575,981 million and RUB 447,559 million as of 31 December 2019 and 31 December 2018, respectively)	2,864,810	3,094,383
	3,710,079	3,788,931

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

	31 December	
Due for repayment of long-term borrowings, promissory notes	2019	2018
between one and two years	448,815	607,775
between two and five years	1,637,203	1,654,576
after five years	1,003,684	1,032,410
	3,089,702	3,294,761

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,238,028 million and RUB 2,709,599 million and fair value of RUB 2,509,321 million and RUB 2,831,050 million as of 31 December 2019 and 31 December 2018, respectively.

All other long-term borrowings have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 1,472,051 million and RUB 1,079,332 million and fair value is RUB 1,649,878 million and RUB 1,082,539 million as of 31 December 2019 and 31 December 2018, respectively.

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

	31 December	
	2019	2018
Fixed rate long-term borrowings denominated in Russian Rubles	7.71 %	8.08 %
Fixed rate foreign currency denominated long-term borrowings	5.08 %	5.38 %
Variable rate long-term borrowings denominated in Russian Rubles	6.61 %	7.20 %
Variable rate foreign currency denominated long-term borrowings	2.66 %	2.46 %

As of 31 December 2019 and 31 December 2018 according to the agreements signed within the framework of financing the Nord Stream-2 project with Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation and Finance B.V., 100 % of shares of Nord Stream 2 AG held by PJSC Gazprom were pledged until a full settlement of the secured obligations.

As of 31 December 2019 according to the agreements signed in December 2019 within the framework of financing the construction of the Amur Gas Processing Plant, 99.9 % of interest in the charter capital of LLC Gazprom pererabotka Blagoveshchensk (a subsidiary) was pledged until a full settlement of the secured obligations. No borrowings were made as of 31 December 2019.

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22 Long-Term Borrowings, Promissory Notes (continued)

Under the terms of the Russian bonds with the nominal value of RUB 25,000 million issued by PJSC Gazprom Neft in November 2019 and due in 2024 bondholders can execute the right of early redemption in November 2021 at par, including interest accrued.

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

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

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

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

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

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

The Group has no subordinated debt and no debt that may be converted into an equity interest of the Group (see Notes 31).

23 Profit Tax

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

Notes		For the year ended 31 December	
		2019	2018
	Profit before profit tax	1,627,065	1,852,562
	Theoretical tax charge calculated at applicable tax rates	(325,413)	(370,512)
	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	(7,246)	(14,261)
25	Provision for post-employment benefits	(6,448)	15,787
13	Provision for impairment of assets under construction	(2,792)	1,911
	Non-operating expenses	(20,222)	(31,839)
	Social expenses	(6,219)	(7,375)
	Other non-deductible expenses	(47,067)	(8,719)
15	Non-taxable share of profit of associates and joint ventures	41,425	46,497
	Other non-taxable income	16,434	44,945
	Profit tax expense	(357,548)	(323,566)

Differences between the recognition criteria of assets and liabilities reflected in IFRS financial statements and for the purposes of Russian statutory taxation give rise to certain temporary differences. The tax effect of the movement in these temporary differences is recorded at the applicable statutory rates with the prevailing rate of 20 % in the Russian Federation.

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23 Profit Tax (continued)

	Temporary differences of recognition and reversals			Effect of changes in accounting policies			Temporary differences of recognition and reversals		
	31 December 2017	in profit or loss	in other comprehensive income	31 December 2018	1 January 2019		in profit or loss	in other comprehensive income	31 December 2019
Property, plant and equipment	(831,235)	(44,172)	-	(875,407)	2,619	(872,788)	(86,821)	6,052	(953,557)
Right-of-use assets	-	-	-	-	(31,023)	(31,023)	(2,301)	-	(33,324)
Financial assets	(4,574)	10,331	(4,044)	1,713	-	1,713	(1,187)	1,596	2,122
Account receivables	47,071	33,639	-	80,710	-	80,710	16,422	-	97,132
Inventories	(8,907)	14,152	-	5,245	-	5,245	(10,404)	-	(5,159)
Tax losses carry forward	13,341	3,505	-	16,846	-	16,846	8,605	-	25,451
Retroactive gas price adjustments	22,460	(15,801)	-	6,659	-	6,659	12,763	-	19,422
Lease liabilities	-	-	-	-	35,392	35,392	4,340	-	39,732
Accounts payable	53,859	(53,859)	-	-	-	-	-	-	-
Other deductible temporary differences	8,572	6,872	39	15,483	-	15,483	21,665	2,585	39,733
Total net deferred tax liabilities	(699,413)	(45,333)	(4,005)	(748,751)	6,988	(741,763)	(36,918)	10,233	(768,448)

Taxable temporary differences recognised for the years ended 31 December 2019 and 31 December 2018 include the effect of depreciation premium on certain items of property, plant and equipment. The positive tax effect on these differences for the year ended 31 December 2019 amounted to RUB 1,664 million and it was offset by the decrease in the current profit tax by the corresponding amount which did not have influence on profit for the year ended 31 December 2019. The negative tax effect on these differences for the year ended 31 December 2018 was RUB 6,942 million and it was offset by the increase in the current profit tax by the corresponding this amount which did not have influence on profit for the year ended 31 December 2018.

Effective 1 January 2012, 55 major Russian subsidiaries of PJSC Gazprom formed a consolidated group of taxpayers ("CGT") with PJSC Gazprom acting as the responsible tax payer. Starting from 1 January 2013 the membership was expanded to 65 participants. Starting from 1 January 2014, the list of participants was 69. Starting from 1 January 2015 the number of participants was reduced to 65. Starting from 1 January 2016, the list of participants has been expanded to 67. In 2017, the number of participants did not change compared to 2016. Starting from 1 January 2018 the number of participants was reduced to 65. In 2019 the number of participants has not changed. 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 that profit or loss is recognised for tax purposes in the reporting year and, thus, is included into the tax base of the CGT. Tax assets recognised on losses prior to the formation of the CGT are written off.

24 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.

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24 Derivative Financial Instruments (continued)

Fair value	31 December	
	2019	2018
Assets		
Commodity contracts	116,464	141,767
Foreign currency derivatives and currency and interest rate swaps	8,855	3,494
Other derivatives	4,405	-
	129,724	145,261
Liabilities		
Commodity contracts	108,509	134,800
Foreign currency derivatives and currency and interest rate swaps	2,901	3,052
Other derivatives	7,214	16,133
	118,624	153,985

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

25 Provisions

	31 December	
	2019	2018
Provision for post-employment benefits	291,684	226,585
Provision for decommissioning and site restoration costs	279,895	166,799
Other	35,204	12,938
Total provisions	606,783	406,322

Provision for decommissioning and site restoration costs changed mainly due to a decrease in discount rate from 8.93 % to 6.59 % as of 31 December 2018 and 31 December 2019, respectively, and revised liquidation dates.

The Group applies post-employment and other employee benefits system, which is recorded as defined benefit plan in the consolidated financial statements under IAS 19 Employee Benefits. Pension benefits are provided to the majority of the Group's employees. These benefits include pension benefits provided by the non-governmental pension fund, JSC NPF GAZFOND, and lump-sum payments from the Group provided upon retirement.

The amount of benefits provided depends on the time of service rendered by employees (length of service), salary in the last years preceding retirement, a predetermined fixed amount or a combination of these factors.

The principal actuarial assumptions used:

	31 December	
	2019	2018
Discount rate (nominal)	6.5 %	8.8 %
Future salary and pension increase (nominal)	4.0 %	5.0 %
Average expected retirement age, years	women 58, men 62	
Employee turnover ratio	age-related probability of resignation curve, 3.8 % on average	

The weighted average term of obligations to maturity is 11.5 years.

The assumptions related to the remaining life expectancy of employees at expected retirement age were 16.3 years for 62 year old men and 25.8 years for 58 year old women in 2019 and 2018

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

	31 December 2019		31 December 2018	
	Pension plan provided through JSC NPF GAZFOND	Other post-employment benefits	Pension plan provided through JSC NPF GAZFOND	Other post-employment benefits
Present value of obligations	(404,997)	(291,684)	(332,493)	(226,585)
Fair value of plan assets	431,544	-	473,371	-
Total net assets (liabilities)	26,547	(291,684)	140,878	(226,585)

The net pension plan assets related to benefits provided through JSC NPF GAZFOND in the amount of RUB 26,547 million and RUB 140,878 million as of 31 December 2019 and 31 December 2018, respectively, are included within other non-current assets in the consolidated balance sheet (see Note 12).

PJSC Gazprom
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25 Provisions (continued)

Changes in the present value of the defined benefit plan obligations and in the fair value of pension plan assets for the years ended 31 December 2019 and 31 December 2018 are presented below.

	Provision for pension plan provided through JSC NPF GAZFOND	Fair value of plan assets	Net (assets) liabilities	Provision for other post- employment benefits
As of 31 December 2018	332,493	(473,371)	(140,878)	226,585
Current service cost	10,109	-	10,109	12,861
Past service cost	(1,138)	-	(1,138)	3,164
Interest expense (income)	<u>29,247</u>	<u>(41,834)</u>	<u>(12,587)</u>	<u>19,832</u>
Total expenses included in the line “Staff costs” within operating expenses (see Note 28)	38,218	(41,834)	(3,616)	35,857
Remeasurement of provision for post- employment benefits:				
Actuarial losses – changes in financial assumptions	37,872	-	37,872	35,101
Actuarial losses – changes in demographic assumptions	2	-	2	53
Actuarial losses – experience adjustments	14,074	-	14,074	11,926
Expense on plan assets excluding amounts included in interest expense	-	87,696	87,696	-
Translation differences	<u>-</u>	<u>-</u>	<u>-</u>	<u>(658)</u>
Total included in other comprehensive income	51,948	87,696	139,644	46,422
Benefits paid	(17,662)	17,662	-	(17,180)
Employer’s contributions	<u>-</u>	<u>(21,697)</u>	<u>(21,697)</u>	<u>-</u>
As of 31 December 2019	404,997	(431,544)	(26,547)	291,684
As of 31 December 2017	422,641	(449,814)	(27,173)	258,132
Current service cost	14,148	-	14,148	12,019
Past service cost	(94,678)	-	(94,678)	(27,499)
Interest expense (income)	<u>32,115</u>	<u>(34,391)</u>	<u>(2,276)</u>	<u>19,349</u>
Total expenses included in the line “Staff costs” within operating expenses (see Note 28)	(48,415)	(34,391)	(82,806)	3,869
Remeasurement of provision for post- employment benefits:				
Actuarial gains – changes in financial assumptions	(33,408)	-	(33,408)	(27,657)
Actuarial (gains) losses – changes in demographic assumptions	(91)	-	(91)	34
Actuarial losses – experience adjustments	7,372	-	7,372	17,030
Expense on plan assets excluding amounts included in interest expense	-	16,243	16,243	-
Translation differences	<u>-</u>	<u>-</u>	<u>-</u>	<u>623</u>
Total included in other comprehensive income	(26,127)	16,243	(9,884)	(9,970)
Benefits paid	(15,606)	15,606	-	(25,446)
Employer’s contributions	<u>-</u>	<u>(21,015)</u>	<u>(21,015)</u>	<u>-</u>
As of 31 December 2018	332,493	(473,371)	(140,878)	226,585

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25 Provisions (continued)

The major categories of plan assets allocation broken down by fair value and percentage of total plan assets are presented below.

	31 December 2019		31 December 2018	
	Fair value	Percentage of plan assets	Fair value	Percentage of plan assets
Quoted plan assets, including:	306,468	71.0 %	223,912	47.3 %
Bonds	208,449	48.3 %	136,582	28.9 %
Mutual funds	69,583	16.1 %	63,931	13.5 %
Shares	28,436	6.6 %	23,399	4.9 %
Unquoted plan assets, including:	125,076	29.0 %	249,459	52.7 %
Equities	85,563	19.8 %	177,325	37.5 %
Mutual funds	18,718	4.3 %	18,600	3.9 %
Deposits	9,579	2.2 %	9,708	2.0 %
Other assets	11,216	2.7 %	43,826	9.3 %
Total plan assets	431,544	100 %	473,371	100 %

The amount of investment in ordinary shares of PJSC Gazprom included in the fair value of plan assets comprises RUB 568 million and RUB nil million as of 31 December 2019 and 31 December 2018, respectively.

Unquoted equities within the pension plan assets are represented by shares of Gazprombank (Joint-stock Company), which are measured at fair value (Level 2 in accordance with the fair value hierarchy) using market approach valuation techniques based on available market data.

For the years ended 31 December 2019 and 31 December 2018 actual return on pension plan assets was loss of RUB 45,862 million and gain of RUB 18,148 million, respectively, primarily caused by the change in the fair value of assets.

The sensitivity analysis of the present value of defined benefit pension plan obligations to changes in the principal actuarial assumptions as of 31 December 2019 is presented in the table below.

	Increase (decrease) of obligation	Increase (decrease) of obligation, %
Mortality rate lower by 20 %	28,689	4.2 %
Mortality rate higher by 20 %	(23,940)	(3.5 %)
Discount rate lower by 1 pp	67,628	10.0 %
Discount rate higher by 1 pp	(56,724)	(8.4 %)
Pension and other benefits growth rate lower by 1 pp	(58,487)	(8.6 %)
Pension and other benefits growth rate higher by 1 pp	68,686	10.1 %
Staff turnover lower by 1 pp for all ages	35,385	5.2 %
Staff turnover higher by 1 pp for all ages	(30,295)	(4.5 %)
Retirement age lower by 1 year	22,833	3.4 %
Retirement age higher by 1 year	(22,985)	(3.4 %)

The Group expects to contribute RUB 42,500 million to the defined benefit pension plan in 2020.

Pension Plan Parameters and Related Risks

As a rule, the above benefits are indexed in line with inflation or salary growth for benefits that depend on salary level and are exposed to inflation risk.

In addition to the inflation risk, the pension plans of the Group are exposed to mortality risks and longevity risks.

26 Equity

Share Capital

Share capital authorised, issued and paid totals RUB 325,194 million as of 31 December 2019 and 31 December 2018 and consists of 23,674 million ordinary shares, each with a par value of 5 Russian Rubles.

Dividends

In 2019 PJSC Gazprom declared and paid dividends in the nominal amount of 16.61 Russian Rubles per share based on the results for the year ended 31 December 2018. In 2018 PJSC Gazprom declared and paid dividends in the nominal amount of 8.04 Russian Rubles per share based on the results for the year ended 31 December 2017.

26 Equity (continued)

Treasury Shares

As of 31 December 2019 and 31 December 2018 subsidiaries of PJSC Gazprom held 29 million and 1,573 million PJSC Gazprom's ordinary shares, respectively, including American depositary receipts in the amount of nil million and 639 million PJSC Gazprom's ordinary shares as of 31 December 2019 and 31 December 2018, respectively, which were accounted for as treasury shares.

In July 2019 the Group sold 693,627,848 PJSC Gazprom's ordinary shares, which represented 2.93 % of the share capital, for 200.50 Russian Rubles per share by using the stock exchange transaction technology of PJSC Moscow Exchange MICEX-RTS.

In November 2019 the Group sold 850,590,751 PJSC Gazprom's ordinary shares, which represented 3.59 % of the share capital, for 220.72 Russian Rubles per share by using the stock exchange transaction technology of PJSC Moscow Exchange MICEX-RTS.

The shares including American depositary receipts held by PJSC Gazprom's subsidiaries represented 0.1 % and 6.6 % of the total number of PJSC Gazprom's shares as of 31 December 2019 and 31 December 2018, respectively.

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

Retained Earnings and Other Reserves

Retained earnings and other reserves include the effect of the consolidated financial statements restatement to the Russian Ruble purchasing power equivalent as of 31 December 2002, when the economy of the Russian Federation ceased to be hyperinflationary under IAS 29 Financial Reporting in Hyperinflationary 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 672,165 million and RUB 843,598 million as of 31 December 2019 and 31 December 2018, 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 social assets to the balance of local governmental authorities and this process may be continued in the future. Social assets with a net book value of RUB 50 million and RUB 13 million were transferred to governmental authorities in 2018 and 2019, respectively. Cost of assets transferred was recorded as a reduction of retained earnings and other reserves.

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27

Sales

	Year ended 31 December	
	2019	2018
Gas sales gross of excise tax and customs duties:		
Russian Federation	970,913	954,493
Former Soviet Union (excluding Russian Federation)	393,526	389,217
Europe and other countries	<u>3,163,881</u>	<u>3,770,291</u>
	4,528,320	5,114,001
Customs duties	(653,035)	(804,987)
Excise tax	(57,898)	(54,681)
Retroactive gas price adjustments ¹	<u>(16,657)</u>	<u>49,338</u>
Total gas sales	3,800,730	4,303,671
Sales of refined products:		
Russian Federation	1,355,139	1,394,137
Former Soviet Union (excluding Russian Federation)	126,311	144,658
Europe and other countries	<u>629,731</u>	<u>640,977</u>
Total sales of refined products	2,111,181	2,179,772
Sales of crude oil and gas condensate:		
Russian Federation	62,173	64,645
Former Soviet Union (excluding Russian Federation)	41,865	38,748
Europe and other countries	<u>648,752</u>	<u>631,560</u>
Total sales of crude oil and gas condensate	752,790	734,953
Electric and heat energy sales:		
Russian Federation	495,581	501,362
Former Soviet Union (excluding Russian Federation)	3,345	5,090
Europe and other countries	<u>19,447</u>	<u>15,643</u>
Total electric and heat energy sales	518,373	522,095
Gas transportation sales:		
Russian Federation	210,265	220,488
Former Soviet Union (excluding Russian Federation)	2,690	2,758
Europe and other countries	<u>2,380</u>	<u>2,427</u>
Total gas transportation sales	215,335	225,673
Other sales:		
Russian Federation	215,659	210,149
Former Soviet Union (excluding Russian Federation)	7,490	8,064
Europe and other countries	<u>38,065</u>	<u>39,800</u>
Total other sales	<u>261,214</u>	<u>258,013</u>
Total sales	7,659,623	8,224,177

¹ The effect of retroactive gas price adjustments relate to gas deliveries in previous years for which a price adjustment has been agreed or is in the process of negotiation. The effect of gas price adjustments, including corresponding impact on profit tax, is recorded in the consolidated financial statements when they become probable and a reliable estimate of the amounts can be made.

The effects of retroactive gas price adjustments for the years ended 31 December 2019 and 31 December 2018 were recorded as the decrease of sales by RUB 16,657 million and the increase of sales by RUB 49,338 million, respectively.

The effects decreasing sales were due to increase in related accruals following agreements reached prior to the issuance of the respective consolidated financial statements.

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

Prepayments received from customers as of the beginning of the corresponding period were recognised within sales in the amount of RUB 90,673 million and RUB 92,253 million for the years ended 31 December 2019 and 31 December 2018, respectively.

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28 Operating Expenses

	Year ended 31 December	
	2019	2018
Taxes other than on profit	1,409,248	1,498,278
Purchased gas and oil	1,403,572	1,468,885
Staff costs	749,708	600,812
Depreciation	715,229	647,993
Transit of gas, oil and refined products	665,552	650,829
Materials	274,821	264,190
Cost of goods for resale, including refined products	253,121	249,911
Repairs and maintenance	149,939	137,821
Electricity and heating	120,154	114,465
Foreign exchange differences on operating items	78,287	(28,029)
Social expenses	45,114	42,789
Insurance	32,135	32,628
Impairment loss on non-financial assets	29,382	21,743
Transportation expenses	27,541	24,544
Processing services	20,718	18,961
Research and development	19,226	13,591
Lease	16,585	37,177
Derivatives (gain) loss	(15,225)	1,849
Other	515,032	427,990
	6,510,139	6,226,427
Change in balances of finished goods, work in progress and other effects	(123,068)	(45,236)
Total operating expenses	6,387,071	6,181,191

Taxes other than on profit consist of:

	Year ended 31 December	
	2019	2018
MET	1,115,003	1,163,882
Property tax	148,634	162,928
Excise tax	113,528	157,113
Other	32,083	14,355
Total taxes other than on profit	1,409,248	1,498,278

Gas purchase expenses included within purchased gas and oil amounted to RUB 914,293 million and RUB 976,849 million for the years ended 31 December 2019 and 31 December 2018, respectively.

Staff costs include RUB 32,241 million of expenses and RUB 78,937 million of income for provision for post-employment benefits for the years ended 31 December 2019 and 31 December 2018, respectively (see Note 25).

The impairment loss on assets is presented below.

Notes		Year ended 31 December	
		2019	2018
10, 17	Impairment loss on trade accounts receivable	116,946	125,828
	Impairment loss on other accounts receivable and loans receivable	10,792	5,143
	Total impairment loss on financial assets	127,738	130,971
13, 14	Impairment loss on property, plant and equipment and assets under construction ¹	24,731	21,408
	Impairment loss on advances paid and prepayments	4,789	482
	(Reversal of impairment loss) impairment loss on investments in associates and joint ventures	(292)	306
	Impairment loss (reversal of impairment loss) on other assets	154	(453)
	Total impairment loss on non-financial assets	29,382	21,743

¹ Including impairment loss on right-of-use assets.

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29 Finance Income and Expense

	Year ended 31 December	
	2019	2018
Foreign exchange gain	563,990	430,439
Interest income	<u>90,926</u>	<u>72,652</u>
Total finance income	654,916	503,091
Foreign exchange loss	278,409	762,664
Interest expense	<u>76,426</u>	<u>50,378</u>
Total finance expense	354,835	813,042

Total interest paid amounted to RUB 171,028 million and RUB 173,174 million for the years ended 31 December 2019 and 31 December 2018, respectively.

Interest expense includes interest expense on lease liabilities under IFRS 16 Leases in the amount of RUB 16,847 million for the year ended 31 December 2019.

Foreign exchange gain and loss for the years ended 31 December 2019 and 31 December 2018 were recognised as a result of change in the Euro and US Dollar exchange rates against to the Russian Ruble. Gain and loss primarily relate to revaluation of borrowings denominated in a foreign currency.

30 Reconciliation of Profit, Disclosed in Consolidated Statement of Financial Results, Prepared in Accordance with Russian Statutory Accounting (RSA) to Profit Disclosed in IFRS Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2019	2018
RSA profit for the year per consolidated statutory accounts	656,522	1,056,004
Effect of IFRS adjustments:		
Differences in depreciation of property, plant and equipment and intangible assets	372,777	409,273
Borrowing costs capitalised	146,978	155,107
Reversal of goodwill amortisation	62,930	62,896
Classification of gain arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	(22,631)	(148,963)
Impairment loss on assets and changes in provisions, including provision for post-employment benefits	30,283	45,701
Differences in property, plant and equipment disposal	14,531	(1,316)
Difference in share of profit of associates and joint ventures	(31,935)	(20,945)
Write-off of research and development expenses capitalised for RSA purposes	(5,045)	(3,727)
Other	<u>45,107</u>	<u>(25,034)</u>
IFRS profit for the year	1,269,517	1,528,996

31 Basic and Diluted Earnings per Share Attributable to the Owners of PJSC Gazprom

Basic earnings per share attributable to the 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 ordinary shares outstanding, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 26).

There were 22.5 billion and 22.1 billion of weighted average number of ordinary shares outstanding, excluding the weighted average number of treasury shares, for the years ended 31 December 2019 and 31 December 2018, respectively.

The Group has no dilutive financial instruments.

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32 Net Cash from Operating Activities

Notes	Year ended 31 December	
	2019	2018
Profit before profit tax	1,627,065	1,852,562
Adjustments to profit before profit tax		
28 Depreciation	715,229	647,993
29 Net finance (income) expense	(300,081)	309,951
16 Share of profit of associates and joint ventures	(207,127)	(232,483)
Impairment loss on assets and change in provision for post-employment benefits	189,361	73,777
28 Derivatives (gain) loss	(15,225)	1,849
Other	<u>76,662</u>	<u>17,674</u>
Total effect of adjustments	458,819	818,761
Cash flows from operating activities before working capital changes	2,085,884	2,671,323
Increase in non-current assets	(20,119)	(11,307)
Increase in non-current liabilities	<u>13,185</u>	<u>2,371</u>
	2,078,950	2,662,387
Changes in working capital:		
Decrease (increase) decrease in accounts receivable and prepayments	96,617	(244,707)
Increase in inventories	(84,359)	(137,799)
Decrease (increase) in other current assets	131,098	(526,057)
(Decrease) increase in accounts payable, excluding interest, dividends and capital construction	(93,352)	94,669
Settlements on taxes and fees payable (other than profit tax)	(65,354)	69,864
(Increase) decrease in financial assets	<u>(29,294)</u>	<u>3,759</u>
Total effect of working capital changes	(44,644)	(740,271)
Profit tax paid	<u>(324,922)</u>	<u>(304,732)</u>
Net cash from operating activities	1,709,384	1,617,384

The following taxes and other similar payments were paid in cash during 2019 and 2018:

	Year ended 31 December	
	2019	2018
MET	1,142,366	1,146,040
Customs duties	790,087	931,762
Profit tax	324,922	304,732
Excise tax	212,282	270,651
VAT	186,481	167,800
Property tax	152,853	158,905
Insurance contributions	142,193	137,057
Personal income tax	76,072	74,021
Additional income tax for hydrocarbon producers	10,394	-
Other taxes	<u>39,500</u>	<u>50,015</u>
Total taxes paid	3,077,150	3,240,983

33 Subsidiaries

Significant Subsidiaries

Subsidiary	Country of primary operation	Ownership interest as of 31 December ¹	
		2019	2018
LLC Aviapredpriyatie Gazprom avia	Russia	100	100
WIBG GmbH	Germany	100	100
WIEH GmbH	Germany	100	100
WINGAS GmbH	Germany	100	100
OJSC Vostokgazprom	Russia	100	100
LLC Gazprom aktivy SPG	Russia	100	-
CJSC Gazprom Armenia	Armenia	100	100
JSC Gazprom gazoraspredelenie	Russia	100	100
LLC Gazprom geologorazvedka	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Gerosgaz Holdings B.V.	Netherlands	100	100
LLC Gazprom dobycha Astrakhan	Russia	100	100
LLC Gazprom dobycha Krasnodar	Russia	100	100
LLC Gazprom dobycha Nadym	Russia	100	100

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33 Subsidiaries (continued)

Subsidiary	Country of primary operation	Ownership interest as of 31 December ¹	
		2019	2018
LLC Gazprom dobycha Noyabrsk	Russia	100	100
LLC Gazprom dobycha Orenburg	Russia	100	100
LLC Gazprom dobycha Urengoy	Russia	100	100
LLC Gazprom dobycha shelf Yuzhno-Sakhalinsk	Russia	100	100
LLC Gazprom dobycha Yamburg	Russia	100	100
LLC Gazprom invest	Russia	100	100
LLC Gazprom invest RGK	Russia	100	100
LLC Gazprom investgazifikatsiya	Russia	100	100
LLC Gazprom capital	Russia	100	100
LLC Gazprom komplektatsiya	Russia	100	100
JSC Gazprom Space Systems	Russia	80	80
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
Gazprom Marketing and Trading Retail Ltd.	United Kingdom	100	100
LLC Gazprom mezhregiongaz	Russia	100	100
LLC Gazprom mezhregiongaz Moskva	Russia	100	100
JSC Gazprom mezhregiongaz Nizhny Novgorod	Russia	51	51
LLC Gazprom mezhregiongaz Sankt-Peterburg	Russia	100	100
LLC Gazprom neftekhim Salavat	Russia	100	100
PJSC Gazprom Neft	Russia	96	96
Gazprom Neft Badra B.V. ²	Netherlands	100	100
Gazprom Neft Trading GmbH ²	Austria	100	100
LLC Gazprom neft shelf ²	Russia	100	100
LLC Gazprom Novourengoysky gazohimicheskii kompleks	Russia	100	100
LLC Gazprom pererabotka	Russia	100	100
LLC Gazprom pererabotka Blagoveshchensk	Russia	100	100
LLC Gazprom PKhG	Russia	100	100
Gazprom Sakhalin Holdings B.V.	Netherlands	100	100
LLC Gazprom sotsinvest	Russia	100	100
JSC Gazprom teploenergo	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 Moskva	Russia	100	100
LLC Gazprom transgaz Nizhny Novgorod	Russia	100	100
LLC Gazprom transgaz Samara	Russia	100	100
LLC Gazprom transgaz Sankt-Peterburg	Russia	100	100
LLC Gazprom transgaz Saratov	Russia	100	100
LLC Gazprom transgaz Stavropol	Russia	100	100
LLC Gazprom transgaz Surgut	Russia	100	100
LLC Gazprom transgaz Tomsk	Russia	100	100
LLC Gazprom transgaz Ufa	Russia	100	100
LLC Gazprom transgaz Ukhta	Russia	100	100
LLC Gazprom transgaz Tchaikovsky	Russia	100	100
LLC Gazprom transgaz Yugorsk	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
LLC Gazprom flot	Russia	100	100
Gazprom Holding Cooperatie U.A.	Netherlands	100	100
LLC Gazprom tsentremont	Russia	100	100
GAZPROM Schweiz AG	Switzerland	100	100
LLC Gazprom export	Russia	100	100
JSC Gazprom energosbyt	Russia	82	58
LLC Gazprom energoholding	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
LLC Gazpromneft Marine Bunker ²	Russia	100	100
JSC Gazpromneft-Aero ²	Russia	100	100
LLC Gazpromneft-Aero Sheremetyevo ²	Russia	100	100
LLC Gazpromneft-Bitumen Materials ²	Russia	100	100

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33 Subsidiaries (continued)

Subsidiary	Country of primary operation	Ownership interest as of 31 December ¹	
		2019	2018
LLC Gazpromneft-Vostok ²	Russia	51	51
LLC Gazpromneft Corporate Sales ²	Russia	100	100
JSC Gazpromneft - MNPZ ²	Russia	100	100
JSC Gazpromneft-Noyabrskneftegaz ²	Russia	100	100
JSC Gazpromneft - ONPZ ²	Russia	100	100
LLC Gazpromneft-Orenburg ²	Russia	100	100
LLC Gazprom Neft Development ²	Russia	100	100
LLC Gazpromneft Regional Sales ²	Russia	100	100
LLC Gazpromneft-Lubricants ²	Russia	100	100
LLC Gazpromneft-Khantos ²	Russia	100	100
LLC Gazpromneft-Centr ²	Russia	100	100
LLC Gazpromneft-Yamal ²	Russia	100	100
LLC Gazpromtrans	Russia	100	100
OJSC Gazpromtrubinvest	Russia	100	100
Gazfin Cyprus Limited	Cyprus	100	100
LLC GPN-Invest ²	Russia	100	100
LLC GPN-Finans ²	Russia	100	100
PJSC Mosenergo ³	Russia	54	54
PJSC MIPC ³	Russia	99	99
Naftna Industrija Srbije a.d. ²	Serbia	56	56
Nord Stream 2 AG	Switzerland	100	100
PJSC WGC-2 ³	Russia	79	80
South Stream Transport B.V.	Netherlands	100	100
OJSC Severneftegazprom ³	Russia	50	50
LLC Sibmetakhim	Russia	100	100
PJSC TGC-1	Russia	52	52
JSC Teploset Sankt-Peterburga	Russia	72	75
JSC Tomskgazprom	Russia	100	100
LLC Faktoring-Finance	Russia	100	100
PJSC Centerenergoholding	Russia	100	100

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

² Subsidiaries of PJSC Gazprom Neft.

³ Share in voting shares.

34 Non-Controlling Interest

Notes	Year ended 31 December	
	2019	2018
Non-controlling interest at the end of the previous year	476,144	386,395
5 Effect of changes in accounting policies	(870)	(140)
Non-controlling interest at the beginning of the year (restated)	475,274	386,255
Non-controlling interest share of profit of subsidiaries ¹	66,630	72,726
Change in ownership interest in PJSC WGC-2	1,715	79
Change in ownership interest in JSC Teploset Sankt-Peterburga ²	1,206	-
35 Acquisition of interest in JSC REPH	(5,102)	-
Change in ownership interest in JSC Gazprom energosbyt	(1,112)	-
Change in ownership interest in LLC Ural special valve plant ³	(718)	661
Change in ownership interest in PJSC Mosenergo	(229)	-
Change in ownership interest in PJSC MIPC	(41)	145
Change in ownership interest in LLC Gazpromneft-Vostok ⁴	-	21,279
Change in ownership interest in JSC Gazprom gazoraspredelenie Sever	-	(2,910)
Change in the non-controlling interest as a result of other acquisitions and disposals	200	217
Gain from hedging operations, net of tax	14	632
Remeasurement of provision for post-employment benefits	(278)	122
Dividends	(15,973)	(15,135)
Translation differences	(10,732)	12,690
Loss arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	-	(617)
Non-controlling interest at the end of the year	510,854	476,144

¹ Non-controlling interest share of profit of subsidiaries includes share in impairment of assets in the amount of RUB 8,167 million and RUB 7,470 million for the years ended 31 December 2019 and 31 December 2018, respectively.

² Subsidiary of PJSC TGC-1.

³ Subsidiary of LLC Gazprom neftekhim Salavat.

⁴ Subsidiary of PJSC Gazprom Neft.

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34 Non-Controlling Interest (continued)

The following table provides information about all subsidiaries that have non-controlling interests that are significant to the Group:

	Country of primary operation	Ownership interest held by non-controlling interest ¹	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends accrued to non-controlling interest during the year
<u>As of 31 December 2019 and for the year ended 31 December 2019</u>					
Gazprom Neft Group ²	Russia	4 %	49,711	254,700	8,320
Naftna Industrija Srbije a.d. Group	Serbia	46 %	4,712	84,041	1,852
Mosenergo Group	Russia	46 %	2,981	109,377	3,853
TGC-1 Group	Russia	48 %	5,365	73,640	1,198
WGC-2 Group	Russia	21 %	2,062	35,278	771

As of 31 December 2018 and for the year ended 31 December 2018

Gazprom Neft Group ²	Russia	4 %	47,280	224,980	7,114
Naftna Industrija Srbije a.d. Group	Serbia	46 %	7,296	92,673	2,016
Mosenergo Group	Russia	46 %	16,568	110,507	3,044
TGC-1 Group	Russia	48 %	2,163	68,355	910
WGC-2 Group	Russia	20 %	2,201	32,329	341

¹ Effective share held by non-controlling interest in share 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 is presented in the table below:

	Gazprom Neft Group ¹	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
<u>As of 31 December 2019 and for the year ended 31 December 2019</u>					
Current assets	734,356	57,323	91,065	28,443	42,450
Non-current assets	3,315,542	241,009	177,152	170,266	205,500
Current liabilities	509,396	38,463	16,743	28,312	37,065
Non-current liabilities	1,143,867	59,218	38,669	27,190	60,753
Sales	2,416,322	166,202	190,843	97,415	135,228
Profit for the year	416,481	9,460	7,939	12,136	9,835
Comprehensive income for the year	386,505	9,556	7,877	11,961	9,564
Net cash from (used in):					
operating activities	585,288	34,963	30,645	23,830	31,951
investing activities	(312,095)	(28,594)	(47,463)	(23,370)	(36,126)
financing activities	(306,208)	(6,500)	12,287	(6,128)	(2,201)

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34 Non-Controlling Interest (continued)

	Gazprom Neft Group¹	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
<u>As of 31 December 2018 and for the year ended 31 December 2018</u>					
Current assets	652,207	66,310	83,237	25,970	34,821
Non-current assets	3,080,495	262,190	187,880	152,490	224,191
Current liabilities	562,466	37,010	17,438	19,904	27,185
Non-current liabilities	1,015,841	69,569	15,681	26,325	69,208
Sales	2,393,980	176,148	199,647	92,659	143,416
Profit for the year	394,779	15,166	21,038	85	19,979
Comprehensive income for the year	447,292	15,191	19,720	269	20,110
Net cash from (used in):					
operating activities	505,017	20,844	36,220	19,554	30,940
investing activities	(352,953)	(20,777)	(14,106)	(11,327)	(12,262)
financing activities	(3,470)	(7,372)	(26,558)	(8,651)	(17,364)

¹ Including data of Naftna Industrija Srbije a.d. Group.

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

35 Acquisition of a subsidiary

In December 2019 the Group acquired 100 % of ordinary shares of JSC REPH. Compensation payments amounted to RUB 10,000 million. Payment was made by the cash. 25 % of ordinary shares of JSC REPH were acquired from JSC Gazprombank – Asset Management, a subsidiary of Gazprombank (Joint-stock Company), for RUB 2,500 million. An additional condition of the transaction was the obligation of the Group to obtain a borrowing from Gazprombank (Joint-stock Company) for a period of three years at an interest rate equal to the key rate of the Central Bank of the Russian Federation in the relevant period to repay borrowing commitments of JSC REPH, which were not fulfilled as of the acquisition date.

The aim of the acquisition of JSC REPH is to develop the production of equipment both for gas transmission systems (GTS), and for use in electric power and oil industry entities.

JSC REPH owns a number of subsidiaries (the “REPH Group”), the most significant of which is CJSC NZL.

The REPH Group’s activities include design, development, manufacture, installation, sale, as well as after-sales and warranty services for turbocompressor and power equipment.

As a result of the transaction, goodwill was recognised in the provisional amount of RUB 22,999 million (see Note 15). The Group’s share in the voting shares of the JSC REPH amounted to 72 %.

In accordance with IFRS 3 Business Combinations, the Group recognised the acquired assets and liabilities based upon their provisional fair values. The 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.

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35 Acquisition of a subsidiary (continued)

The provisional fair value of the assets acquired and liabilities assumed is provided below.

	Provisional fair value
Current assets	
Cash and cash equivalents	3,260
Accounts receivable and prepayments	7,710
VAT recoverable	94
Inventories	<u>13,519</u>
	24,583
Non-current assets	
Property, plant and equipment	6,784
Long-term accounts receivable and prepayments	252
Deferred tax assets	2,399
Other non-current liabilities	<u>1,368</u>
	10,803
Total assets	35,386
Current liabilities	
Accounts payable, provisions and other liabilities	<u>11,013</u>
	11,013
Non-current liabilities	
Long-term borrowings, promissory notes	42,139
Deferred tax liabilities	<u>335</u>
	42,474
Total liabilities	53,487
Non-controlling interest before the acquisition	<u>67</u>
Net assets on the acquisition date	(18,034)
Compensation payment	10,000
Non-controlling interest	5,035
Goodwill	22,999

If the acquisition had occurred on 1 January 2019, the Group's sales for the year ended 31 December 2019 would have increased by RUB 10,523 million, and the Group's profit before profit tax for the year ended 31 December 2019 would have decreased by RUB 2,795 million.

The fair value of the accounts receivable resulting from the transaction is RUB 7,962 million as of 31 December 2019. The gross accounts receivable at the acquisition date is RUB 8,065 million. The best estimate of cash flows that are not expected to be recovered is RUB 103 million as of the acquisition date.

36 Related Parties

In the 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 operational and financial decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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

Government (Russian Federation)

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

As of 31 December 2019 the Government directly owns 38.373 % of PJSC Gazprom's issued shares. JSC Rosneftgaz and JSC Rosgazifikatsiya controlled by the Government own 11.859 % of PJSC Gazprom's issued shares.

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

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36 Related Parties (continued)

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

Parties Under the Government Control

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

As of 31 December 2019 prices of natural gas and gas transportation, electricity tariffs in the Russian Federation are regulated by the FAS.

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

As of 31 December 2019 and 31 December 2018 and for the years ended 31 December 2019 and 31 December 2018 the Group's significant transactions and balances with the Government and parties under the Government control are presented below:

	As of 31 December 2019		Year ended 31 December 2019	
	Assets	Liabilities	Income	Expenses
Transactions and balances with the Government				
Current profit tax	9,021	31,567	-	308,447
Insurance contributions	1,856	11,708	-	149,904
VAT	297,217	105,070	-	-
Customs duties	26,595	-	-	-
MET	11	86,565	-	1,114,130
Other taxes	19,855	66,948	-	196,717
Transactions and balances with entities under the Government control				
Gas sales	-	-	153,859	-
Electric and heat energy sales	-	-	178,323	-
Gas transportation sales	-	-	43,890	-
Other sales	-	-	5,510	-
Transit of oil and refined products expenses	-	-	-	136,222
Interest expense	-	-	-	15,969
Cash and cash equivalents	61,072	-	-	-
Short-term deposits	4,815	-	-	-
Long-term deposits	1,867	-	-	-
Accounts receivable	47,390	-	-	-
Short-term financial assets	27,792	-	-	-
Long-term financial assets	6,002	-	-	-
Accounts payable	-	27,033	-	-
Borrowings	-	195,297	-	-
Short-term lease liabilities	-	7,671	-	-
Long-term lease liabilities	-	84,428	-	-

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36 Related Parties (continued)

	As of 31 December 2018		Year ended 31 December 2018	
	Assets	Liabilities	Income	Expenses
Transactions and balances with the Government				
Current profit tax	5,011	26,296	-	264,017
Insurance contributions	1,526	9,449	-	141,271
VAT	304,159	140,085	-	-
Customs duties	11,187	-	-	-
MET	118	113,823	-	1,162,967
Other taxes	4,938	59,078	-	237,566
Transactions and balances with entities under the Government control				
Gas sales	-	-	144,411	-
Electric and heat energy sales	-	-	174,512	-
Gas transportation sales	-	-	45,291	-
Other sales	-	-	9,271	-
Transit of oil and refined products expenses	-	-	-	128,723
Interest expense	-	-	-	10,431
Cash and cash equivalents	119,139	-	-	-
Short-term deposits	35,848	-	-	-
Long-term deposits	9	-	-	-
Accounts receivable	45,104	-	-	-
Short-term financial assets	20,315	-	-	-
Long-term financial assets	4,742	-	-	-
Accounts payable	-	18,671	-	-
Borrowings	-	206,681	-	-

The recognised right-of-use assets amounted to RUB 5,154 million for the year ended 31 December 2019.

See the consolidated statement of changes in equity for returns of social assets to governmental authorities during the years ended 31 December 2019 and 31 December 2018. See Note 13 for the net book values as of 31 December 2019 and 31 December 2018 of social assets vested to the Group at privatisation.

Transactions with JSC FSC

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with JSC FSC. The current financial settling system of JSC FSC does not provide the ultimate counterparties with automatically generated information about transactions and outstanding balances with the participants of the wholesale electricity and capacity market.

The Group's significant transactions and balances with JSC FSC are presented below.

	As of 31 December 2019		Year ended 31 December 2019	
	Assets	Liabilities	Income	Expenses
Transactions and balances with JSC FSC				
Electric and heat energy sales	-	-	164,247	-
Electricity and heating expenses	-	-	-	24,033
Accounts receivable	5,893	-	-	-
Accounts payable	-	1,978	-	-

	As of 31 December 2018		Year ended 31 December 2018	
	Assets	Liabilities	Income	Expenses
Transactions and balances with JSC FSC				
Electric and heat energy sales	-	-	157,705	-
Electricity and heating expenses	-	-	-	27,032
Accounts receivable	6,920	-	-	-
Accounts payable	-	1,975	-	-

Compensation for Key Management Personnel

Key management personnel (the members of the Board of Directors and the Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of the Group's entities, amounted to approximately RUB 3,180 million and RUB 4,312 million for the years ended 31 December 2019 and 31 December 2018, respectively.

36 Related Parties (continued)

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

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

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

Key management personnel are also entitled to long-term post-employment benefits. These benefits include non-governmental pension benefits provided by JSC NPF GAZFOND, and lump-sum payments from the Group's entities provided upon retirement (see Note 25).

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

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

Associates and Joint Ventures

For the years ended 31 December 2019 and 31 December 2018 and also as of 31 December 2019 and 31 December 2018 the Group's significant transactions and balances with associates and joint ventures are presented below.

	Year ended 31 December	
	2019	2018
	Income	
Gas sales		
Panrusgas Co.	44,099	62,906
JSV Moldovagaz	29,937	29,421
CJSC Gazprom YRGM Trading ¹	18,110	16,709
KazRosGas LLP	17,441	7,762
JSC Gazprom YRGM Development ¹	12,936	11,935
JSC Latvijas Gaze	8,972	16,095
Prometheus Gas S.A.	8,554	10,439
JSC EUROPOL GAZ	2,494	2,715
VEMEX s.r.o. and its subsidiaries	561	2,978
Bosphorus Gaz Corporation A.S.	-	8,784
Gas transportation sales		
CJSC Gazprom YRGM Trading ¹	25,336	25,430
JSC Gazprom YRGM Development ¹	18,097	18,164
KazRosGas LLP	2,689	2,758
Crude oil, gas condensate and refined products sales		
PJSC NGK Slavneft and its subsidiaries	38,479	45,541
JSC SOVEX	6,553	6,761
LLC NPP Neftekhimia	4,538	4,915
LLC Poliom	4,050	4,796
Sakhalin Energy Investment Company Ltd.	3,648	3,078
Field operator services sales and other services sales		
JSC Messoyakhaneftegaz	3,467	3,632
PJSC NGK Slavneft and its subsidiaries	2,725	2,612
Sakhalin Energy Investment Company Ltd.	1,521	1,390
Gas refining services sales		
KazRosGas LLP	10,993	10,075
Interest income		
Gazprombank (Joint-stock Company) and its subsidiaries	44,929	37,153
JSC Messoyakhaneftegaz	-	551

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36 Related Parties (continued)

	Year ended 31 December	
	2019	2018
Other operating income (rental income)		
Sakhalin Energy Investment Company Ltd.	775	3,301
Purchased gas		
CJSC Gazprom YRGM Trading ¹	56,230	62,725
JSC Gazprom YRGM Development ¹	40,189	44,832
KazRosGas LLP	37,384	30,025
JSC Arcticgas	31,771	30,438
Sakhalin Energy Investment Company Ltd.	15,249	18,741
CJSC Northgas	6,246	6,256
Transit of gas		
Nord Stream AG	77,433	79,568
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	34,493	37,258
JSC EUROPOL GAZ	12,933	13,959
JSV Moldovagaz	1,849	3,301
Purchased crude oil and refined products		
PJSC NGK Slavneft and its subsidiaries	159,302	156,363
JSC Messoyakhaneftegaz	70,620	62,747
JSC Arcticgas	6,728	27
Sakhalin Energy Investment Company Ltd.	6,620	10,400
KazRosGas LLP	2,933	795
Gas and gas condensate production		
JSC Achimgaz	47,352	40,018
Processing services		
PJSC NGK Slavneft and its subsidiaries	15,524	14,594
Transit of crude oil and oil refinery products		
JSC Messoyakhaneftegaz	6,861	5,432
PJSC NGK Slavneft and its subsidiaries	4,753	3,811
Interest expense		
Gazprombank (Joint-stock Company) and its subsidiaries	11,890	11,129

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

Under the agreement of subordinated debt the Group provided cash to Gazprombank (Joint-stock Company) in the amount of RUB 90,000 million and RUB 25,542 million for the years ended 31 December 2019 and 31 December 2018, respectively.

Gas is sold to and purchased from the Group's associates and joint ventures in the Russian Federation mainly at the rates established by the FAS. Gas is sold and purchased outside the Russian Federation generally on a long-term basis at prices based on world prices of oil products.

Crude oil is sold to and purchased from the Group's associates and joint ventures in the ordinary course of business at prices not significantly different from average market prices.

PJSC Gazprom
Notes to the Consolidated Financial Statements
31 December 2019
(in millions of Russian Rubles)

36 Related Parties (continued)

	As of 31 December 2019		As of 31 December 2018	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
Gazprombank (Joint-stock Company)	13,961	-	14,739	-
JSC Gazstroyprom	8,521	-	46,746	-
KazRosGas LLP	6,233	-	2,186	-
PJSC NGK Slavneft and its subsidiaries	5,580	-	4,929	-
Wintershall Noordzee B.V.	4,209	-	-	-
Panrusgas Co.	3,566	-	5,990	-
Sakhalin Energy Investment Company Ltd.	3,125	-	1,450	-
CJSC Gazprom YRGM Trading	2,489	-	2,488	-
JSC Gazprom YRGM Development	1,778	-	1,777	-
LLC National Petroleum Consortium	1,324	-	-	-
JSC Messoyakhaneftegaz	1,022	-	1,080	-
Prometheus Gas S.A.	478	-	1,468	-
Cash and cash equivalents				
Gazprombank (Joint-stock Company) and its subsidiaries	350,674	-	436,061	-
OJSC Belgazprombank	15,621	-	14,446	-
Short-term financial assets				
Gazprombank (Joint-stock Company)	23,814	-	30	-
Other current assets				
Gazprombank (Joint-stock Company) and its subsidiaries	612,352	-	705,968	-
OJSC Belgazprombank	2,444	-	11,610	-
Other non-current assets				
Gazprombank (Joint-stock Company)	1,238	-	-	-
Long-term accounts receivable and prepayments				
JSC Gazstroyprom	220,604	-	-	-
TurkAkim Gaz Tasima A.S.	21,558	-	-	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its Subsidiaries	13,863	-	15,869	-
Sakhalin Energy Investment Company Ltd.	13,455	-	-	-
JSC Sibgazpolymer	5,375	-	353	-
JSC Evroteck-Yugra	3,168	-	2,636	-
OJSC Belgazprombank	2,479	-	2,479	-
CJSC Khanty-Mansiysk petroleum alliance	1,201	-	1,060	-
Wintershall Noordzee B.V.	-	-	3,842	-
Short-term accounts payable				
PJSC NGK Slavneft and its subsidiaries	-	103,617	-	52,601
JSC Messoyakhaneftegaz	-	41,882	-	35,371
JSC Gazstroyprom	-	26,794	-	-
CJSC Gazprom YRGM Trading	-	7,353	-	9,057
Nord Stream AG	-	6,200	-	7,100
JSC Gazprom YRGM Development	-	5,256	-	6,469
JSC Achimgaz	-	4,668	-	5,054
KazRosGas LLP	-	4,087	-	2,362
JSC Arcticgas	-	2,023	-	403
JSC EUROPOL GAZ	-	1,528	-	2,258
Sakhalin Energy Investment Company Ltd.	-	1,037	-	4,746
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	-	1,020	-	2,345
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint-stock Company) and its subsidiaries	-	81,406	-	55,475
Long-term borrowings				
Gazprombank (Joint-stock Company)	-	181,700	-	37,905

36 Related Parties (continued)

Accounts receivable due from JSV Moldovagaz were RUB nil million as of 31 December 2019 and 31 December 2018 net of allowance for expected credit losses in the amount of RUB 412,258 million and RUB 431,660 million as of 31 December 2019 and 31 December 2018, respectively.

Accounts receivable for gas due from Overgas Inc. AD were RUB nil million as of 31 December 2019 and 31 December 2018 net of allowance for expected credit losses in the amount of RUB 6,511 million and RUB 7,307 million as of 31 December 2019 and 31 December 2018, respectively.

Borrowings from Gazprombank (Joint-stock Company) were obtained on terms not substantially different from those on financial instruments with similar characteristics and equally exposed to influence of changes in economic or other factors. The amount of secured borrowings was RUB nil million as of 31 December 2019 and 31 December 2018, respectively.

Under the agreements concluded in 2019 on providing a loan facilities with a limit RUB 106,500 million the Group has obligations to provide JSC Gazstroyprom loans to repay its loan liability towards the bank in case of late payment. The loan facilities are valid until 31 December 2027. As of 31 December 2019 the Group did not provide loans. Loan commitments of the Group are limited by the loan commitments of JSC Gazstroyprom to the bank.

In 2019, the Group made borrowings secured by inventories under buyback agreements entered into with Gazprombank (Switzerland) Ltd. and GPB Financial Services Limited in the total amount of EUR 922 million due in 2020.

Information on investments in associates and joint ventures is disclosed in Note 16.

Information on the acquisition of JSC REPH from Gazprombank (Joint-stock Company) is disclosed in Note 35.

Information on transactions performed by the Group with JSC NPF GAZFOND is disclosed in Note 25.

Information on financial guarantees issued by the Group for associates and joint ventures is disclosed in Note 39.

37 Commitments and Contingencies

Capital Commitments

The total investment utilisation in accordance with investment programme of the Group for 2020 (for gas, oil, electricity, heat generating and other assets) and current similar intentions of the Group is RUB 1,609,995 million.

Supply Commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 30 years with various entities operating in Europe and other countries. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2019 and 31 December 2018 no loss is expected to result from these long-term commitments.

Gas Transportation Commitments

The Group is a party to a number of long-term agreements on booking capacity for gas transportation. As of 31 December 2019 these agreements are not expected to be onerous for the Group.

Other

The Group has transportation agreements with certain of certain associates and joint ventures (see Note 36).

38 Operating Risks

Taxation

The Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 31 December 2019 is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

38 Operating Risks (continued)

Legal Proceedings

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

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

On 21 July 2014 both cases were consolidated.

On 31 May 2017 the arbitrators rendered an interim (separate) award on certain key legal issues. On 7 November 2017 PJSC Gazprom filed with the Court of Appeal of Svea, Sweden, a petition to challenge the stated interim (separate) award and to annul it partially. Hearings into the petition filed by PJSC Gazprom were held in October 2019. On 27 November 2019 the Court of Appeal of Svea, Sweden, rejected the petition filed by PJSC Gazprom.

The final decision on the case was rendered on 22 December 2017. The arbitrators recognised that the basic provisions of Contract No. KP were valid and satisfied the majority of the claims filed by PJSC Gazprom seeking payment for the gas supplied, which initiated the proceedings, and obliged NJSC Naftogaz of Ukraine:

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

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

On 21 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea, Sweden, a petition to challenge the stated final decision of 22 December 2017 and to annul it partially. The proceedings in the case were terminated by the court decision dated 4 March 2020.

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

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

38 Operating Risks (continued)

The total amount of the claims filed by NJSC Naftogaz of Ukraine (without interest) was USD 14,865 million. On 16 February 2018 PJSC Gazprom submitted to the arbitration court a defence to these claims and a claim to refund the overpaid transit tariff for the period from April 2014 to December 2017 due to the change in the gas price under Contract No. KP for the purchase and sale of natural gas in 2009-2019 totalling USD 44 million without interest. The final award in the case was issued on 28 February 2018. The arbitration court rejected the request of NJSC Naftogaz of Ukraine to change the gas transit tariff, recognised almost all provisions of Contract No. TKGU as valid and refused application of the anti-monopoly legislation of Ukraine and the EU to the Contract. The arbitration court rejected the request of NJSC Naftogaz of Ukraine to transfer its rights and obligations under Contract No. TKGU to PJSC Ukrtransgaz or to another gas transportation system operator. The arbitration court satisfied the request of NJSC Naftogaz of Ukraine in the amount of USD 4,673 million for having provided less gas for transit to European consumers than stipulated in the Contract. With consideration for the amount awarded to PJSC Gazprom under the supply contract, the arbitration court set off counter-claims, as a result of which PJSC Gazprom is obliged to pay USD 2,560 million to NJSC Naftogaz of Ukraine. On 29 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea, Sweden, a petition to challenge the stated final award of 28 February 2018 and to annul it partially. The proceedings in the case were terminated by the court decision dated 4 March 2020.

In 2018-2019 NJSC Naftogaz of Ukraine initiated proceedings in certain jurisdictions (England and Wales, Latvia, Luxembourg, the Netherlands, Switzerland) to recognise and enforce the arbitration award dated 28 February 2018 and to issue injunctions seizing assets of PJSC Gazprom.

On 20 April 2018 PJSC Gazprom filed with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a request for arbitration seeking amendment or termination of contracts with NJSC Naftogaz of Ukraine for gas supply and gas transit through Ukraine in order to restore the balance between contractual obligations and eliminate disproportions in terms of the parties' contractual liabilities. On 22 May 2018 NJSC Naftogaz of Ukraine filed a response to this request for arbitration and counter-claims in respect of the gas supply and transit contracts. On 6 September 2018 the Stockholm Chamber of Commerce, Sweden, rendered a decision upon PJSC Gazprom's motion to consolidate these proceedings with the proceedings related to the request of NJSC Naftogaz of Ukraine to change the gas transit tariff. On 13 February 2020 the arbitration court terminated the proceedings in the case on the motion of the parties.

On 10 July 2018 NJSC Naftogaz of Ukraine filed with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a request for arbitration for changing of the tariff for gas transit through Ukraine starting from 18 March 2018 and for recovery from PJSC Gazprom of USD 11,580 million for the period from 18 March 2018 until the expiration date of the effective gas transit contract (until 31 December 2019). On 13 February 2020 the arbitration court terminated the proceedings in the case on the motion of the parties.

On 30 December 2019 to execute the Record of the Meeting of Representatives of the EU, Ukraine and the Russian Federation and entities of these countries (LLC Gas Transmission System Operator of Ukraine, NJSC Naftogaz of Ukraine and PJSC Gazprom) (18-19 December 2019, Berlin, Minsk), PJSC Gazprom and NJSC Naftogaz of Ukraine signed an irrevocable settlement agreement. The document obliges the parties to discontinue all above-mentioned outstanding judicial claims between each other and renounce in the future any and all possible claims under the gas supply and transit contracts dated 19 January 2009.

As of today, the injunctions issued in England and Wales, the Netherlands, Luxembourg and Switzerland had been lifted at the request of NJSC Naftogaz of Ukraine. The court proceedings under the claims of NJSC Naftogaz of Ukraine on recognition and enforcement of the arbitration award dated 28 February 2018 have been terminated in England and Wales, Latvia, Luxembourg and the Netherlands.

On 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders' agreement in respect of AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5,000 million compensation (at the exchange rate as of 31 December 2019 – RUB 100,412 million). On 22 June 2016 the arbitration court issued a final award which rejected all claims raised by the Ministry of Energy of the Republic of Lithuania, including the claims on unfair pricing of the gas which PJSC Gazprom supplied to Lithuania in 2006-2015. On 4 July 2019 the Court of Appeal of Svea, Sweden, fully rejected Lithuania's motion to annul the award of the Stockholm arbitration court dated 22 June 2016. On 20 December 2019 the Supreme Court of Sweden rejected Lithuania's appeal and upheld the decision of the Court of Appeal of Stockholm dated 4 July 2019. The decision of the Supreme Court cannot be appealed.

38 Operating Risks (continued)

On 22 January 2016 the Antimonopoly Committee of Ukraine rendered a decision to impose a fine on PJSC Gazprom in the amount of 85,966 million Ukrainian hryvnia (at the exchange rate as of 31 December 2019 – RUB 224,547 million) for violation of economic competition. The motions filed by PJSC Gazprom to annul this decision were rejected by Ukrainian judicial authorities.

On 12 May 2017 PJSC Gazprom was served via its Kiev-based Representative office an Order of the Department of the State Executive Service of the Ministry of Justice of Ukraine on institution of enforcement proceedings to recover an amount of 189,125 million Ukrainian hryvnia (at the exchange rate as of 31 December 2019 – RUB 494,004 million), including an execution fee of 17,193 million Ukrainian hryvnia (at the exchange rate as of 31 December 2019 – RUB 44,909 million), and on the seizure of the bank accounts of the Kiev-based representative office of PJSC Gazprom, dividends due to PJSC Gazprom for the participation in JSC Gaztranzit, the shares of JSC Gaztranzit, the shares of PJSC YUZHNIIGIPROGAZ Institute, equity interests in LLC Gazprom sbyt Ukraine, and LLC International Consortium for the Ukrainian Gas Transmission System Management and Development owned by PJSC Gazprom.

The shares of PJSC YUZHNIIGIPROGAZ Institute with a nominal value of 651,500 Ukrainian hryvnia (estimated value – 6,241,386 Ukrainian hryvnia) were sold on 22 August 2018 in a forced sale auction.

The shares of JSC Gaztranzit with a nominal value of 33.3 million Ukrainian hryvnia (estimated value – 44.22 million Ukrainian hryvnia) were sold on 29 January 2019 in a forced sale auction.

On 26 October 2018 pursuant to the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL) PJSC Gazprom commenced an arbitration against Ukraine to protect its investments in that country. PJSC Gazprom requested a decision on damages and other remedies.

On 28 December 2019 to execute the Record of the Meeting of Representatives of the EU, Ukraine and the Russian Federation and entities of these countries (LLC Gas Transmission System Operator of Ukraine, PJSC Naftogaz of Ukraine and PJSC Gazprom) (18-19 December 2019, Berlin, Minsk), PJSC Gazprom and Ukraine signed an amicable agreement. The parties agreed to settle the above-mentioned arbitration (terminated on 17 February 2020). Ukraine agreed to discontinue all claims against PJSC Gazprom stipulated in the decision of the Antimonopoly Committee of Ukraine dated 22 January 2016 and any decisions, orders, resolutions and judgements that directly or indirectly recognise, enforce and/or validate the decision of the Antimonopoly Committee of Ukraine dated 22 January 2016.

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

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

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

These claims relate to issues covered by the European Commission investigation of PJSC Gazprom's and LLC Gazprom export's operation in the countries from Central and Eastern Europe, which formal phase was initiated in 2012 and finalised in 2018. On 17 April 2019 that complaint was rejected by the European Commission. In June 2019 PGNiG S.A. filed with the General Court of the EU a petition in respect of the rejection of that complaint by the European Commission. The proceedings related to the petition filed by PGNiG S.A. are under way.

On 4 May 2018 PJSC Gazprom received a notice from Poland's antimonopoly authority on initiation of investigation over alleged concentration exercised by PJSC Gazprom and foreign investors when implementing the Nord Stream 2 project (on the basis of "the establishment of a joint venture without obtaining the prior consent of the President of the Polish Office of Competition and Consumer Protection"). The notice states that

38 Operating Risks (continued)

in accordance with the Polish legislation the President of the Polish Office of Competition and Consumer Protection has the right to impose certain sanctions on companies that, in his opinion, exercise concentration without obtaining the consent of the Polish Office of Competition and Consumer Protection (in particular, to impose a fine of up to 10 % of the annual turnover of the company). On 15 June 2018 PJSC Gazprom filed its objections to the position declared by Poland's antimonopoly authority and a motion to terminate the antitrust investigation. On 15 January 2020 PJSC Gazprom received a request from Poland's antimonopoly authority (the Polish Office of Competition and Consumer Protection) to provide information and documents in the course of the pursued investigation. On 31 January 2020 PJSC Gazprom replied to that request. On 4 March 2020 PJSC Gazprom received a new request from Poland's antimonopoly authority (the Polish Office of Competition and Consumer Protection) to provide information and documents in the course of the pursued investigation. A reply to that request (asking Poland's antimonopoly authority to provide additional justification of the request for information and documents) was sent on 23 March 2020.

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

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

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

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

On 25 July 2019 Nord Stream 2 AG, a subsidiary of the Group, filed with the General Court of the EU a petition to declare the amendments to the EU Third Gas Directive entered into force on 23 May 2019 concerning the regulation of gas transmission from third countries, including the Russian Federation, invalid and to annul them because of their discriminatory nature, an infringement of the principles of equal treatment and proportionality, misuse of powers, as well as breach of procedural requirements.

On 26 July 2019 Nord Stream AG, a joint venture of the Group, filed with the General Court of the EU a petition to declare the amendments to the EU Third Gas Directive invalid as regards the provision setting forth the unreasonably short deadline for EU member states to grant derogations from provisions of the EU Third Gas Directive, which made it significantly less probable to obtain derogations.

On 26 September 2019 Nord Stream 2 AG sent a notification to the European Commission about the initiation of arbitration proceedings by the ad hoc arbitration tribunal established under the UNCITRAL Arbitration Rules against the EU under the Energy Charter Treaty. Nord Stream 2 AG believes that by making discriminatory amendments to the EU Third Gas Directive, the EU has breached its obligations under Articles 10 and 13 of the Energy Charter Treaty. In February 2020 the arbitration tribunal was formed to resolve the dispute.

Sanctions

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

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

- 1) transacting in, providing financing for, or otherwise dealing with new debt of longer than 90 days maturity (since 28 November 2017 – 60 days) or new equity, property, or interests in property in respect of a number of energy companies, including PJSC Gazprom Neft;

38 Operating Risks (continued)

2) transacting in, providing financing for, or otherwise dealing with new debt of longer than 30 days maturity (since 28 November 2017 – 14 days) or new equity, property, or interests in property in respect of a number of Russian companies of the banking sector, including Gazprombank (Joint-stock Company) (PJSC Gazprom is not on the list of restricted entities in this respect);

3) providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of potential exploration and production of oil in deep water, Arctic offshore, or shale formations in the Russian Federation, inland or in territorial waters claimed by the Russian Federation with participation of Russian companies, including PJSC Gazprom and PJSC Gazprom Neft. Since 7 August 2015 the restriction has included the Yuzhno-Kirinskoye field located in the Sea of Okhotsk. According to the changes of 31 October 2017 the scope of the stated restriction is extended for projects that meet three criteria at the same time:

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

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

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

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

The National Defense Authorization Act, which was enacted on 20 December 2019, (the “Act of 20 December 2019”) envisages sanctions against persons that provide vessels for the construction of the Nord Stream 2 and the TurkStream gas pipelines.

The Act of 20 December 2019 envisages that not later than 60 days after the date of the enactment of this Act, and every 90 days thereafter, the U.S. Secretary of State (in consultation with the U.S. Secretary of the Treasury) shall submit reports that identify:

- 1) vessels that engage in pipe-laying at depths of 100 feet or more below sea level for the construction of the Nord Stream 2 and the TurkStream export pipelines (or any project that is a successor to either such project); and
- 2) foreign persons (both individuals and legal entities) that the U.S. Secretary of State (in consultation with the U.S. Secretary of the Treasury) believes to have knowingly sold, leased, or provided those vessels for the construction of such a project; or intentionally facilitated deceptive or structured transactions to provide those vessels for the construction of such a project.

Persons indicated in the report submitted by the U.S. Secretary of State under paragraph 2 above and their corporate officers or principal shareholders with a controlling interest shall be excluded from the U.S. and the U.S. Secretary of State shall deny a U.S. visa to such persons and revoke all visas earlier issued to them. Their assets in the U.S. would be frozen (including in case of their transfer to third parties) and U.S. persons would be prohibited from entering into transactions with such persons.

The above measures may not be applied with respect to a person identified in the first report submitted by the U.S. Secretary of State if the U.S. President certifies in that report that the person has, not later than 30 days after the date of the enactment of the Act of 20 December 2019, engaged in good faith efforts to wind down

38 Operating Risks (continued)

operations that would otherwise subject the person to the imposition of sanctions under the Act of 20 December 2019.

The Act of 20 December 2019 envisages an exception for repair and maintenance of the gas pipelines indicated in the Act of 20 December 2019.

The Act of 20 December 2019 states that imposed sanctions shall terminate on the date that is five years after the date of the enactment. Imposed sanctions may terminate earlier if the U.S. President provides to the Congress satisfactory evidence that the respective gas pipeline projects would not result in a decrease of more than 25 percent in the volume of Russian energy exports transiting through existing pipelines in other countries (particularly Ukraine) relative to the average monthly volume of Russian energy exports transiting through such pipelines in 2018.

As a result of the enactment of the Act of 20 December 2019, the contractor (Allseas, a Swiss company) of Nord Stream 2 AG suspended pipe-laying under the Nord Stream 2 project. In addition, the Act of 20 December 2019 is not expected to affect the TurkStream project as the construction of the offshore section of the TurkStream gas pipeline has been fully completed and the Act of 20 December 2019 envisages an exception for maintenance of constructed pipelines.

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

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

- 1) provision of drilling, well testing, logging and completion services, supply of specialised floating vessels necessary for deep water oil exploration and production, and (or) Arctic oil exploration and production, and shale oil projects in Russia, as well as the direct or indirect financing, financial assistance, technical and brokerage services in relation to these activities;
- 2) purchasing, selling and providing investment services for or assisting in the issuance of, or other dealings with transferable securities and money market instruments with a maturity of more than 90 days issued from 1 August 2014 to 12 September 2014 or more than 30 days, issued after 12 September 2014 by certain Russian companies in the banking sector, including Gazprombank (Joint-stock Company), but excluding PJSC Gazprom;
- 3) purchasing, selling and providing investment services for or assisting in the issuance of, or other dealings with transferable securities and money market instruments issued by some Russian energy companies, including PJSC Gazprom Neft but excluding PJSC Gazprom, after 12 September 2014 with a maturity of more than 30 days;
- 4) after 12 September 2014 directly or indirectly making or being part of any arrangement to make new borrowings with a maturity exceeding 30 days to some Russian companies (including PJSC Gazprom Neft and Gazprombank (Joint-stock Company) but excluding PJSC Gazprom), except for borrowings that have a specific and documented objective to provide financing for non-prohibited imports or exports of goods and non-financial services between the EU and the Russian Federation or for borrowings that have a specific and documented objective to provide emergency funding to meet solvency and liquidity criteria for bodies established in the EU, whose proprietary rights are owned for more than 50 percent by any entity referred to above.

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

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

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38 Operating Risks (continued)

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

39 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 programme considers the low level of predictability 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 adopted local acts of PJSC Gazprom and its subsidiaries.

Market Risk

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

(a) Foreign exchange risk

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

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

Notes		Russian Ruble	US dollar	Euro	Other	Total
	As of 31 December 2019					
	Financial assets					
	Current					
8	Cash and cash equivalents	485,874	88,839	108,610	12,734	696,057
12	Short-term deposits	497,171	31,409	139,402	5,163	673,145
9	Short-term financial assets (excluding equity securities)	30,407	111	23,814	-	54,332
10	Trade and other accounts receivable	213,817	332,249	337,326	81,103	964,495
	Non-current					
12	Long-term deposits	-	3,095	93	89	3,277
17	Long-term accounts receivable	298,572	3,579	35,170	1,098	338,419
18	Long-term financial assets (excluding equity securities)	284	-	-	-	284
	Total financial assets	1,526,125	459,282	644,415	100,187	2,730,009
	Financial liabilities					
	Current					
19	Accounts payable (excluding derivative financial instruments)	816,992	199,701	93,092	66,462	1,176,247
21	Short-term borrowings, promissory notes and current portion of long-term borrowings	133,515	92,404	504,822	43,461	774,202
	Non-current					
22	Long-term borrowings, promissory notes	800,873	737,418	1,336,403	215,008	3,089,702
14	Long-term lease obligations	73,381	108,337	19,863	3,912	205,493
	Total financial liabilities	1,824,761	1,137,860	1,954,180	328,843	5,245,644

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39 Financial Risk Factors (continued)

Notes		Russian Ruble	US dollar	Euro	Other	Total
	<u>As of 31 December 2018</u>					
	Financial assets					
	Current					
8	Cash and cash equivalents	335,175	204,757	289,942	19,545	849,419
12	Short-term deposits	554,724	212,156	24,170	5,090	796,140
9	Short-term financial assets (excluding equity securities)	25,900	-	-	-	25,900
10	Trade and other accounts receivable	310,128	355,355	344,286	132,725	1,142,494
	Non-current					
12	Long-term deposits	-	-	-	1,432	1,432
17	Long-term accounts receivable	110,528	1,765	37,809	1,029	151,131
18	Long-term financial assets (excluding equity securities)	<u>262</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>262</u>
	Total financial assets	1,336,717	774,033	696,207	159,821	2,966,778
	Financial liabilities					
	Current					
19	Accounts payable (excluding derivative financial instruments)	651,391	341,204	173,789	89,975	1,256,359
21	Short-term borrowings, promissory notes and current portion of long-term borrowings	113,450	277,983	139,450	38,178	569,061
	Non-current					
22	Long-term borrowings, promissory notes	<u>647,937</u>	<u>826,125</u>	<u>1,529,969</u>	<u>290,730</u>	<u>3,294,761</u>
	Total financial liabilities	1,412,778	1,445,312	1,843,208	418,883	5,120,181

Information on derivative financial instruments is presented in Note 24.

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

As of 31 December 2019, 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 135,716 million, mainly as a result of foreign exchange loss on translation of US dollar-denominated borrowings partially offset by foreign exchange gain on translation of US dollar-denominated trade receivables. As of 31 December 2018, 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 134,256 million, mainly as a result of foreign exchange loss on translation of US dollar-denominated borrowings partially offset by foreign exchange gain 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 2019, 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 261,953 million, mainly as a result of foreign exchange loss on translation of Euro-denominated borrowings partially offset by foreign exchange gain on translation of Euro-denominated trade receivables. As of 31 December 2018, 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 229,400 million, mainly as a result of foreign exchange loss on translation of Euro-denominated borrowings partially offset by foreign exchange gain 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	
		2019	2018
22	At fixed rate	2,238,028	2,709,599
22	At variable rate	<u>1,472,051</u>	<u>1,079,332</u>
		3,710,079	3,788,931

39 Financial Risk Factors (continued)

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.

In 2018-2019 the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2019, if benchmark interest rates on borrowings had been 100 basis points higher with all other variables held constant, profit before profit tax would have been lower by RUB 12,757 million for 2019, mainly as a result of higher interest expense on variable interest rate long-term borrowings. As of 31 December 2018, if benchmark interest rates on borrowings had been 100 basis points higher with all other variables held constant, profit before profit tax would have been lower by RUB 9,520 million for 2018, mainly as a result of higher interest expense on variable interest rate long-term borrowings. The effect of a corresponding decrease in benchmark interest rates is approximately equal and opposite.

(c) Commodity price risk

Commodity price risk - possible change in prices for natural gas, crude oil and their refined products, and its 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 profit and cash flows.

The Group's overall strategy in production and sales of natural gas, crude oil and their refined products is centrally managed. Natural gas export prices to Europe and other countries are generally based on a formula linked to refined products 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 2019, if the average gas export prices had decreased by 20 % with all other variables held constant, profit before profit tax would have been lower by RUB 565,963 million for 2019. As of 31 December 2018, if the average gas export prices had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 334,918 million for 2018.

Gas prices in the Russian Federation are regulated by the FAS and are as such less subject to significant fluctuations.

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

(d) Securities price risk

The Group is exposed to movements in the value of equity securities included in financial assets held by the Group and classified in the consolidated balance sheet either as financial assets measured at fair value with changes recognised through profit or loss or other comprehensive income (see Notes 9 and 18).

As of 31 December 2019 and 31 December 2018, if London Stock Exchange equity index, which primarily affects the major part of Group's equity securities, had decreased by 20 % with all other variables held constant, assuming high correlation of the value of these securities with the index, the Group's comprehensive income for the period would have been RUB 87,447 million and RUB 83,473 million lower, respectively.

The Group is also exposed to movements in prices of securities held by JSC NPF GAZFOND and used for fair value estimation of the Group's pension plan assets (see Note 25).

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.

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39 Financial Risk Factors (continued)

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

Management systematically reviews ageing analysis of receivables and uses this information for calculation of allowance for expected credit losses (see Note 10, 17). 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 allowance for expected credit losses already recorded.

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

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

Notes		31 December	
		2019	2018
8	Cash and cash equivalents	696,057	849,419
12	Deposits	676,422	797,572
9, 18	Debt securities	54,616	26,162
10, 17	Trade and other accounts receivable	1,302,914	1,293,625
	Financial guarantee contracts	219,092	320,668
	Loan commitments	106,500	-
	Total maximum exposure to credit risk	3,055,601	3,287,446

Financial Guarantee Contracts

	31 December	
	2019	2018
Guarantees issued for:		
Nord Stream AG	106,924	136,086
Sakhalin Energy Investment Company Ltd.	37,022	66,317
LLC Stroygazconsulting	-	87,094
Other	75,146	31,171
Total financial guarantee contracts	219,092	320,668

In 2019 and 2018 counterparties fulfilled their contractual obligations.

Financial guarantee contracts include financial guarantees denominated in US Dollars of USD 598 million and USD 955 million as of 31 December 2019 and 31 December 2018, respectively, as well as amounts denominated in Euros of EUR 2,292 million and EUR 1,879 million as of 31 December 2019 and 31 December 2018, respectively.

In June 2008 the Group pledged the shares of Sakhalin Energy Investment Company Ltd. to the agent bank Mizuho Bank Ltd. under the loan obligations of Sakhalin Energy Investment Company Ltd. As of 31 December 2019 and 31 December 2018 the amount of Sakhalin Energy Investment Company Ltd. obligations up to the amount of the Group's share (50 %) amounted to RUB 37,022 million (USD 598 million) and RUB 66,317 million (USD 955 million), respectively.

In March 2010 the Group pledged the shares of Nord Stream AG to the agent bank Societe Generale under the obligations of Nord Stream AG under the project financing agreement. As of 31 December 2019 and 31 December 2018 the amount of Nord Stream AG obligations up to the amount of the Group's share (51 %) amounted to RUB 106,924 million (EUR 1,542 million) and RUB 136,086 million (EUR 1,713 million), respectively.

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

39 Financial Risk Factors (continued)

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. Financial liabilities due within 12 months (except lease liabilities) 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 2019					
Short-term and long-term loans and borrowings and promissory notes	617,006	327,852	601,060	1,953,475	1,568,521
Accounts payable (excluding derivative financial instruments and lease liabilities)	1,027,732	106,495	-	-	-
Lease liabilities	31,595	27,769	47,227	105,400	145,207
Financial guarantee contracts	2,916	33,660	47,962	4,821	129,733
Loan commitments	-	-	-	-	106,500
As of 31 December 2018					
Short-term and long-term loans and borrowings and promissory notes	438,460	298,864	754,351	1,986,949	1,543,052
Accounts payable (excluding derivative financial instruments)	999,534	256,825	-	-	-
Financial guarantee contracts	7,687	832	10,365	69,402	232,382
Loan commitments	-	-	-	-	-

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.

Reconciliation of liabilities arising from financing activities

	Borrowings	Dividends	Lease liabilities	Other liabilities	Total
As of 31 December 2018	3,863,822	7,586	-	17,550	3,888,958
Effect of changes in accounting policies	-	-	260,156	-	260,156
As of 1 January 2019 (changed)	3,863,822	7,586	260,156	17,550	4,149,114
Cash flows, including:					
Proceeds from borrowings (net of costs directly related to the receipt)	1,160,885	-	-	-	1,160,885
Additions as a result of new leases and modifications to existing leases	-	-	41,048	-	41,048
Repayment of borrowings	(861,126)	-	(42,603)	(1,896)	(905,625)
Interest paid (in financing activities)	(30,822)	-	(16,847)	(511)	(48,180)
Dividends paid	-	(379,595)	-	-	(379,595)
Finance expense	36,993	-	16,847	511	54,351
Dividends declared	-	383,060	-	-	383,060
Change in fair value of hedging operations	-	-	-	(10,603)	(10,603)
Translation differences	(388,335)	-	(18,524)	-	(406,859)
Acquisition of subsidiary	42,139	-	-	-	42,139
Other movements	40,348	(7,384)	7,436	(215)	40,185
As of 31 December 2019	3,863,904	3,667	247,513	4,836	4,119,920

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39 Financial Risk Factors (continued)

	Borrowings	Dividends	Other liabilities	Total
As of 31 December 2017	3,266,518	5,099	31,065	3,302,682
Cash flows, including:				
Proceeds from borrowings (net of costs directly related to the receipt)	1,297,462	-	-	1,297,462
Repayment of borrowings	(1,178,655)	-	(13,288)	(1,191,943)
Interest paid (in financing activities)	(36,384)	-	(1,904)	(38,288)
Dividends paid	-	(188,313)	-	(188,313)
Finance expense	28,902	-	1,904	30,806
Dividends declared	-	192,822	-	192,822
Change in fair value of hedging operations	-	-	310	310
Translation differences	458,206	-	434	458,640
Other movements	<u>27,773</u>	<u>(2,022)</u>	<u>(971)</u>	<u>24,780</u>
As of 31 December 2018	3,863,822	7,586	17,550	3,888,958

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

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

On the Group level capital is monitored on the basis of the net debt to adjusted EBITDA ratio. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt (short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable) less cash and cash equivalents.

Adjusted EBITDA is calculated as the sum of operating profit, depreciation, impairment loss or reversal of impairment loss on financial assets and non-financial assets, less changes of allowance for expected credit losses on accounts receivable and impairment allowance on advances paid and prepayments.

The net debt to adjusted EBITDA ratio as of 31 December 2019 and 31 December 2018 is presented in the table below.

	31 December	
	2019	2018
Total debt	3,863,904	3,863,822
Less: cash and cash equivalents	<u>(696,057)</u>	<u>(849,419)</u>
Net debt	3,167,847	3,014,403
Adjusted EBITDA	1,859,679	2,599,284
Net debt / Adjusted EBITDA	1.70	1.16

PJSC Gazprom has an investment grade credit rating of BBB- (stable outlook) by Standard & Poor's and BBB (stable outlook) by Fitch Ratings as of 31 December 2019.

40 Fair Value of Financial Instruments

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

a) Financial instruments included in Level 1

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

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40 Fair Value of Financial Instruments (continued)

b) Financial instruments included in Level 2

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

c) Financial instruments included in Level 3

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

The fair value of long-term accounts receivable is classified as Level 3 (see Note 17), long-term borrowings – Level 2 (see Note 22).

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

Notes	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value with changes recognised through profit or loss:				
12 Derivative financial instruments	8,337	101,447	170	109,954
9 Bonds	30,405	-	-	30,405
9 Equity securities	229	-	-	229
Financial assets measured at fair value with changes recognised through other comprehensive income:				
9 Equity securities	-	3,010	-	3,010
9 Promissory notes	-	2	-	2
Total short-term financial assets measured at fair value	38,971	104,459	170	143,600
Financial assets measured at fair value with changes recognised through profit or loss:				
12 Derivative financial instruments	2,693	17,077	-	19,770
18 Equity securities	-	-	2,447	2,447
Financial assets measured at fair value with changes recognised through other comprehensive income:				
18 Equity securities	386,824	40,578	4,149	431,551
18 Promissory notes	-	284	-	284
Total long-term financial assets measured at fair value	389,517	57,939	6,596	454,052
Total financial assets measured at fair value	428,488	162,398	6,766	597,652
Financial liabilities measured at fair value with changes recognised through profit or loss:				
19, 24 Short-term derivative financial instruments	9,481	90,000	517	99,998
24 Long-term derivative financial instruments	5,622	13,004	-	18,626
Total financial liabilities measured at fair value	15,103	103,004	517	118,624

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40 Fair Value of Financial Instruments (continued)

Notes	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value with changes recognised through profit or loss:				
12 Derivative financial instruments	7,238	100,041	589	107,868
9 Bonds	25,868	-	-	25,868
9 Equity securities	207	-	752	959
Financial assets measured at fair value with changes recognised through other comprehensive income:				
9 Promissory notes	-	32	-	32
Total short-term financial assets measured at fair value	33,313	100,073	1,341	134,727
Financial assets measured at fair value with changes recognised through profit or loss:				
12 Derivative financial instruments	9,395	27,998	-	37,393
18 Equity securities	-	-	2,131	2,131
Financial assets measured at fair value with changes recognised through other comprehensive income:				
18 Equity securities	365,090	43,594	5,589	414,273
18 Promissory notes	-	262	-	262
Total long-term financial assets measured at fair value	374,485	71,854	7,720	454,059
Total financial assets measured at fair value	407,798	171,927	9,061	588,786
Financial liabilities measured at fair value with changes recognised through profit or loss:				
19, 24 Short-term derivative financial instruments	11,776	83,493	4,221	99,490
24 Long-term derivative financial instruments	11,622	42,344	529	54,495
Total financial liabilities measured at fair value	23,398	125,837	4,750	153,985

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

Foreign currency hedge contracts are categorised in Level 2. For fair value estimation the Group uses valuation prepared by independent financial institutes. Valuation results are regularly analysed by the Group's management. For the reporting period all foreign currency hedge contracts were effective.

During the reporting period, contracts for supply of natural gas with flexible purchase volumes in the amount of RUB 1,674 million, previously assigned to Level 3 of the fair value hierarchy, were transferred to Level 2.

Financial assets measured at fair value with changes recognised through profit or loss include derivative financial instruments, equity and debt securities intended to generate short-term profit through trading.

41 Offsetting Financial Assets and Financial Liabilities

In connection with its derivative activities, the Group generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Group with the right to offset, in the event of a default by the counterparty (such as bankruptcy), counterparty's rights and obligations under the agreement or 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:

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41 Offsetting Financial Assets and Financial Liabilities (continued)

	Gross amounts before offsetting	Amounts offset	Net amounts after offsetting in the consolidated balance sheet	Amounts subject to netting agreements
<u>As of 31 December 2019</u>				
Financial assets				
Long-term and short-term trade and other accounts receivable	1,670,276	367,362	1,302,914	34,082
Derivative financial instruments	658,576	528,852	129,724	71,143
Financial liabilities				
Accounts payable (excluding derivative financial instruments)	1,543,609	367,362	1,176,247	34,082
Derivative financial instruments	647,476	528,852	118,624	71,143
<u>As of 31 December 2018</u>				
Financial assets				
Long-term and short-term trade and other accounts receivable	1,789,206	495,570	1,293,636	65,643
Derivative financial instruments	709,935	564,674	145,261	1,156
Financial liabilities				
Accounts payable (excluding derivative financial instruments)	1,751,929	495,570	1,256,359	65,643
Derivative financial instruments	718,659	564,674	153,985	1,156

42 Events After Reporting Period

Borrowings

In February 2020 the Group issued Loan Participation Notes in the amount of USD 2,000 million at an interest rate of 3.25 % due in 2030 under EUR 30,000 million Programme for the Issuance of Loan Participation Notes.

In February 2020 the Group issued Russian bonds in the amount of RUB 10,000 million at an interest rate of 6.2 % due in 2025.

In February 2020 the Group obtained a long-term loan from JSC ALFA-BANK in the amount of EUR 150 million at an interest rate of 2.05 % due in 2025.

In February 2020 the Group signed agreement to obtain long term loans from PJSC CREDIT BANK OF MOSCOW in the amount of RUB 15,000 million at an interest rate of current key rate of the Central Bank of the Russian Federation + 0.4 % due in 2025.

In March 2020 the Group signed agreement to obtain long term loans from Gazprombank (Joint Stock Company) in the amount of RUB 15,000 million at an interest rate of no more than current key rate of the Central Bank of the Russian Federation + 3 % and no more than 10 % due in 2025.

In March-April 2020 the subsidiary LLC Gazprom pererabotka Blagoveshchensk obtained long-term loans in the total amount of EUR 3,194 million at interest rates from EURIBOR + 1.00 % to EURIBOR + 4.25 % and RUB 6,500 million at an interest rate of the current key rate of the Central Bank of the Russian Federation + 2.15 % and due in 2034-2036. Loans are obtained under the terms of the long-term financing agreements signed in December 2019 within the framework of financing the construction of the Amur gas processing plant. ING Bank N.V., Intesa Sanpaolo S.p.A., London branch, China Construction Bank Corporation, Beijing branch, Banka IMI S.p.A. and PJSC Sberbank were appointed as agent banks.

In April 2020 the subsidiary Nord Stream 2 AG obtained long-term loans from Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation and Finance B.V. in the amount of EUR 87.5 million within the terms of the long-term financing agreement signed between the parties in April 2017.

In April 2020 the Group issued Loan Participation Notes in the amount of EUR 1,000 million at an interest rate of 2.95 % due in 2025 under EUR 30,000 million Programme for the Issuance of Loan Participation Notes.

42 Events After Reporting Period (continued)

Significant events

In February 2020 the Group concluded a contract for the sale of 34 % of JSC Conexus Baltic Grid shares subject to conditions precedent. The acquisition cost is EUR 77 million. At the date of these consolidated financial statements the deal was not completed as the conditions precedent had not been met and the acquisition cost had not been paid.

In March 2020 the Group signed an agreement to provide a subordinated loan in the amount of RUB 40,000 million to Gazprombank (Joint-stock Company).

The spread of COVID-19, which occurred after 31 December 2019, has had a material adverse effect on the world economy. Measures taken to combat the spread of the virus have caused material economic downturn. Global oil and gas markets are experiencing high volatility of demand and prices.

The Group has classified these events as non-adjusting events after the reporting period. The duration and consequences of the COVID-19 pandemic, as well as the efficiency of the measures taken are currently unclear. It is now impossible to assess reliably the duration and effect of the consequences of the pandemic on the Group's financial position and results of operations in future reporting periods.

The Group's management is assessing these events, including for the purposes of providing information to users of the financial statements.

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