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

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

THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS BASE PROSPECTUS MAY ONLY BE DISTRIBUTED TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS BASE PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THIS BASE PROSPECTUS (THE "NOTES") HAVE NOT BEEN, AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

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

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

Confirmation of your Representation: In order to be eligible to view this base prospectus or make an investment decision with respect to the Notes, you must be a person other than a U.S. person (within the meaning of Regulation S under the Securities Act). By accepting the e-mail and accessing this base prospectus, you shall be deemed to have represented to us (a) that you are not a U.S. person and (b) that you consent to delivery of such base prospectus by electronic transmission.

You are reminded that this base prospectus has been delivered to you on the basis that you are a person into whose possession this base prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, and you may not, nor are you authorized to, deliver, forward or distribute this base prospectus (or any reproduction of this base prospectus) to any other person.

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

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

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

Public Joint Stock Company Gazprom

Programme for the Issuance of Loan Participation Notes

issued by, but with limited recourse to,

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

Public Joint Stock Company Gazprom

Under the Programme for the Issuance of Loan Participation Notes described in this Base Prospectus (the "Programme"), Gaz Capital S.A. (the "Issuer"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue loan participation notes (the "Notes") on the terms set out herein, as completed by a final terms document (each, "Final Terms") or a series prospectus (each, "Series Prospectus") setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed U.S.$40,000,000,000 (or the equivalent in other currencies). This Base Prospectus supersedes any previous base prospectus, offering circular or supplement thereto relating to the Programme. Any Notes issued under the Programme on or after the date of this Base Prospectus are issued subject to the provisions herein. This Base Prospectus does not affect any Notes issued prior to the date hereof.

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

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

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 6.

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

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

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

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

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

Arrangers and Permanent Dealers

Deutsche Bank **UBS Investment Bank**

Permanent Dealers

BofA Merrill Lynch
Commerzbank
J.P. Morgan
Morgan Stanley
Renaissance Capital

IFC METROPOL
JSCB Rosbank
National Reserve Bank
UniCredit Bank

The date of this Base Prospectus is October 1, 2015

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, Gazprom and Gazprom and its subsidiaries taken as a whole (the "Group") which, according to the particular nature of the Issuer, Gazprom, the Group, the Notes and the Loans, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, Gazprom and the Group. The Issuer (whose registered office appears below) and Gazprom (whose registered office appears on page 43 of this Base Prospectus) accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer and Gazprom (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Issuer is a *société anonyme* incorporated for an unlimited duration under the laws of the Grand Duchy of Luxembourg ("Luxembourg"). The Issuer is not a subsidiary of Gazprom. The registered office of the Issuer is located at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg and the Issuer is registered with the *Registre de Commerce et des Sociétés à Luxembourg* (the Register of Commerce and Companies in Luxembourg) under number B-95071. For further information about the Issuer, see "Gaz Capital S.A."

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

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

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

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

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

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT, OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE REGARDING CANADIAN PERSONS

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

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

AVAILABLE INFORMATION

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

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OVERVIEW

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

Gazprom

We are one of the world's largest oil and gas companies in terms of reserves, production and market capitalization. For the year ended December 31, 2014, our sales net of value added tax ("VAT") and customs duties were RR5,589,811 million (U.S.$100,681 million) and our operating profit was RR1,310,424 million (U.S.$23,603 million). For the six months ended June 30, 2015 our sales net of VAT and customs duties were RR2,913,452 million (U.S.$52,476 million) and our operating profit was RR681,284 million (U.S.$12,271 million). As of December 31, 2014, we had total assets of RR15,177,470 million (U.S.$273,369 million) and total shareholders' equity (excluding non-controlling interest) of RR9,816,558 million (U.S.$176,811 million). As of June 30, 2015, we had total assets of RR15,357,226 million (U.S.$276,607 million) and total shareholders' equity (excluding non-controlling interest) of RR10,208,298 million (U.S.$183,867 million).

Reserves. We are a worldwide leader in terms of hydrocarbon reserves. In accordance with the Petroleum Resources Management System standards ("PRMS Standards"), as of December 31, 2014, we had proved and probable reserves of 23,510.7 bcm (138,478.0 mmboe) of natural gas, 848.6 million tons of gas condensate (6,941.5 mmboe) and 1,374.4 million tons of crude oil (10,074.4 mmboe) for a total of 155,494.5 mmboe.

Exploration and production. Our natural gas production represented approximately 69% and 73% of total natural gas production in Russia in 2014 and 2013, respectively (based on CDU TEC (source: www.cdu.ru) and Gazprom figures). Our natural gas production in Western Siberia accounts for over 90% of our natural gas production. In the year ended December 31, 2014, we produced 444.9 bcm (2,620.5 mmboe) of natural gas and 14.5 million tons (118.5 mmboe) of gas condensate, as compared with 488.4 bcm (2,876.6 mmboe) of natural gas and 14.7 million tons (119.9 mmboe) of gas condensate for the year ended December 31, 2013. In the year ended December 31, 2014, we produced 43.5 million tons (319.1 mmbls) of crude oil, as compared with 42.3 million tons (310.8 mmbls) of crude oil for the year ended December 31, 2013. In the six months ended June 30, 2015, we produced 205.8 bcm (1,212.2 mmboe) of natural gas, 7.8 million tons (63.6 mmboe) of gas condensate and 21.8 million tons (159.8 mmbls) of crude oil, as compared with 244.5 bcm (1,439.8 mmboe) of natural gas, 8.4 million tons (68.3 mmboe) of gas condensate and 21.3 million tons (156.1 mmbls) of crude oil in the six months ended June 30, 2014.

Gas transportation. As of December 31, 2014, the total length of our GTS in Russia was approximately 170,700 km (not including distribution pipelines and pipelines for the transportation of gas condensate and WFLH) and included 250 compressor stations on the pipelines, with an aggregate capacity of 46,100 MW, and 26 UGSFs with an aggregate capacity of 71.1 bcm. We pumped into the GTS 627.5 bcm and 659.4 bcm of natural gas in Russia in 2014 and 2013, respectively, and 301.0 bcm and 333.4 bcm of natural gas in Russia in the six months ended June 30, 2015 and 2014, respectively.

Processing, refining and petrochemical production. We refine a large amount of the natural and associated gas, gas condensate and crude oil that we produce. In 2014, we refined 30.5 bcm of natural and associated gas and 68.1 million tons of unstable gas condensate and crude oil, as compared with 31.5 bcm of natural and associated gas and 66.1 million tons of unstable gas condensate and crude oil in 2013, respectively. In the six months ended June 30, 2015, we refined 14.4 bcm of natural and associated gas and 29.8 million tons of unstable gas condensate and crude oil, as compared with 14.8 bcm of natural and associated gas and 30.2 million tons of unstable gas condensate and crude oil in the six months ended June 30, 2014. We also produce a wide range of refined gas and petrochemical products.

Gas sales. We supply a major part of the natural gas consumed in Russia and a significant portion of the natural gas consumed in the FSU countries. According to our estimates, we are also the largest natural gas supplier to Europe. In the years ended December 31, 2014 and 2013, our aggregate natural gas supplies amounted to 439.9 bcm and 477.0 bcm of natural gas, respectively. In the six-month period ended June 30, 2015, our gas sales amounted to 221.3 bcm as compared with 242.1 bcm in the six months ended June 30, 2014.

Electricity. We own significant power generation assets that provide approximately 15% of the electric power and approximately 24% of the heat generated in Russia. The aggregate power generation capacity of our subsidiaries in Russia was 38.7 GW and heat generation capacity was 70.6 Gcal/h as of June 30, 2015. We generated 155.4 billion kWh and 162.5 billion kWh of electric power and 125.2 million Gcal and 112.5 million Gcal of heat for the years ended December 31, 2014 and 2013, respectively. In the six months ended June 30, 2015, we generated 74.8 billion kWh of electric power and 64.2 million Gcal of heat as compared to 76.5 billion kWh of electric power and 67.1 million Gcal of heat during the six months ended June 30, 2014.

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

Strategy

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

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

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

We have consolidated our entire oil business within one subsidiary, Gazprom Neft. Gazprom Neft’s strategic goal is to become a large international player with a regionally diversified portfolio throughout the value chain. Gazprom Neft is committed to high standards of social and environmental responsibility, and intends to actively engage in the development of Russian regions.

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

Assuming sufficient demand in Russia and favorable conditions in foreign markets, we expect our annual production (including production in Eastern Siberia and the Russian Far East) to reach approximately 550-560 bcm by 2020.

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

We develop resources in Eastern Siberia and the Far East in accordance with the program adopted in 2007 by the Ministry of Energy of the Russian Federation authorizing us to create a unified gas production, transportation and supply system in Eastern Siberia and the Far East with the potential to export gas to markets in China and other Asia-Pacific countries (the “Eastern Program”). Gazprom has been appointed the coordinator of the Eastern Program by the Government. The Eastern Program envisages the creation of the Sakhalinskiy, Yakutskiy, Irkutskiy, Krasnoyarskiy and Kamchatskiy gas production centers. The production in these regions is expected to reach up to 15-20 bcm of natural gas by 2020. The Eastern Program identifies the sea shelf of Sakhalin as the highest-priority area for full-scale commercial development in the first stage of the Eastern Program. We hold a 50% plus one share interest in Sakhalin Energy Investment Company Ltd. (“Sakhalin Energy”), the project operator of Sakhalin II. In the period from 2010 through 2014, we put on stream the Kshukskoye and Nizhne-Kvakchikskoye fields in the Kamchatka Territory, obtained the license for and performed exploration at the Kovyktinskoye field in the Irkutsk Region and commissioned the Kirinskoye field on the shelf of the Sea of Okhotsk. We continue the exploration and development of other fields and areas in Eastern Siberia and the Far East, including on the shelf of the Sea of Okhotsk. In October 2012, we started establishing a large gas production center in the Republic of Sakha (Yakutia) on the base of the Chayandinskoye field. See “Gazprom—Reserves and Production—Exploration, Development and Production regions—Eastern Siberia and the Far East (Siberian and Far East Federal Districts)” and “Gazprom—Reserves and Production—Exploration, Development and Production regions—Russian sea shelf.”

We also intend to expand our reserves outside Russia and obtain licenses for exploration and development of hydrocarbon reserves in various international regions. Currently, the Group conducts business in Algeria, Bangladesh, Bolivia, Bosnia and Herzegovina, Hungary, Iraq, Kyrgyzstan, Libya, the Netherlands, Romania, Serbia, Tajikistan, United Kingdom, Uzbekistan, Venezuela, Vietnam and other countries. We are also negotiating to participate in projects in other countries, in particular, countries in South America. See “Gazprom—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region.”

Gazprom Neft intends to increase its annual hydrocarbon production up to 100 mtoe by 2020 and to maintain it at this level through 2025. Gazprom Neft expects to produce at least 10% of its overall hydrocarbon production outside Russia. The proved reserve-to-production ratio is planned to be maintained at the level of 20 years through 2025. To achieve this objective, Gazprom Neft intends to enhance profitability of extraction of the remaining resources at its active production sites by applying new production technologies and by optimizing development processes while reducing the cost of production technologies Gazprom Neft currently employs. Gazprom Neft is creating a new production center in the north of the Yamal-Nenets Autonomous Area and seeks to expand its presence in the Arctic shelf. Gazprom Neft considers unconventional reserves such as tight oil as an additional opportunity to increase production. Gazprom Neft seeks to establish new production centers in Russia after 2020 and to increase its international presence.

Gas transportation and storage. We reconstruct our existing, and develop new, transportation facilities to ensure the transportation of gas from the new production regions, to provide a reliable supply of gas to Russian consumers and to satisfy our contractual export obligations. In determining the sequence of the implementation of our new gas transportation facilities in the long term, we take into account the projected timing for achieving efficient utilization and optimal productivity of the existing gas transportation system and diversification of export routes. Our most significant current gas transportation projects are the construction of the Bovanenkovo-Ukhta and Ukhta-Torzhok trunk pipelines for gas transportation from the Yamal Peninsula, the GTS extension to enable supply to the central and southern regions of Russia and the Turkish Stream pipeline and the Power of Siberia pipeline. We have commenced work preparation for the construction of the Turkish Stream pipeline to transport gas from Russia to Turkey and Southern Europe. We are also considering the construction of the Nord Stream II pipeline and a GTS extension to enable supply to the Nord Stream II pipeline.

One of our long-term goals is the further development of gas transportation facilities in Eastern Siberia and the Far East. From 2011 to 2014, we commissioned the first stage of the Sakhalin-Khabarovsk-Vladivostok gas transportation system with a pipeline on Sakhalin Island connecting the Kirinskoye field with the Sakhalin-Khabarovsk-Vladivostok gas transportation system and started gasification of the Sakhalin Region and Primorye Territory. We have put into operation a pipeline from the Kshukskoye and Nizhne-Kvakchikskoye fields located in the Sobolevsk region to Petropavlovsk-Kamchatskiy to develop gas supplies in the Kamchatka Territory. Additionally, we have started the construction of the “Power of Siberia,” a trunk gas pipeline from Yakutia to Blagoveschensk, to transport gas from the Yakutskiy and Irkutskiy gas production centers, including the Chayandinskoye and Kovyktinskoye fields, to consumers in Russia and the Asia-Pacific region, including consumers in China. We are also considering the construction of the “Power of Siberia II” pipeline, which would extend from the fields in Western Siberia to the western part of the Russian-Chinese border. See “Gazprom—Transport—Gas transportation projects in Russia,” “Gazprom—Transport—International projects in gas transportation” and “Gazprom—Distribution—Europe and Other countries—Asia.”

One of the strategic goals we pursue in developing our gas storage business in Russia is the technical re-equipment, reconstruction and expansion of existing storage facilities as well as the construction of new UGSFs in order to increase our daily withdrawal capacity and active gas storage reserve. Our long-term plans contemplate reaching the maximum daily withdrawal capacity of 1.0 bcm by 2025.

To implement our marketing strategy in Europe, we are engaging in the European gas transportation and storage sectors, particularly by contracting transportation and storage facilities to ensure reliable gas supplies to our customers. Our strategic goal is to increase the active capacity of our UGSFs abroad to 5% of our annual exports by 2030, with a priority to develop our own storage capacity. See “Gazprom—Gas Storage—Gas storage in FSU, Europe and Other Countries.”

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

In accordance with the Eastern Program, we are considering gas refining capacity construction projects to develop the resources of Eastern Siberia and the Far East, which at the first stage are expected to be based on the resources of the Chayandinskoye and Kovyktinskoye fields. In particular, we intend to commission a gas processing plant in the city of Svobodniy in the Amur Region (“Amurskiy GPP”) with an expected annual capacity of up to 49 bcm of gas to separate ethane and other valuable components from gas produced in the Yakutskiy and Irkutskiy gas production centers. See “Gazprom—Refining—Projects in refining.”

Gazprom Neft prioritizes operational efficiency and modernization of its refining assets in developing our oil refining segment. The development of petroleum processing capacity abroad is focused on locating assets in Europe and South-East Asia, the two principal regional markets for Gazprom Neft. We anticipate that the strategy implemented by Gazprom Neft will allow it to process an average of 40 million tons of crude oil a year and achieve a processing depth of 95% and light oil products yield of 80% in Russia in 2025.

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

Until market pricing is introduced, we believe it is necessary to adjust regulated domestic wholesale gas prices to achieve an economically justified price level sufficient to supply gas in Russia at an acceptable profitability rate and accumulate funds to finance our investments.

Government Resolution No. 323 dated April 16, 2012, as amended, which was issued for the purpose of development of the market pricing principles, permitted us and our affiliates to sell on commodity exchanges and in trading systems up to 17.5 bcm of gas starting from 2013.

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

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

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

In order to ensure flexibility in determining which fields in the new gas-producing regions in Russia to develop, we are also seeking to cooperate with Central Asian countries in developing gas reserves as well as upgrading and modernizing gas transportation systems. See "Gazprom—Distribution—The FSU—Cooperation with FSU countries in gas marketing."

As part of our strategy to diversify the markets to which we supply gas, we consider countries in the Asia-Pacific region as key new markets. In particular, in May 2014, we signed a contract with China National Petroleum Corporation ("CNPC") for the supply of 38 bcm of pipeline gas from Russia to China annually via the Eastern route for 30 years with an option to extend. The supplies under the contract are currently expected to start between 2019 through 2021, depending on the schedule for construction of relevant production and transportation facilities. During the first years of supply, we anticipate gradually increasing the volumes of supplies under the contract. See "Gazprom—Distribution—Europe and Other Countries—Asia."

Gazprom Neft's primary objective with respect to its sales of refined petroleum products is to market nearly 100% of its Russian subsidiaries' refined petroleum production through its own high margin distribution channels to fully capture available margins within the value chain of the oil business. In the motor fuel sales segment, Gazprom Neft seeks to increase its sales of motor fuel in Russia and the CIS up to 24.7 million tons by 2025. In order to achieve this strategic objective, Gazprom Neft plans to expand its gasoline station network in Russia and the CIS to 1,880 stations by 2025. In the sales to industrial customers segment, Gazprom Neft is committed to expanding its premium product segments, including marketing of jet fuel, oils, lubricants and technical liquids, bitumen, petrochemicals and bunker fuel. Gazprom Neft intends to increase its premium segment sales to 18 million tons a year by 2025.

Electricity. We consider electricity to be a strategically important sector for the development of our business. We believe that we can improve the stability of our business and achieve additional revenue by increasing our share of the power generation sector. Our strategic goal in the electricity sector is to diversify tariff risks and realize synergies with our gas business. In implementing our electricity strategy, we plan to construct new, highly effective power generators, which are expected to increase the efficiency of our production of heat and energy. See "Gazprom—Electric and heat energy generation and sales—Russia."

We own significant power generation assets in Russia. The aggregate capacity of our power generation subsidiaries in Russia was 38.7 GW as of June 30, 2015. Pursuant to our capacity supply contracts, we are obligated to supply certain capacity during specific periods through 2018. We implement investment projects in power generation primarily in order to meet our obligations under capacity supply contracts. See "Gazprom—Electric and heat energy generation and sales—Russia.”

We are considering investing in the construction and acquisition of foreign electricity power assets to improve our position in the European and Asian electricity markets. We are also increasing our cooperation with utility companies that have a pre-existing client base and technology that we believe will expand our presence in the international electricity market. See “Gazprom—Electric and heat energy generation and sales—FSU and Europe and Other Countries.”

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

One of our priorities while expanding into new markets is the gradual implementation of the production, maritime transportation and marketing of liquefied natural gas (“LNG”). Since 2005, we have been engaged in LNG spot trading. We also hold a 50% plus one share interest in Sakhalin Energy, the operator of the Sakhalin II project, which owns an LNG plant. See “Gazprom—Reserves and Production—Exploration, Development and Production regions—Russian sea shelf—Associated companies and development of associated projects in the region—Sakhalin II project.”

We intend to increase the LNG export volumes from the Far East. See “Gazprom—Distribution—Europe and Other Countries—LNG.” In particular, together with the other shareholders of Sakhalin Energy, we have started the FEED stage for the third production line of the Sakhalin LNG plant.

We have completed the feasibility study and are preparing for the design stage of the project for the construction of an LNG plant in the Leningrad Region (the “Baltic LNG Plant”). In addition, to ensure reliable gas supplies to the consumers in the Kaliningrad Region and further develop the local energy system we intend to construct a regasification terminal in the Kaliningrad Region with an annual capacity of 2.7 bcm of gas.

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

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

One of our strategic goals is enhanced use of natural gas as motor fuel. To enhance the efficiency of implementing our strategy in the gas engine fuel market, we established a subsidiary, OOO Gazprom gazomotornoe toplivo, which is engaged in the development of the gas engine fuel market in Russia and abroad in cooperation with relevant state authorities, financial institutions, producers of methane utilizing equipment and consumers. See “Gazprom—Distribution—Russia—Domestic sales.”

We intend to expand our gas engine fuel business in Europe and Other Countries both through the construction and acquisition of NGV-refuelling compressor stations and through making comprehensive proposals to large transportation companies in cooperation with car makers to encourage a shift from oil products to natural gas to power motor vehicles. See “Gazprom—Distribution—Europe and Other Countries—Europe.”

RISK FACTORS

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

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

Risks Relating to Our Business

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

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

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

Prices for oil products declined significantly in late 2008 and early 2009. As international crude oil prices deteriorated, the natural gas prices we realized under our long-term contracts with European or other customers declined as well, resulting in a reduction in our export revenues in 2009. Oil prices (and, correspondingly, our operational and financial results) recovered in 2010 and 2011, while declining again in 2012, 2013 and, most significantly, in 2014, due to adverse economic conditions in our core markets and other factors. Crude oil prices recovered to some extent by mid-2015 but further declined by September 2015 to levels below the price levels of late 2014. Any future decline and extended periods of low crude oil and oil products prices may adversely affect our business, results of operations, cash flows, financial condition and our ability to finance planned capital expenditures, any of which may adversely affect the value of the Notes.

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

We have renegotiated the pricing under our long-term contracts with a number of our European natural gas customers to reflect the recent changes in natural gas market conditions in Europe. The renegotiated pricing of our natural gas sold to such customers has been revised in consideration of current market prices and, to a certain extent, linked to trading floor quotations for the price of natural gas. The failure to successfully renegotiate the pricing under certain of our long-term contracts or a significant difference between prices under our long-term contracts and natural gas market spot prices have affected, and in future periods could adversely affect, the amount of revenue generated by our natural gas sales in Europe, the FSU and other markets where we sell under such terms.

Excess gas supply accompanied by stagnating demand for gas in the European market in recent years, availability of gas volume on liquid trading boards, competition from alternative gas suppliers and energy sources, and other factors, including weather conditions, have caused European spot prices to be at times lower than the prices determined by our long-term contracts, which, in turn, has led to occasional declines in sales under our long-term contracts. We have been experiencing such occasional unfavorable price differences since 2010 and could experience them in future, which could prevent us from increasing our sales under long-term contracts and reduce our revenues generated by our natural gas sales in Europe, the FSU and other markets where we sell under such terms.

In response to changes in the market conditions in Europe beginning in 2010, we linked a portion of pricing to trading floor quotations under some of our long-term contracts with European customers, while maintaining the link to oil product prices as the basis of our pricing mechanism in such long-term contracts. In addition to a link to trading floor quotations, we have introduced alternative pricing mechanisms that indirectly reflect trading floor price levels in our contract prices.

From 2010 through 2015, some of our customers brought claims against our exporting subsidiary, OOO Gazprom export ("Gazprom Export"), and certain other related parties involved in gas sales in Europe, seeking to review the contractual price of natural gas supplied under our long-term contracts. The terms of settlement of our disputes with certain of these claimants have resulted in price revisions. From 2010 through 2014, we revised pricing with many of our customers including by introducing an alternative pricing mechanism. In the year ended December 31, 2012, our results of operations were negatively affected by retroactive gas price adjustments relating to volumes of gas delivered in 2010 and 2011 for which a discount was agreed in 2012. In June 2013, the ICC International Court of Arbitration in Paris partially granted RWE Transgas' ("RWE") request for purchase price adjustments under its long-term gas supply contract. The tribunal adjusted the purchase price formula of the contract by introducing a spot gas market component, which according to the tribunal reflected the relevant conditions in the gas market in May 2010. The tribunal also awarded RWE a partial reimbursement for payments made since May 2010, which amounts to approximately U.S.$1.5 billion. See "Gazprom—Distribution—Europe and Other Countries." No assurance can be given that any ongoing or possible future pricing negotiations with our customers will be successful and that possible future court decisions will be in our favor. The decision with respect to RWE adversely affected our financial results, and any similar occurrences in the future may, adversely affect our business, results of operations, cash flows and financial condition.

We are currently in arbitration with NAK Naftogaz of Ukraine ("Naftogaz") in which Naftogaz is seeking retroactive price revision under a 2009 gas supply contract between Gazprom and Naftogaz (the "2009 Contract"). In addition, Naftogaz is seeking compensation for all amounts it alleges it overpaid as of May 20, 2011, which, according to Naftogaz, amounts to between U.S.$11.3 billion and U.S.$11.7 billion, and cancellation of the contractual prohibition on reexport of natural gas. If the arbitration tribunal adjudicates against us or the price of gas we sell to Naftogaz is renegotiated on terms less favorable than currently provided by the 2009 Contract, our revenue generated from natural gas sales in Ukraine could be adversely affected. See "Gazprom—Litigation and Investigations."

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

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

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

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

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

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

We are, and are likely to remain for the foreseeable future, a natural monopoly with respect to activities in natural gas transportation through trunk pipelines in Russia. Wholesale prices of natural gas that we and our affiliates produce and sell to consumers in the Russian Federation are regulated by governmental authorities and are currently significantly lower than the prices we charge to Western European off-takers, even after netting back customs duties and transit costs. Moreover, domestic wholesale natural gas prices for household consumers have been, and continue to be, lower than wholesale natural gas prices for industrial and commercial end users resulting in subsidizing households in the Russian Federation.

Domestic regulated gas prices are expected to increase between January 1, 2015 through December 31, 2018 in line with the growth rates set forth in the Forecast of Social and Economic Development in the Russian Federation approved by the Government in May 2015 (the "Forecast"). See "Gazprom—Distribution—Russia—Domestic market conditions." However, no assurance can be given that natural gas prices in Russia will increase in line with the growth rates set forth in the Forecast, or increase at all. If the natural gas prices we charge to Russian customers do not increase as currently anticipated, our investment program could be scaled back and our future results of operations, cash flows and financial condition could be adversely affected.

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

Our results of operations are significantly influenced by the general economic conditions in the countries in which we operate. The economic conditions in these markets have in various ways been adversely affected by weakening economic performance, the turmoil in the global financial markets and subsequently by the worsening of the European sovereign debt crisis. Several countries of the Eurozone and the FSU have experienced recessionary conditions. In particular, many countries in these markets have experienced declining economic growth, reduced industrial production, increasing rates of unemployment as well as decreasing asset values, and may further deteriorate as a result of the current economic instability and possible global recession. Russia also experienced economic slowdown from 2012 through 2014 and entered recession in mid-2015. Adverse economic developments of the kind described above have resulted in a decrease in demand for natural gas and other commodities, which in turn has affected and may continue to affect our business in a number of ways, including, without limitation, due to the deterioration of the financial condition of our customers. In 2012, we experienced a significant reduction in demand for natural gas in our main markets as compared with 2011, which prompted a decrease in production by more than 5%. The continuing uncertainty in respect of demand in the future may have a material adverse effect on our business, financial condition and results of operations. Our long-term supply contracts with customers in Europe generally have "take-or-pay" provisions that provide for minimum annual volumes of natural gas. Customers that have failed to purchase the minimum amount stipulated in the contract are required to pay for a major portion of such amount. However, no assurance can be given that our customers will be able to fulfill these obligations.

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

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

The failure of a number of FSU and Russian customers to pay us for supplies of natural gas and other products has from time to time resulted in substantial increase in our accounts receivable. In particular, increased natural gas prices in the FSU countries against a rather low paying capacity of end consumers in the region entail a risk of failures to pay in full and/or delayed payments for natural gas under relevant contracts. As of June 30, 2015, gross accounts receivable for sales of natural gas due from customers in the FSU countries and in Russia were approximately RR453.2 billion and RR260.9 billion of which approximately 95% and 69% were overdue, respectively. See "Gazprom—Distribution—The FSU—Debt settlement." In particular, the debt of Naftogaz for the 2013, 2014 and first half of 2015 gas supplies amounted to approximately U.S.$2.4 billion in our accounts receivable as of June 30, 2015. Furthermore, our cash flows could be affected by the inability or limited ability of our customers, particularly those in the FSU countries and Russia, to pay for our natural gas and other products we sell. As of June 30, 2015, we made provisions of approximately RR429.2 billion and RR180.2 billion in our Unaudited consolidated interim condensed financial information for impairment of our accounts receivable due from customers in the FSU countries and in Russia, respectively, including provisions in the amount of RR133.4 billion in respect of Naftogaz's overdue debt. The substantial overdue amounts owed to us by Naftogaz along with the 2009 Contract price revision dispute resulted in the pending arbitration proceedings. See "Gazprom—Litigation and Investigations." In addition, despite the high credit ratings of the majority of our European customers, payments for supplies of our natural gas, crude oil, oil refinery and petrochemical products to certain customers in South and South Eastern Europe, in particular in Greece, Macedonia, Serbia and Bulgaria, may be delayed or not made in full due to a reduced creditworthiness of such customers.

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

We bear a substantial tax burden.

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

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

The mineral extraction tax ("MET") rate for natural gas for Gazprom and its majority-owned subsidiaries increased by approximately 192% in 2014 as compared to 2011. Starting January 1, 2015, the MET rate for natural gas is determined pursuant to a formula, which takes into account various factors such as prices for oil and gas, degree of difficulty of extraction of gas and gas condensate and other factors. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Recent Changes in Russian Tax Regulation." The application of the new method of calculating the MET rate for natural gas and gas condensate has increased our tax obligations.

MET for crude oil is calculated pursuant to a formula, which adjusts the basic MET rate depending on fluctuations of crude oil prices and degree of difficulty of oil extraction. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Recent Changes in Russian Tax Regulation." MET basic rates are set to increase from RR766 per ton in 2015 to RR857 per ton and RR919 per ton in 2016 and 2017, respectively.

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

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

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

The Russian Federation currently controls more than 50% of Gazprom's shares. See "Shareholding Structure of Gazprom." Nominees of the Russian Federation, including Mr. Miller, the Deputy Chairman of Gazprom's Board of Directors and Chairman of Gazprom's Management Committee, currently hold eight out of the eleven seats on Gazprom's Board of Directors. State authorities regulate the prices we charge for gas in the domestic market, the tariffs we charge for the transportation of third parties' gas through the GTS and other matters affecting our business. Through its shareholding, representation on Gazprom's Board of Directors and role as the main regulator, the Government has a strong influence over our operations. The Government has previously required Russian companies, including us, to take certain actions, such as the undertaking of projects and the supply of goods and services to customers that may not be in the best interests of such companies or their investors.

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

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

We have acquired, and may continue to acquire in the future, businesses and legal entities that are engaged in activities that are different from our gas business. For example, we recently acquired control over OJSC Gazprom neftekhim Salavat ("Gazprom neftekhim Salavat"), 74 companies involved in gas industry, the majority of which are gas distribution companies, and JSC MIPC ("MIPC"). The integration of newly-acquired businesses may be difficult for a variety of reasons, such as differing culture or management styles, poor records or internal controls and difficulty in establishing immediate control over cash flows. As a result, the need to integrate acquired assets or any potential future acquisitions poses risks to our existing operations, including:

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

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

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

State authorities may reorganize our business to increase competition in the gas sector.

We are a natural monopoly in the transportation of natural gas. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Regulating the activities of natural monopolies." In certain countries, monopolies are subject to scrutiny and restrictions by governments. For instance, the EU implements a policy aimed at the liberalization of the EU energy markets that provides for the vertical disintegration of energy companies. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Regulation Abroad—Gas Directives." Furthermore, in 2008, the Government completed the reform of the power industry in Russia, which resulted in the reorganization of another natural monopoly, RAO Unified Energy Systems ("RAO UES"). If similar policies were to be implemented in other countries where we operate, our operations could be negatively affected.

In addition, in September 2011, the European Commission commenced inspections at the premises of our affiliates in Central and Eastern Europe. These inspections moved to a formal antitrust investigation in September 2012 and remain ongoing. We have been notified by the European Commission that the investigation relates to alleged violations of antimonopoly laws of several European countries, in particular, allegations of segmenting the European gas market, imposing unfair prices on customers and obstructing competition. In April 2015, the European Commission published a statement of objections that alleges various violations of antitrust laws in a number of EU member states. In September 2015, we submitted to the European Commission our proposals as to the amicable resolution of the matter. The publication of the statement of objections does not imply any recognition of an antitrust offense or an accusation of the same, but there can be no assurance that the outcome of this investigation, or similar investigations that may take place in the future, will be favorable to us. As of the date of this Base Prospectus, it is not possible to assess the potential negative impact of the investigation on our operations in Europe, including on the prices we charge to our European customers, or on our financial position as a whole. See "Gazprom—Litigation and Investigations."

In addition, the Ministry of Energy in the recently proposed Basic Principles of the Draft Energy Strategy of the Russian Federation until 2035 has indicated as a long-term strategic objective "the separation of activities of a natural monopoly from the competitive businesses within the system of PJSC Gazprom." While Government officials and senior members of our management have stated that the reorganization or division of Gazprom is not currently planned, and moreover Federal Law "On Gas Supply in the Russian Federation" No. 69-FZ dated March 31, 1999, as amended (the "Gas Supply Law"), provides that the transfer of ownership to the UGSS may only be effected by federal law, there is no assurance that we will not face the state-led reorganization into several smaller and less powerful production and transportation companies, or that certain of our operations may be re-allocated to other entities.

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

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

The licensing regime in Russia for the exploration and production of natural gas, gas condensate and crude oil is governed primarily by Federal Law "On Subsoil" No. 2395-1 dated February 21, 1992, as amended (the "Subsoil Resources Law"), the Gas Supply Law, Federal Law "On the Continental Shelf of the Russian Federation" No. 187-FZ dated November 30, 1995, as amended (the "Continental Shelf Law"), and numerous regulations issued thereunder. We currently conduct our operations under multiple geological study, exploration and production licenses. Production licenses for our major natural gas and oil production fields extend to at least 2017, with most of our licenses extending for a much longer period. See Appendix A, "Certain Exploration and Production Information—Licenses." In accordance with current legislation, we plan to extend our licenses that have a fixed term to the end of the economic life of the fields to which such licenses relate. Although historically we have been able to obtain such extensions, we may fail to do so in the future.

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

In 2012, 2013 and 2014, following planned and unscheduled inspections, the Federal Service for the Supervision of Environmental Use ("Rosprirodnadzor") issued prescriptions that require us to remedy certain alleged violations relating, primarily, to the timeline for performing geological works at various areas and fields as well as alleged environmental law violations that we believe have been rectified. Currently, prescriptions remain outstanding in relation to a number of our licensed areas. Remedial periods set by Rosprirodnadzor currently range from October 2015 to May 2016. We are working to comply with the requirements before the designated deadlines. See "Gazprom—Reserves and Production—Licensing Activities." If we are unsuccessful in complying with the prescribed requirements, respective licenses could be suspended, amended or terminated or fines could be imposed on us. Any suspension, amendment, or termination of our licenses could have an adverse effect on our operations, financial position or the value of our assets.

We must make capital expenditures in order to replace diminishing production in our operating fields and maintain and develop our gas transportation system, and certain expenditures may be delayed or reduced if the demand for and price of natural gas and other hydrocarbons that we produce fall below our expectations.

In order to perform our obligations under our export contracts and supply gas to the domestic market, we must make capital expenditures in order to develop our natural gas, gas condensate and crude oil production capabilities in line with demand, maintain our natural gas transportation system and offset declines in our main producing fields, particularly our Urengoyskoye and Yamburgskoye fields. In order to achieve such goals, we plan to further develop satellite fields in Western Siberia and fields in the Yamal Peninsula, Eastern Siberia and the Far East, and increase Gazprom Neft's oil production levels, which may require increased exploration and development activity. The development of fields in these regions has required and will require significant investment because of their distance from existing gas transportation facilities, the complexity of well construction in such areas and difficulties in the implementation of new technologies, including those for environmental preservation in severe weather conditions. Our current gas transportation projects, including the construction of the Power of Siberia pipeline, the Bovanenkovo-Ukhta and Ukhta-Torzhok trunk pipelines for gas transportation from the Yamal Peninsula, the GTS capacity extension to facilitate supplies through the Turkish Stream pipeline have required, and our other contemplated gas transportation projects may require, significant investment. In addition, considerable sums of money are required to maintain and develop the GTS, which we own and operate and which is responsible for the transportation, storage and delivery of substantially all natural gas in Russia. See "Gazprom—Investment Program." The GTS comprises an extensive network of pipelines and compressor installations that has been largely developed over more than 40 years. Most of the pipeline is over 10 years old, and some portions of the pipeline are over 30 and 40 years old, necessitating continuous inspection, capital repairs and reconstruction. See "Gazprom—Transport—GTS." A significant part of the pipeline is protected by electrochemical processes of limited duration and effectiveness. In addition, large segments of the network are located in regions with harsh climates, where construction, maintenance and refurbishment are difficult and costly. There can be no assurance that we will be able to finance our capital expenditures at a reasonable cost, including the capital requirements necessary to maintain our production and the operation of the GTS. See "Gazprom—Investment Program."

If the demand for and price of natural gas fall below our expectations, in particular in light of the increased efforts undertaken by the European Commission seeking to revise the existing system of gas supplies under long-term contracts and to reduce the dependency of European countries on Russian gas supplies, we may have to adjust the timeframe of and our projected investments in these projects, the implementation of which would lead to excessive gas production and transportation capacities. It is possible, however, that we will be unsuccessful in meeting our long-term production targets due to decreases in our capital expenditures or otherwise. In such circumstance, our ability to meet our contractual export commitments and domestic supply obligations could be adversely affected. In addition, decreases in our investment program may increase the risk that certain of our licenses will be suspended, amended or terminated. See "—Our licenses may be suspended, amended or terminated prior to the end of their terms, and we may not be able to obtain or maintain various permits and authorizations." Additionally, the inability to obtain financing in or outside Russia as a result of the ongoing Ukrainian crisis and international sanctions may cause us to divert the funds earmarked for investment to pay off our debts.

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

We expect to fund our capital expenditures, working capital and any potential acquisitions through internal sources and external financing. There can be no assurance, however, that we will be able to generate and raise sufficient funds to meet such capital requirements in the future or to do so at a reasonable cost. We depend on regular access to debt markets to meet a significant portion of our financing requirements. In 2009, our cash flow generated from our natural gas, crude oil and refined product sales decreased because of the dramatic fall in crude oil prices, the consequential decline in natural gas prices and the decreased demand for all such products as a result of the global financial crisis. Additionally, in late 2008 through early 2009, the global bank and capital markets experienced a significant disruption that was characterized by severe reductions in liquidity, greater volatility, general widening of spreads, and, in some cases, lack of price transparency in money and capital markets interest rates. As a result, many lenders reduced or ceased providing funding to borrowers, particularly in the emerging markets, and there was a general increase in the cost of borrowing for corporate borrowers, including Gazprom.

Our ability to raise debt financing from capital markets or otherwise could be further affected by other factors. In April 2014, Standard & Poor's Ratings Services ("S&P") downgraded Gazprom's credit rating to BBB. In January 2015, S&P downgraded Gazprom's credit rating further to BB+ with a negative outlook. These rating revisions followed the downgrades of the Russian sovereign credit rating. S&P explained that the downgrades occurred due to increased concerns that the Government could interfere in our operations if the financial position of the state becomes especially stressful. In July 2015, S&P affirmed Gazprom's credit rating of BB+ with a negative outlook. Following S&P's ratings, Moody's Investor Services also downgraded the credit ratings of Russia and Gazprom to one notch below investment grade. However, Fitch affirmed investment grade credit ratings for both Russia and Gazprom. There can be no assurance, however, that no further downgrades of credit ratings will occur, and any such downgrades could further increase our cost of debt financing or otherwise impede our access to debt capital markets on economically acceptable terms. In addition, for the periods starting from January 2015, we changed auditors to FBK, which is not a traditional "big four" audit firm and this may also have an effect on our flexibility in obtaining new financing from the capital markets, as investors frequently expect issuers to use audit services from one of the "big four" firms.

In recent years, the global bank and capital markets have shown periods of increased volatility primarily due to continued global macroeconomic challenges. The prospects of future macroeconomic stability remain uncertain due to the tightening of monetary policy by the U.S. Federal Reserve, concerns regarding balance of payment deficits and the stability of financial sectors in emerging markets, slowdown of the economy of China, persisting risks associated with the European sovereign debt crisis, in particular in Greece, and the resulting increased volatility in capital markets.

Significant tensions are currently ongoing between Russia and Ukraine, including the accession of Crimea to Russia and the ongoing crisis in Eastern Ukraine. These events have caused significant tensions between Russia and other countries, including the United States and the member states of the European Union.

The U.S., Canada and other countries, as well as the European Union, have imposed economic sanctions against certain Russian and Ukrainian officials, businessmen and legal entities in connection with the current situation in Ukraine.

Currently, these sanctions include prohibitions on particular dealings in equity and/or debt of a number of Russian banks and companies, bans on supplies of certain equipment, technology and related services, freezing the funds and other assets of, imposing travel restrictions on, and prohibiting transactions with, the sanctioned individuals and companies. In particular, limited sectoral sanctions were imposed against Gazprom by the U.S., the EU and other countries, which restricted supplies of certain types of equipment to us. Gazprom Neft, along with other major Russian companies, became subject to certain sanctions imposed by the U.S., the EU and other countries effectively prohibiting Gazprom Neft from accessing the U.S. and EU credit and capital markets. In June 2015, Canada imposed additional sanctions on Gazprom, prohibiting us from accessing Canadian capital markets. There is no indication when these sanctions will be lifted. In addition, these sanctions could be expanded. See "—Non-compliance with the U.S. and EU sanctions programs, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition" and "—The current crisis in Ukraine and the reaction of the U.S., the EU and certain other countries to Russia's actions in connection with Crimea creates significant political and economic uncertainty which could adversely impact the Group's financial condition."

The U.S. and European countries are home to financial institutions and corporations that have or may in the future make significant investments in the Russian economy. Their investment strategies and decisions may be affected by deterioration of Russia's relations with other members of the international community as a result of the Ukrainian crisis or in response to the sanctions imposed internationally on Russian businesses and individuals.

As of now, there is still significant uncertainty regarding the eventual outcome of the Ukrainian crisis. The emergence of new or escalated tensions between Russia and other countries, including any escalation of the crisis in Ukraine, expansion of the existing or the imposition of new sanctions in response to these tensions, could negatively affect economies in the region, including the Russian economy. This, in turn, may result in a general lack of confidence among international investors in the region's economic and political stability and in Russian investments generally. Such lack of confidence may result in reduced liquidity, trading volatility and significant declines in the price of listed securities of Russian companies, including the Notes, and in the Group's inability to raise debt or equity capital in the U.S. and EU capital markets.

A deterioration of money and capital markets, market disruption, liquidity constraints that, for example, may be caused by anticipated interest rate increases by the U.S. Federal Reserve and other factors described above, existing sanctions, imposition of broader economic sanctions on Russian companies and individuals or downgrades in our credit ratings may adversely impact our ability to borrow in the debt or capital markets and may further increase the cost of such borrowings. In addition, the lack of sufficient funds in the future may require us to delay or abandon some of our anticipated projects.

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

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

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

Our core operations, including production and transportation operations, may also be adversely affected by many factors, including the breakdown or failure of equipment or processes, labor disputes, natural disasters, political disputes and terrorist attacks or sabotage to our extensive pipeline network and other equipment. Although there have been no significant delays or curtailments of the supply of natural gas or crude oil to our customers due to these factors recently, no assurance can be given that such delays or curtailments will not occur in the future due to the stress and corrosion of pipelines, defective construction of compressor stations, insufficient maintenance or refurbishment of the network or other factors.

Our insurance covers Gazprom's and its main subsidiaries' operational risks, but we do not have full insurance coverage for all of our activities. See "Gazprom—Insurance." Therefore, in a number of cases, we would have to cover financial losses from the above-mentioned or other factors out of our own cash flow.

We encounter competition in our largest business, natural gas sales, from alternative fuel sources and other natural gas producers and suppliers and structural changes in our markets can intensify this competition.

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

Currently, according to Federal Law "On gas export" No. 117-FZ dated July 18, 2006 (the "Gas Export Law"), as the owner of the UGSS, we have the exclusive right to export natural gas in its natural state produced in Russia, except for gas produced under production sharing agreements that were entered into before the Gas Export Law came into effect. Federal Law No. 318-FZ dated December 1, 2013 introduced amendments to the Gas Export Law that granted the right to export LNG produced in Russia to entities that meet certain requirements. There can be no assurance that our exclusive right to export gas in its natural state will not be revoked in a similar way in the future.

An increase in European intra-pipeline trade and the decision by several European countries to diversify sources of gas supply have resulted in decreased European dependence on external sources of gas and have increased competition with our pipeline gas. We encounter competition in Europe from other natural gas suppliers (especially from Algeria, Norway, the Netherlands and Qatar), which has affected and could continue to affect the prices and volumes of our sales of natural gas to Europe. In addition, in connection with a potential loosening of the sanctions regime against Iran, we can not exclude future competition to our pipeline gas supplies to Europe from Iranian gas. The eventual emergence of new large suppliers of natural gas in Europe and/or the potential emergence of LNG exports or competing coal or LNG supplies from North America could also result in an oversupply, increased competition and lower prices.

In Russia, we face competition from other crude oil and natural gas suppliers, in particular from Russian independent natural gas suppliers (the largest being OAO Novatek ("Novatek"), Rosneft and PJSC Lukoil ("Lukoil"). Wholesale gas prices we realize in Russia are regulated by the Government. This limits our opportunities to compete with independent suppliers that sell their gas at unregulated prices allowing them to offer their customers more flexible pricing terms. In addition, our gas tends to be replaced by gas supplied by the independent suppliers in the regions where the independent suppliers produce gas and in adjacent regions. Independent suppliers increased their combined share in gas production in Russia from 27% in 2013 to 31% in 2014, and their share in gas production and sales to consumers in Russia may continue to increase.

In addition, as a result of its liberalization in recent years, the Western European gas market has undergone a significant structural change. Directive 2003/55/EC adopted in the EU in June 2003 (the "Second Gas Directive") and Directive 2009/73/EC adopted in the EU in July 2009 (the "Third Gas Directive") have brought about significant liberalization of the EU gas market by introducing greater competition into the market in order to reduce gas prices for the end-user. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Regulation Abroad—Gas Directives."

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

The requirements relating to vertical disintegration apply not only to European undertakings but also to foreign vertically integrated undertakings operating in the EU, including the Group. The Third Gas Directive's precise effect on our operations is yet to be determined. If, pursuant to the Third Gas Directive, an EU state chooses to implement the most restrictive measures on participation of energy producers in ownership and management of the transportation networks, it may limit the activities in which we are permitted to engage which may force us to dispose of our gas transportation assets in Europe. These restrictions could affect our competitive position and our ongoing or contemplated projects, and, consequently, our results of operations. A number of disagreements have arisen between Gazprom and Lithuania as a result of the implementation of the Third Gas Directive in Lithuania. See "Gazprom—Litigation and Investigations."

In addition, the implementation of the Third Gas Directive could negatively affect the timing and prospects of our gas transportation projects in Europe. In particular, inconsistencies between the provisions of the Third Gas Directive and the terms of bilateral intergovernmental agreements entered into by and between the Russian Federation and the countries that participated in implementing the South Stream pipeline project became one of the reasons for the cancellation of the project in 2014 and its substitution for an alternative project, the Turkish Stream pipeline.

The liberalization of the gas market in Europe may also result in a declining role for long-term contracts, which could, in turn, adversely affect the stability of our revenues. Further, in the absence of a special permission granted in accordance with the EU laws, it may not be possible for us to own and control gas transportation assets in Europe. Our ability to implement gas transportation projects in Europe may also be affected by the provisions of the Third Gas Directive, which could have a material adverse effect on our operating results in Europe.

Certain European countries have intensified their efforts to diversify their energy sources. In addition, Europe has repeatedly stressed the need for the diversification in connection with our gas price disputes with Ukraine (see "—We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas"). In 2009, Austria, Bulgaria, Hungary, Romania and Turkey entered into an intergovernmental agreement establishing a legal framework for the Nabucco pipeline. The stated intention of the agreement is to reduce European reliance on Russian gas. In addition, new pipeline projects including the Eastring, Pars, Trans-Anatolian and Trans-Adriatic pipelines are in varying stages of pre-construction development. The projects are designed to transport gas to Europe from Central Asia and the Middle East. While these projects remain in the preliminary stages and we currently believe that the expected gap between gas demand and production in Europe in the long term will create room for several new gas transportation projects, including the Turkish Stream pipeline, there can be no assurance that alternative gas transportation projects will not compete with our gas supplies in the future if the domestic production and demand, or other factors in the European gas market, change differently from our expectations. In that case, our future results of operations, cash flows and financial condition could be adversely affected.

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

Although our strategy includes seeking to diversify our export routes, we are currently dependent on pipelines in Ukraine and Belarus to deliver a significant portion of the natural gas we sell to customers in Europe, and we may not be able to prevent eventual disruptions in our transit of natural gas through Ukraine and Belarus. At the same time, Ukraine and Belarus are dependent on us to meet their domestic requirements for natural gas. Although this interdependence is taken into account in negotiations over gas deliveries and gas transit, we currently have no control over the pipeline system in Ukraine.

In the past, the FSU countries purchased our natural gas at fixed prices that represented a significant discount to the prices we realized under our European contracts. Since the late 1990s, we have been working to gradually align the terms in our export contacts with the FSU countries to the terms in our export contracts with European customers. However, our customers in the FSU countries have occasionally objected to the extension of our contracts on such new terms or even failed to fully pay for gas supplies. There have been instances in which our gas deliveries intended for our European customers were diverted as a result of our disputes with the FSU transit countries. For instance, in January 2009, in connection with a price dispute, Ukraine closed all major export pipelines going through Ukraine. This resulted in significant supply disruptions to several of our European customers for approximately two weeks, during which period we lost approximately U.S.$100 million per day in revenues. During this period, our customers had to consume gas stored in UGSFs. In order to replenish the gas withdrawn from UGSFs, we supplied extra volumes of gas thus recovering a substantial part of our losses incurred as a consequence of the dispute. We also had a price dispute with Belarus in June 2010 that led to a temporary suspension of our gas supplies to Belarus, although deliveries to our European customers were not disrupted during that time. See "Gazprom—Transport—Existing routes of gas export and participation in foreign gas distribution networks—Natural gas transit through Ukraine and Belarus." We have settled these disputes with Ukraine and Belarus. However, in 2012, 2013 and 2014, Naftogaz failed to off-take the contracted-for volumes of gas as provided by the 2009 Contract. Pursuant to the "take-or-pay" clause set forth in the 2009 Contract, we issued invoices to Naftogaz for U.S.$7.09 billion, U.S.$11.39 billion and U.S.$8.2 billion for the failure to purchase corresponding volumes of gas in 2012, 2013 and 2014, respectively. The invoiced amounts were calculated at the factual annual weighted average price in the respective year. Naftogaz has neither accepted nor paid the invoices. In addition, the Naftogaz's overdue debt for the supplied gas has been accumulating since 2013. This overdue debt currently amounts to approximately U.S.$2.4 billion for gas supplied in the period from 2013 to 2015. In May 2014, given the substantial overdue debt of Naftogaz and in accordance with the terms of the 2009 Contract, we notified Naftogaz that our gas supplies must be paid for in advance. As Naftogaz failed to make any advance payments after July 1, 2015, we have not supplied natural gas to Naftogaz. Arbitration is currently pending regarding the 2009 Contract price and Naftogaz's debt owed to us for gas supplies in 2013 and 2014. See "Gazprom—Litigation and Investigations." There can be no assurance, however, that we will be able to ultimately recover all or a portion of the amounts owed to us by Naftogaz.

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

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

To reduce transit risks, we expanded our gas export capacity and diversified our gas export routes by completing the Yamal-Europe pipeline, the Blue Stream pipeline and the Nord Stream pipeline, and we continue to invest further in other export-oriented projects, such as the Turkish Stream project and the development of our capacity to produce and sell LNG. In addition, we are considering implementing the Nord Stream II project. We are also expanding our access to UGSFs in Europe. However, no assurance can be given that such expansion will be sufficient to manage our transit risks in the future. Any significant disruptions in the transit of our gas could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

International policies and initiatives to address climate change, such as treaties and regulatory actions to reduce greenhouse gas, could affect our business and the balance of demand and supply for various types of fuels. Our business, particularly our oil producing and refining segments, could be adversely affected by these environmental initiatives.

Policy approaches that promote the usage of alternative energy sources, including renewables, biofuels, hydro-electric power, wind power and nuclear power in Europe, and provide preferential factors for consumption of energy generated from such sources may have an adverse impact on our sales and financial results. In addition, the lower cost of greenhouse gas emissions permits, which diminished the market evaluation of the environmental advantage of natural gas relative to coal, contributed to a decline in our sales of gas in European markets and could continue to negatively impact our business.

Some of our current operations are, and planned activities are expected to be, carried out in environmentally-sensitive areas, in particular the Russian Arctic Shelf. Whilst we continue to develop risk controls appropriate to manage the potential environmental impacts associated with our activities in these sensitive areas, there remains a possibility that activist groups may continue to attempt to disrupt our operations through direct action (as occurred in the case of the September 2013 attempt by Greenpeace activists to occupy our Prirazlomnaya platform located in the Pechora Sea), or other means. Any similar actions causing disruption to our operations may adversely affect our business, results of operations, cash flows and financial condition.

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

DeGolyer and MacNaughton has evaluated our reserves of natural gas, gas condensate and crude oil according to PRMS Standards as of December 31, 2014. See the letter from DeGolyer and MacNaughton attached to this Base Prospectus as Appendix B. An evaluation of proved and probable natural gas reserves naturally involves multiple uncertainties. The reserves data included in this Base Prospectus represent only estimates and should not be construed as exact quantities. The accuracy of any reserves evaluation depends on the quality of available information and engineering and geological interpretation. Based on the results of drilling, testing and production after the audit date, reserves may be significantly restated upwards or downwards. Changes in the price of natural gas, gas condensate or crude oil may also affect our proved and probable reserves estimates, as well as estimates of our future net revenues and present worth, because the reserves are evaluated, and the future net revenues and present worth are estimated, based on prices and costs as of the audit date. For the foregoing reasons, potential investors should not place undue reliance on the forward-looking statements in this Base Prospectus with respect to our estimated reserves.

In addition, certain evaluations were prepared in accordance with the Russian reserves system, which differs in certain material respects from PRMS Standards and reserves standards applied by the SEC ("SEC Standards"), in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Classification of Reserves." PRMS Standards also differ in certain material respects from SEC Standards. The amount of estimated proved natural gas, gas condensate and crude oil reserves reported under SEC Standards could potentially be lower than those reported under PRMS Standards. An eventual decrease in the amount of natural gas, gas condensate and crude oil reserves reported by us could, if material, affect certain financial data reported by us in the Group's Financial Statements in future periods.

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

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

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

We were involved, in partnership with Total S.A. ("Total") and Petronas, in a project to develop the second and third stages of the South Pars field, located in the Iranian segment of the Persian Gulf. See "Gazprom—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Iran." In 1998, the U.S. Department of State waived otherwise applicable sanctions with respect to the investment made by our partners and us in Iran's South Pars field under Section 9(c) of the Iran and Libya Sanctions Act of 1996 (the "Sanctions Act"). The waiver continues to apply to our activities in the South Pars field only, and not to any other activities that we may conduct. Several other U.S. laws, including the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 and the Iran Threat Reduction and Syria Human Rights Act of 2012, have further expanded the possibility that companies operating in, or engaged in business with, Iran will be subjected to U.S. economic sanctions.

In March 2006, we entered into a 25-year agreement with the Armenian government. In 2009, pursuant to the agreement, CJSC Gazprom Armenia (formerly CJSC ArmRosGazprom), which is currently our wholly owned subsidiary, completed the construction and refurbishment of the approximately 197 km long second section of the Iran-Armenia pipeline. CJSC Gazprom Armenia ("Gazprom Armenia") owns this section of the pipeline. In 2009, the Armenian government, the owner of the approximately 40 km long first section of the pipeline, leased the first section of the pipeline to Gazprom Armenia. Currently, Gazprom Armenia transports gas through the pipeline that the Armenian state-owned company purchases from Iran. Gazprom Armenia uses this gas to produce electricity that it supplies to the Armenian state-owned company.

In 2009, Gazprom Neft entered into a memorandum of understanding with National Iranian Oil Company (NIOC), providing for potential joint exploration of certain fields in Iran pursuant to a service contract. Gazprom Neft has not performed any work in relation to implementation of any projects contemplated by the memorandum and has no plans to take any further action in relation to the memorandum.

In September 2011, Gazprom entered into separate memoranda of understanding with the Democratic People's Republic of Korea (North Korea) and KOGAS to explore the development of a pipeline through the territory of the Democratic People's Republic of Korea to the Republic of Korea (South Korea). We are assessing possibilities for cooperation in hydrocarbons exploration and production on the eastern part of the shelf of North Korea. To date, no binding agreement has been reached and no investment has been made.

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

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

In addition, the Ukraine sanctions program imposed by various states could have material adverse effect on our business, financial condition and results of operations. See "—Non-compliance with the U.S. and EU sanctions programs, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition."

The reaction of the U.S., the EU and certain other countries to Russia's actions in connection with Crimea and the ongoing crisis in Ukraine creates significant political and economic uncertainty which could adversely impact the Group's financial condition.

The ongoing political and military crisis in Ukraine has affected the relations between the Russian Federation and Ukraine. On March 16, 2014, a referendum was held in Crimea pursuant to which the majority of those who voted were in favor of secession from Ukraine and joining Russia as a federal subject. On March 17, 2014, the parliament of Crimea declared independence from Ukraine and officially applied to the Russian authorities with a request to join Russia which on March 18, 2014 was followed by the signing of an agreement between the Russian Federation and the Republic of Crimea on the acceptance of the Republic of Crimea into the Russian Federation. On March 21, 2014, the Russian parliament passed legislation extending the effect of Russian laws and state authorities to the territory of Crimea.

These events in Crimea and the resulting change in Crimea's legal status have prompted a negative reaction from the U.S., the EU and certain other countries that do not recognize the referendum in Crimea as legal. As a result of these events and the ongoing crisis in Eastern Ukraine, the United States, the EU and other countries have imposed sanctions on a number of former Ukrainian governmental officials, Russian government officials and individuals, Russian businessmen, Russian companies and banks, non-Russian companies holding assets in Russia and also on certain sectors of the Russian economy. These sanctions include restrictions on exports of certain equipment and technology that apply to Gazprom and Gazprom Neft, among others, restrictions on access to U.S. and EU capital markets for a number of Russian banks and companies, including Gazprom Neft, and the blocking of funds, property and interests of sanctioned persons and entities and visa bans. See "—Non-compliance with the U.S. and EU sanctions programs, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition."

The reaction of the U.S., the EU and certain other countries, and in particular the economic sanctions described below, has adversely affected the Russian economy and the Russian financial and banking markets, increased capital outflows as well as worsened the general business and investment climate in Russia. These actions also directly or indirectly resulted in downgrades of our credit ratings by S&P and Moody's. See "—Debt financing may not be available on desirable terms or at all."

Moreover, the continued impact of these events and any continuing or escalating military action, public protests, unrest, political instability or further sanctions could have a further adverse effect on the Ukrainian and Russian economies and consequently, a material adverse effect on our business, financial condition and results of operations.

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

The U.S. government has imposed economic sanctions against a number of countries, Specially Designated Nationals and certain entities identified on a new Sectoral Sanctions Identifications List (the "SSIL"). The implementation and enforcement of these sanctions are administered by the U.S. Department of the Treasury, Office of Foreign Assets Control ("OFAC") and consist of prohibitions and restrictions against transactions by U.S. persons with OFAC-designated countries, Specially Designated Nationals and against certain types of transactions with designated entities on the SSIL. Gazprom is a Russian company and is not a U.S. person and has no obligation under applicable law to comply with the U.S. sanctions regime.

From March 2014 to the date of this Base Prospectus, a number of former Ukrainian governmental officials, Russian governmental officials and individuals, Russian businessmen, Russian companies and banks and non-Russian companies holding assets in Russia were designated as Specially Designated Nationals by OFAC. The first designations were made pursuant to two executive orders (Nos. 13660 and 13661) signed by the President of the United States on March 6 and 16, 2014, respectively, which targeted former Ukrainian and current Russian officials, as well as persons who operate in the arms or related sectors in the Russian Federation.

As a result of these designations, it is unlawful for any U.S. person (meaning any U.S. citizen or permanent resident alien wherever located, any U.S.-incorporated entities (including their foreign branches), or any person or entity in the U.S.) to do business with a Specially Designated National. In addition, all property and assets of Specially Designated Nationals in the U.S. or under the possession or control of a U.S. person are subject to blocking. This blocking also extends to any property that later comes into the United States or into the possession or control of a U.S. person, including any foreign branches of U.S. persons. Pursuant to guidance from OFAC, if one or more Specially Designated Nationals own, separately or in the aggregate, directly or indirectly, 50% or more of an entity, that entity is considered blocked regardless of whether the entity is separately designated under the executive order resulting in its property being blocked.

Executive Order No. 13662 dated March 20, 2014, as amended on September 12, 2014, significantly expanded the scope of the prior two executive orders. It provides OFAC the authority to introduce sanctions against companies operating within specific sectors of the Russian economy, including financial services, energy, metals and mining, engineering, defense and related sectors. As of the date of this Base Prospectus, under this authority OFAC adopted the following directives prohibiting U.S. persons or any other persons within the United States from:

(i) transacting in, providing financing for, or otherwise dealing in new debt of longer than 30 days maturity or new equity for persons in the financial services sector determined to be subject to this directive, their property, or their interests in property ("Directive 1");

(ii) transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity for persons in the energy sector determined to be subject to this directive, their property, or their interests in property ("Directive 2");

(iii) transacting in, providing financing for, or otherwise dealing in new debt of longer than 30 days maturity of persons in the defense and related materiel sector determined to be subject to this directive, their property, or their interests in property ("Directive 3"); and

(iv) providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory, and that involve any person determined to be subject to this directive, its property, or its interests in property ("Directive 4").

As of the date of this Base Prospectus, OFAC designated (a) almost all major Russian financial institutions, such as Gazprombank ("GPB"), Vnesheconmobank ("VEB"), VTB, the Bank of Moscow, Rosselkhozbank and Sberbank under Directive 1; (b) Rosneft and its subsidiaries, Novatek, Gazprom Neft and Transneft under Directive 2; (c) State Corporation Rostech under Directive 3; and (d) almost all of the largest Russian oil and gas companies including Gazprom, Gazprom Neft, Rosneft, Lukoil and Surgutneftegaz pursuant to Directive 4.

The abovementioned companies are listed on the SSIL and are not included in the Specially Designated Nationals list. Consequently, the designated entities are not subject to blocking sanctions, and U.S. persons are not required to block the property of these companies. The limited sectorial sanctions as well as the blocking sanctions under prior executive orders also apply to any entity in which the sanctioned persons or entities, directly or indirectly, severally or in the aggregate, own 50% or more.

In August 2014, the BIS amended the Export Administration Regulations by, among other things, imposing significant new restrictions on exports, reexports, in-country and worldwide transfers of certain U.S. goods, software, technology and data or any such items within the territory of the United States for use in Russia's oil and gas sector related to deepwater, Arctic offshore, and shale exploration and production operations. In September 2014, the BIS added five Russian defense companies and five Russian energy companies, including Gazprom and Gazprom Neft, to its Entity List. In August 2015, the BIS also added the Yuzhno-Kirinskoye field to its Entity List as a deepwater field which, according to the BIS, has significant oil reserves. Designation on the Entity List imposes a license requirement for the export, reexport or foreign transfer of certain goods and products subject to the Export Administration Regulations to those companies when the exporter, reexporter or transferor knows those items will be used directly or indirectly in exploration for, or production from, deepwater, Arctic offshore, or shale projects in Russia. License applications for such transactions will be reviewed with a presumption of denial when for use or potential use, directly or indirectly, for exploration or production from deepwater, Arctic offshore, or shale projects in Russia that have the potential to produce oil.

On December 18, 2014, the U.S. Ukraine Freedom Support Act of 2014 was enacted, which empowered the U.S. President to expand the sanctions regime against Russia and Russian persons, including Gazprom.

On December 19, 2014, pursuant to Executive Order No. 13685, the United States further expanded the scope of its sanctions program to impose comprehensive sanctions on Crimea. The order also provided the authority to block the property of relevant designated persons in connection with the situation in Crimea. In particular, Executive Order No. 13685 in relevant part prohibits:

(i) new investment in the Crimea region by a U.S. person;

(ii) the supply, directly or indirectly, from the United States, or by a U.S. person, of any services to the Crimea region; and

(iii) the approval, financing, facilitation or guarantee by a U.S. person, wherever located, of a transaction by a foreign person regarding the Crimea region that would be prohibited as to a U.S. person.

On January 29, 2015, the BIS amended the Export Administration Regulations by introducing a licensing requirement to export, reexport, or transfer any U.S. goods, software, technology and data or any such items within the territory of the United States to the Crimea. License applications for such transactions will be reviewed with a presumption of denial.

The Council of the EU introduced a largely similar list of persons that are subject to EU sanctions. The EU's blocking sanctions generally have a similar effect to the sanctions administered by OFAC and involve travel restrictions and the freezing of funds and economic resources of the designated persons which are located in the EU or controlled by EU persons. The EU sanctions are implemented in the member states of the EU, including Ireland and Luxembourg. The list of Russian persons subject to OFAC and EU sanctions was expanded several times in 2014 and 2015. Gazprom is a Russian company and is not an EU person and has no obligation under applicable law to comply with the EU sanctions regime.

Council Regulation (EU) No. 833/2014 dated July 31, 2014, as amended by Council Regulation (EU) No. 960/2014, ("Regulation No. 960"), dated September 8, 2014, and Council Regulation (EU) 1290/2014 ("Regulation No. 1290"), dated December 4, 2014, prohibit EU persons from selling, supplying, transferring or exporting, directly or indirectly, whether or not originating in the EU, to any natural or legal person, entity or body in Russia or for use in Russia, (a) dual-use goods and technology, if those items are or may be intended, in their entirety or in part, for military use or for a military end-user, and (b) certain technologies suited to the oil industry for use in deepwater oil exploration and production, Arctic oil exploration and production, or shale oil projects in Russia. EU persons are also prohibited, directly or indirectly, from purchasing, selling, providing brokering or assisting in the issuance of, or otherwise dealing in transferable securities and money-market instruments with a maturity exceeding:

(a) 90 days, issued after August 1, 2014 to September 12, 2014, or with a maturity exceeding 30 days, issued after September 12, 2014 by Sberbank, VTB, GPB, VEB and Rosselkhozbank, any entity or body established outside the EU whose proprietary rights are owned for more than 50% by the designated entities ("designated subsidiaries") or any legal person, entity or body acting on behalf or at the direction of any designated entity or designated subsidiary;

(b) 30 days, issued after September 12, 2014 by:

(i) a legal person, entity or body established in Russia predominantly engaged and with major activities in the conception, production, sales or export of military equipment or services, namely OPK Oboronprom, United Aircraft Corporation and Uralvagonzavod, except legal persons, entities or bodies active in the space or the nuclear energy sectors;

(ii) a legal person, entity or body established in Russia, which are publicly controlled or with over 50% public ownership and having estimated total assets of over 1.0 trillion Russian Roubles and whose estimated revenues originate for at least 50% from the sale or transportation of crude oil or petroleum products. The relevant entities are listed in Annex VI of Regulation No. 960 and include Gazprom Neft, Transneft and Rosneft;

(iii) designated subsidiaries of the entities listed in (i) and (ii); or

(iv) a legal person, entity or body acting on behalf or at the direction of an entity referred to in (i), (ii) and (iii) above.

Regulation No. 960 as amended by Regulation No. 1290 also prohibits EU persons from directly or indirectly making or being part of any arrangement to make new loans or credit with a maturity exceeding 30 days to any legal person, entity or body referred to above, after September 12, 2014. However, Regulation No. 1290 provides that this prohibition shall not apply to loans or credit that have a specific and documented objective to provide financing for non-prohibited imports or exports of goods and non-financial services between the EU and any third State including the expenditure for goods and services from another third State that is necessary for executing the export or import contracts, or for loans that have a specific and documented objective to provide emergency funding to meet solvency and liquidity criteria for legal persons established in the EU, whose proprietary rights are owned for more than 50% by any entity referred to above. Regulation No. 1290 also provides that the prohibition against the making of a new loan or credit shall not apply to drawdowns or disbursements made under a contract concluded before September 12, 2014, provided that the following conditions are met:

(a) all the terms and conditions of such drawdown or disbursements

 (i) were agreed before September 12, 2014; and

 (ii) have not been modified on or after that date; and

(b) before September 12, 2014, a contractual maturity date has been fixed for the repayment in full of all funds made available and for the cancellation of all the commitments, rights and obligations under the contract.

The terms and conditions of drawdowns and disbursements referred to in item (a) above include provisions concerning the length of the repayment period for each drawdown or disbursement, the interest rate applied or the interest rate calculation method, and the maximum amount.

Council Regulation (EU) 692/2014 dated June 23, 2014, as amended ("EU Crimean Sanctions"), imposes a range of financial services and trade control restrictions, including measures targeting imposts from Crimea, investments in Crimea and trade control restrictions relating to Crimea's tourism, transport, telecommunications, and energy sectors (these measures are also applicable to Sevastopol). In particular, the EU Crimean Sanctions provide for a ban on all foreign investments in Crimea and Sevastopol (subject to certain exemptions relating to the provision of healthcare, civilian education and /or the maintenance of existing infrastructure for safety reasons), and also include wide-ranging prohibitions on foreign investment in Crimea and Sevastopol.

Canada has introduced economic sanctions targeting a number of former Ukrainian governmental officials, Russian governmental officials, Russian businessmen, Russian companies and banks and other persons. The list of such persons designated under Canadian sanctions legislation is largely similar to the list of persons designated in the United States and the EU. The designations in Canada were made in March 2014, under the authority of the Special Economic Measures (Russia) Regulations, the Special Economic Measures (Ukraine) Regulations, and the Freezing Assets of Corrupt Foreign Officials (Ukraine) Regulations, and were subsequently expanded several times in 2014 and 2015.

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

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

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

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

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

In addition, the Special Economic Measures (Ukraine) Regulations were amended on June 29, 2015 to impose a range of investment, financial services and trade restrictions in respect of Crimea and Sevastopol, which are largely similar to EU Crimean Sanctions.

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

Except for limited sanctions imposed on Gazprom and Gazprom Neft as discussed herein, which sanctions also apply to their respective subsidiaries as described above, no entity, officer or director within the Group has been designated as subject to either U.S. or EU sanctions. Any material dealings with sanctioned persons by Gazprom may have certain commercial and business consequences as set out below.

Gazprom has dealings with certain Russian persons and their controlled entities that are currently identified by OFAC on the SSIL and by the Council of the EU as subjects of sectoral sanctions. In particular, we own over 95% of Gazprom Neft, our sole oil-producing subsidiary, whose business, strategy and operating results are described elsewhere in this Base Prospectus. Gazprom Neft's ability to deliver its products to its customers heavily depends on its relationship with Transneft, which operates the Russian trunk oil pipeline system. We also have numerous contracts with the Transneft group involving storage, transportation and supply of oil and gas products, various other services and arrangements. We own a 37% interest in GPB, which we extensively use as a provider of banking services. We have significant deposits, credit facilities, sureties and bank guarantee agreements, service and lease contracts and other material contractual arrangements with the GPB group. The Group also purchases certain equipment from GPB's subsidiaries. Gazprom has in the past and intends in the future to receive the proceeds of the Loans in its bank account at GPB. GPB does not form part of the Group and its financial results are treated as the results of an associated undertaking in our financial statements. In the ordinary course of business, the Group makes deposits with, receives financing from, is a party to leasing contracts with, and purchases banking and other services from major state-controlled banks and financial institutions, including Sberbank, VTB, Rosselkhozbank, VEB and their respective subsidiaries. In turn, the Group supplies those and other entities with heat energy. We are a minority shareholder of Novatek with a 9.99% interest. We have significant contractual arrangements with Novatek relating to, among others, the transportation and storage of gas. PJSC Mosenergo ("Mosenergo") purchases large volumes of gas from Novatek. The Group is also engaged in implementing a number of joint projects with Novatek, including an LNG project on the Yamal Peninsula and oil and gas condensate development projects in the Yamal-Nenets Autonomous Area. The Group jointly owns assets, for example, stakes in Slavneft, OJSC Tomskneft ("Tomskneft") and Messoyakhaneftegaz, and intends to implement joint projects with Rosneft, including oil production projects in Venezuela and oil and gas development projects in the Russian continental shelf. We have numerous contracts with the Rosneft group involving transportation and supplies of gas and oil products, service agreements, supplies of heat and electricity and other agreements. We are engaged in a joint project with Lukoil and have had and may engage in the future in joint projects and other dealings with Lukoil and Surgutneftegaz. See "—Gazprom—Joint Ventures and Alliances" and "—Gazprom—Reserves and Production—Exploration, Development and Production regions."

With respect to the Specially Designated Nationals designated by OFAC or blocked persons designated under the Ukraine sanctions programs of the EU, we have significant construction and service contracts with Stroytransgaz, Stroygazmontazh and JSC United Shipbuilding Corporation and various dealings with Bank Rossiya and its group of companies. The Group has other dealings with some of the persons identified on the Specially Designated Nationals list, the SSIL or by the Council of the EU as being subject to sanctions, including Chernomorneftegaz. We continue to assess the effects of the recent sanctions on our operations, but we believe that our dealings with the Specially Designated Nationals or blocked persons under the EU Ukraine sanctions program other than with the Specially Designated Nationals and blocked persons identified above are insignificant.

In addition, the Group's ability to transact with U.S. or EU persons is affected primarily as a result of the sanctions imposed on Gazprom and Gazprom Neft as discussed above and could continue to be adversely affected. As a result, Gazprom Neft has been effectively prohibited from accessing the U.S. and EU credit and capital markets, and other members of the Group may experience similar difficulties. See "—Debt financing may not be available on desirable terms or at all."

Furthermore, should either OFAC or the Council of the EU continue to expand their respective sanctions programs to include other Group companies, additional existing or future counterparties of Gazprom, other sectors of the Russian economy or otherwise, such an expansion could result in greater financial difficulties for such persons, our dealings with designated persons could increase or the suspension or potential curtailment of business operations between the Group and the designated persons could occur. The introduction of additional large-scale sanctions on Russian companies or sectors of the Russian economy, including the Russian energy sector, may further negatively affect the Russian economy and investment climate and lead to acceleration of capital flight from Russia, weakening of the Russian Rouble and further deterioration of the Russian financial markets. Any of the foregoing could result in a material adverse effect on our business, financial condition, results of operations and prospects.

The existing sanctions or the introduction of further large-scale sanctions on the Group or additional sanctions on the Russian energy sector could further negatively affect the business of the Group and other Russian companies in a number of ways. The ability of Russian companies to transact in U.S. dollars or euro with their counterparties may be limited, Russian companies may not be able to raise funding in the international markets (see also "—Debt financing may not be available on desirable terms or at all"), particularly those involving investors from the U.S. and the EU, and funds or other assets of Russian companies held by U.S. and EU financial institutions may be blocked. We sell a significant part of our products, purchase equipment and own operating assets in European and other countries. We also have a number of significant business relationships with multinational companies and are engaged in large-scale international projects with international companies, including by participating in various joint ventures. A large portion of our revenues and obligations are denominated in U.S. dollars and euro. The existing sanctions or the introduction of further sanctions, including those mentioned above or sanctions targeting the Russian energy sector or specifically the Group or its officials, could result in our international customers, suppliers, lenders and other business partners revising their relationship with us for compliance, political, reputational or other reasons, which could adversely affect our business. In addition, our assets in European and other countries that may impose sanctions against us may be blocked. The joint ventures we have formed with other international companies to implement various projects may be dissolved or our interest in such joint ventures may be blocked along with our other international assets.

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

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

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

Additionally, our limited contacts with other sanctioned entities and territories are described under "—Violations of existing international or U.S. sanctions related to Iran and North Korea could subject us to penalties or prevent certain of our transactions that could have an adverse effect on us."

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

We are currently implementing hydrocarbon exploration and production projects in South America, South-East Asia, Africa and the Middle East. We are also considering enhancing our presence in the Asia-Pacific region and South America. Currently, we have 16 registered representative offices abroad in Algeria, Belgium, Brazil, Republic of Belarus, India, Iran, Japan, Kazakhstan, Qatar, China, Kyrgyzstan, Latvia, Moldova, Turkmenistan, Turkey and Ukraine. We are also implementing a number of priority market development strategies in our traditional and new overseas markets. We factor in local business peculiarities and specific risks at the prospective project validation stage. In addition, our foreign representative offices interact with governmental authorities, companies and other organizations in the relevant countries and regions. Despite our efforts, the development of our business outside the Russian Federation may not yield the expected results owing to economic, political or other factors relating to our overseas operations.

Recent arbitral awards rendered against the Russian Federation in Hulley Enterprises Limited (Cyprus) v. Russian Federation, Yukos Universal Limited (Isle of Man) v. Russian Federation and Veteran Petroleum Limited (Cyprus) v. Russian Federation (the "Arbitration Proceedings") may subject us to the risk of potential litigation, enforcement or execution proceedings.

On July 18, 2014, a UNCITRAL arbitration tribunal rendered the final awards in the Arbitration Proceedings which declared that the Russian Federation breached its obligations under Article 13(1) of the Energy Charter Treaty with respect to expropriation of assets of OAO Yukos Oil Company and awarded the claimants over U.S.$50 billion in damages.

The arbitration awards are rendered against the Russian Federation, we were not involved in the Arbitration Proceedings, and we believe that the arbitration awards relate neither to Gazprom nor to its assets. Nevertheless, the claimants in the Arbitration Proceedings have publicly stated that they could engage in legal proceedings against Russian state-owned companies seeking attachment of their assets abroad, including Gazprom. Although we consider any potential claim against us related to the Arbitration Proceedings unsubstantiated, we may have to be involved in litigation relating to the Arbitration Proceedings if the claimants attempt to seize our assets. If we are unsuccessful in defending against such claims, some of our assets may be seized, which would have adverse effect on our business, financial condition and results of operations.

Risks Relating to the Russian Federation

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

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

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

Announced and anticipated tightening of monetary policy by the U.S. Federal Reserve has recently prompted investors to repatriate investments from emerging markets, causing decreases in the value of local currencies. Financial turmoil in any emerging market country may adversely affect prices in equity and debt markets in all emerging market countries and may adversely affect our business, as well as result in a decrease in the price of the Notes.

Political Risks

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

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

Future changes in the Government, the State Duma or the presidency, major policy shifts or eventual lack of consensus between the president, the Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments in Russia generally and the Notes in particular, and our prospects could be harmed if there is further governmental instability or if the course of reform policies does not continue.

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

Russian securities, with a resulting negative effect on the liquidity, stability and trading price of the Notes and our ability to raise debt or equity capital in the international capital markets.

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

Russia is currently a federation of various sub-federal political units. Some of these political units exercise considerable autonomy over their internal affairs pursuant to agreements with the federal authorities. In practice, the division of authority between federal and regional authorities, in certain instances, remains uncertain and contested. This uncertainty could hinder our long-term planning efforts and may create uncertainties in our operating environment, any of which may prevent us from effectively and efficiently carrying out our business strategy.

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

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

Economic Risks

Economic instability in Russia could adversely affect our business.

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

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

In addition, the deterioration of economic conditions in 2014-2015 has led to the failure or bailout of some Russian banks and to significant liquidity constraints for others. The downturn in economic activity and accelerated inflation have had adverse effects on asset quality and profitability levels of many Russian banks. Furthermore, elevated interest rates have increased funding costs in the banking system. These conditions have led to downgrades in the long-term debt and deposit ratings of many Russian banks, including GPB. As a result of inspections conducted by the CBR, banking licenses of a number of Russian banks were revoked, raising further concerns about the stability of the Russian banking system and adversely affecting liquidity on the domestic market. While the Government and the CBR has announced certain measures designed to stabilize the Russian banking system, there can be no assurance that such measures will be successful. The failure of such measures or the imposition of more stringent regulations or interpretations of the existing banking regulations by the CBR may lead to weaken capital adequacy and the insolvency of some banks. The failure of such measures or the imposition of more stringent regulations or interpretations of the existing banking regulations by the

CBR could lead to weakened capital adequacy and the insolvency of some banks. In particular, as we retain a 37% stake in GPB, deterioration in GPB's financial position could directly affect the value of our investment and result in the recognition of an impairment loss, which would, in turn, adversely affect our profit in the relevant period.

There can be no assurance that current economic conditions, or a future economic crisis, will not negatively affect investors' confidence in the Russian markets, economy or ability to raise capital in the international debt markets, any of which, in turn, could have a material adverse effect on the Russian economy. While this is true for many other developed and emerging markets, international credit rating agencies have also been cautious about growth prospects of Russia. In addition, further declines in the price of crude oil, natural gas or other commodities could further disrupt the Russian economy and adversely affect our operating results and financial condition.

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

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

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

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

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

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

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

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

In order to enhance the prospects of infrastructure improvement, the Government may pursue plans to reorganize the nation's rail, electricity and telephone systems. These reorganizations may result in increased charges and tariffs and may not result in the anticipated capital investment that is needed to repair, maintain and improve these systems. Significant increases in charges and tariffs, or further deterioration of Russia's physical infrastructure, may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations, any or all of which could have a material adverse effect on our business and the value of the Notes.

Social Risks

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

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

Risks Relating to the Russian Legal System and Russian Legislation

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

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

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

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

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

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

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

There are also legal uncertainties relating to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalization. However, it is possible that these protections may not be enforced in the event of an attempted nationalization, or in the event our business is reorganized. Our failure to receive what we believe to be adequate compensation in the event of the nationalization of any of our entities, their assets or portions thereof, or their break-up into separate companies, could have a material adverse effect on our operations and revenues, and on the value of the Notes.

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

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

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

In addition, Russian law requires certain disclosures be made by public joint stock companies, such as the disclosure of annual reports, any material facts affecting the financial condition and the business of the relevant company, certain board of directors' resolutions and lists of affiliated persons. We developed and adopted a corporate governance code for Gazprom at our General Meeting of Shareholders in June 2002. Nonetheless, despite these requirements and initiatives, there is less publicly-available information about us than there is available for comparable listed companies in, for example, the United States or the United Kingdom.

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

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

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

Russian law requires a company that enters into transactions that are referred to as "interested party transactions" to comply with special approval procedures by disinterested directors and/or shareholders. If the approval procedures are not followed, a transaction could be declared invalid upon a claim by the company or any of its shareholders subject to certain conditions provided by law. See "Certain Transactions." The interested party could be held liable for damages.

Transactions between members of a consolidated corporate group may also, in certain circumstances, be considered to be interested party transactions, even when the companies involved are wholly owned by the parent company. Our Russian subsidiaries are subject to the same (or similar) legal requirements regarding the approval of interested party transactions. Our failure to follow the required approval procedures for interested party transactions could adversely affect the Group's business, financial condition and results of operations.

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

Generally, taxes payable by Russian companies are substantial and include, amongst others: income tax, VAT, property tax and payroll related insurance payments. Laws related to these taxes, such as the Russian Tax Code, have been in force for a relatively short period of time in comparison with tax legislation in more developed market economies, and the Russian Government's implementation of such legislation is often unclear or inconsistent. Historically, the system of tax collection has been relatively ineffective, resulting in continuous changes being introduced into existing laws and the interpretation thereof.

Although the quality of the Russian tax legislation has generally improved with the introduction of the Russian Tax Code (predominantly from 1999 to 2001), the possibility exists that the Government may impose arbitrary and/or onerous taxes and penalties in the future, which could adversely affect the Group's business. Russia's inefficient tax collection system increases the likelihood of such events. A large number of changes have been introduced to various chapters of the Russian Tax Code since its adoption.

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

Furthermore, the taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws differently. Private clarifications to specific taxpayers' queries with respect to particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities and there can be no assurance that the Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Russian Ministry of Finance. In some instances, the Russian tax authorities have applied new interpretations of tax laws retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period several times. During the past several years the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax audits of companies operating in various industries, including the oil and gas industry.

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

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

In its decision No. 138-O of July 25, 2001, the Russian Constitutional Court introduced the concept of a “taxpayer acting in bad faith” without clearly stipulating the criteria for its application. Similarly, this concept is not defined in Russian tax law or other Russian laws. Based on the available practice the Russian tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is unfavorable to taxpayers.

On October 12, 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Resolution No. 53, which introduced a concept of an “unjustified tax benefit.” This concept is defined mainly by reference to specific examples of tax benefits (e.g., received in connection with the transactions that have no reasonable business purpose) which may lead to the disallowance of the application of that specific benefit for tax purposes. To date, there has been little guidance or interpretation of this concept by the tax authorities or by the courts, but it is apparent that the Russian tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the explicit intention of Resolution No. 53 was to combat the abuse of tax law, it can be seen from the cases relating to Resolution No. 53 that have hitherto been brought to courts that the Russian tax authorities have started applying the “unjustified tax benefit” concept in a broader manner than may have been intended by the Supreme Arbitration Court. The available court practice on this issue is rather contradictory. We are aware of the cases where this concept has been successfully applied by the Russian tax authorities in order to disallow benefits granted by double tax treaties. It is difficult to predict as to how the court practice will evolve in the future.

Tax returns together with related documents are subject to review and investigation by the Russian tax authorities, which are enabled by Russian law to impose severe fines and interest charges on taxpayers. Generally, tax returns remain open and subject to inspection by the Russian tax authorities for the period of three calendar years immediately preceding the year in which the decision to conduct a tax inspection is taken. The fact that a year has been reviewed by the Russian tax authorities does not entirely close that year, or any tax returns applicable to that year, from further review during the three-year limitation period. In particular, a repeat tax audit may be conducted (i) by a higher level tax authority as a measure of control over the activities of lower level tax authorities, or (ii) in connection with the reorganization/liquidation of a taxpayer, or (iii) as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable to the budget.

The statute of limitations for tax liabilities and penalties for a tax offence is three years from the date on which it was committed or from the next date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence).

However, the Russian Tax Code provides for the possibility of an extension of the three-year statute of limitations for tax offences if the taxpayer obstructed the performance of the tax review and this has become an insurmountable obstacle for the tax audit. Because the terms “obstructed” and “insurmountable obstacles” are not specifically defined in Russian law, the Russian tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax reviews with obstruction by the taxpayer and use that as a basis to seek additional tax adjustments and penalties beyond the three-year limitation term. Therefore, the statute of limitations is not entirely effective with respect to liability for payment of tax in Russia. Such extended tax audit, if it is concluded that Gazprom had significant tax underpayments for respective previous tax periods, may have a material adverse effect on Gazprom’s business, financial condition and results of operations.

The Russian transfer pricing legislation effective starting January 1, 2012 allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all “controlled” transactions (except for those conducted at state regulated prices and tariffs). The list of the “controlled” transactions under the transfer pricing law includes transactions performed with related parties and certain types of cross-border transactions. This legislation has considerably increased the compliance burden for taxpayers compared to the law that was in effect before 2012 due to, among other things, shifting the burden of proving market prices from the Russian tax authorities to the taxpayer. Special transfer pricing rules continue to apply to transactions with securities and derivatives. The transfer pricing legislation could have a considerable impact on the Group’s tax position.

Accordingly, due to uncertainties in the interpretation of Russian transfer pricing legislation which was in effect before 2012 and the current transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge the Group's prices and make adjustments which could affect our tax position unless we are able to justify the use of market prices with respect to "controlled" transactions supported by the appropriate transfer pricing documentation. The imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on the Group's business, results of operations and financial condition.

The concept of consolidated taxpayer was incorporated into the Russian Tax Code and became effective on January 1, 2012. These rules introduced consolidated tax reporting that enables the consolidation of the financial results of Russian companies which form one group (the "Tax Group") for corporate tax purposes. The Tax Group's profits tax base should be based on income and expenses of its participants. The consolidated profits cannot be reduced by tax losses accumulated by the participants of the Tax Group prior to its establishment. Moreover, intragroup transactions are to be included in the consolidated tax base and are arguably not subject to transfer pricing control. There are several requirements which should be met for consolidated group creation, including thresholds established for the level of revenue and the amount of corporate income tax payable by the Tax Group. We have created the consolidated group of taxpayers, consisting of 65 Russian entities of the Group as of June 30, 2015, with Gazprom being the responsible member. There is no assurance that the consolidated taxpayer regime will not be changed in future. If the application of the consolidated group of taxpayers regime is subsequently challenged by the Russian tax authorities or minority shareholders of Gazprom or its consolidated tax subsidiaries this may result in the increase of our tax burden and have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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

Russian State anti-offshore policy may have adverse impact on the Group's business, financial condition and results of operations.

The Russian Federation, like a number of other countries in the world, is actively involved in discussing measures against tax evasion by the use of low tax jurisdictions and aggressive tax planning structures. Some of these initiatives have already been introduced into the Russian Tax Code by the Federal Law No. 376-FZ dated November 24, 2014, as amended, (the "Anti-Offshore Law") which came into force on January 1, 2015.

The Anti-Offshore Law introduced into the Russian Tax Code "controlled foreign companies" rules pursuant to which undistributed profits of foreign organizations as well as foreign structures not being legal entities (such as funds, partnerships, etc.) controlled by the Russian tax resident legal entities and individuals should be subject to taxation in Russia provided that certain criteria are met and/or they do not fall within any of the exemptions envisaged by the Anti-Offshore Law.

The Anti-Offshore Law introduced the concept of tax residency for legal entities, whereby generally legal entities would be deemed Russian tax residents if their effective place of management is located in Russia. In addition, carrying out various routine functions for the benefit of a foreign legal entity in Russia may in certain circumstances also cause such foreign entity to be recognized as Russian tax resident subject to Russian taxation, including obligations to withhold Russian taxes from payments to foreign individuals and legal entities.

Beneficial ownership concept, which is broadly in line with the concept developed by the Organisation for Economic Co-operation and Development, has also been added to the Russian Tax Code by the Anti-Offshore Law.

Implementation of these new rules and concepts by the Anti-Offshore Law is likely to impose additional administrative burden on the Group. No assurance can be given as to the practical application of the Anti-Offshore Law and the interpretation of its provisions by Russian tax authorities and, consequently, its potential impact (including additional tax liability, if any) on the Group. Therefore, we cannot exclude that we might be subject to additional tax liabilities as a result of the application of the new anti-offshore rules to transactions carried out by us, which could have a material adverse effect on our business, financial condition and results of operations and the value of the Notes.

The relevant provisions of the customs law require further legal assessment in so far as they concern customs clearance of regular shipments.

Our hydrocarbon exports are subject to customs regulation. A number of key issues related to natural gas exports were disputed between the Group and customs authorities. Among other things, they diverged on how the export customs duty should be paid and refunded, including refunding due to adjustments in the customs value after retroactive changes to prices for natural gas supplied to our counterparties. We have litigated some of the disputes in the court, and as a result the actions of customs authorities have been ruled unlawful.

The existing practice where the customs value is adjusted due to retroactive changes to the price of natural gas sold, which has been confirmed by a number of court rulings in favor of Gazprom, has actually solved the issue of recovering overpaid export customs duties that constitute one third of losses from reassessments. Customs authorities, however, still view this factor as having a negative impact on the federal budget.

In general, the existing procedure, which provides for an export customs duty for exported natural gas to be paid before the gas is transported and assessed based on indicative parameters of the shipment, still carries some risks as the amounts of duty payable after the actual delivery remain unpredictable. Furthermore, the need to fill out two tax returns—provisional and full—carries the risk that overpaid or unused advance payments will be confiscated to the federal budget three years after they are made which can adversely affect our financial position and results of operations.

Risks Relating to the Notes and the Trading Market

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

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

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

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

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

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

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

The expansion of the existing sanctions and the introduction of any further large-scale sanctions on us or the Russian energy sector may negatively impact our ability to make scheduled payments of principal and interest under the Loans, as any such payments could be frozen as a consequence of such sanctions before receipt by the Issuer. Any such freezing of payments will be beyond our control as it will result from the enforcement of sanctions by the relevant payment processing banks. Consequently, the Issuer's and the Agents', or the Trustee's, as the case may be, ability to make scheduled payments of principal and interest under the Notes may be impaired. While we would consider and, to the extent possible, take measures available to us to discharge our obligations under the Loans, or facilitate the discharge of the Issuer's obligations under the Notes, as the case may be, the scrutiny exercised by international banks when clearing foreign currency payments or expansion of sanctions against us could result in the Noteholders not receiving timely scheduled payments under the Notes or not receiving such payments at all and/or as a consequence an Event of Default may occur under the Loans. Moreover, should any member of the Group become subject to either U.S. or EU sanctions, the relevant clearing systems, brokers and other market participants as well as the Irish Stock Exchange may refuse to permit trading in or otherwise facilitate transfers of the Notes and certain Noteholders may be unable to continue to hold the Notes as a result of applicable law or internal compliance requirements all of which could compound to significantly reduce the trading market for the Notes or may otherwise materially impact the value of the Notes.

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

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

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

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

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

In general, interest payments on borrowed funds made by a Russian legal entity or organization to a non-Russian legal entity or organization having no registered presence or permanent establishment in Russia are subject to Russian withholding tax at the rate of 20%, which could be reduced or eliminated pursuant to the terms of an applicable double tax treaty subject to treaty clearance formalities to be satisfied by the foreign legal entity in a timely fashion.

In particular, the Convention between Grand Duchy of Luxembourg and the Russian Federation for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital signed on June 28, 1993 (the "Russia-Luxembourg double tax treaty") establishes that Russian withholding tax could be eliminated provided that certain criteria specified in the treaty are satisfied by the recipient of income.

The application of the tax benefits under the Russia-Luxembourg double tax treaty could be affected by the Anti-Offshore Law and the interpretation by the Russian tax authorities of the concept of factual/beneficial owner of income expressed in the guidance issued before the concept of factual/ beneficial owner of income was introduced in the Russian Tax Code. Specifically, on December 30, 2011 the Russian Ministry of Finance issued letter No. 03-08-13/1 (the "Letter") addressed to the Russian Federal Tax Service, in which the Russian Ministry of Finance asserted that in the context of a very specific issue of the notes by a foreign company, which is not the same as the structure of the transaction described in this Base Prospectus, a foreign issuer of eurobonds cannot benefit from the provisions of the Russia-Ireland double tax treaty in respect of interest paid by the Russian borrower because, in the view of the Ministry, such foreign issuers of eurobonds may not be considered as the beneficial owners of interest income. Conversely, the Letter says that holders of the notes could apply the provisions of the respective tax treaty (if any) concluded between Russia and the country of residency of each holder of the notes. We cannot preclude the possibility that the Russian tax authorities might apply the same approach to the payments made under the structure of the Programme as described in the Base Prospectus.

Generally, no withholding tax should arise on interest on the loan provided to the Russian borrower in connection with issuance of the notes by a foreign entity (the "Eurobond structure") by virtue of the special exemption envisaged by the Russian Tax Code. Specifically, the Russian Tax Code provides, among other things, that Russian borrowers should be fully released from the obligation to withhold income tax from interest and other payments on debt obligations made to foreign entities provided that certain conditions are met. See "Taxation—Russian Federation."

We believe that it should be possible to satisfy conditions established by the Russian Tax Code and obtain a release from the obligation to withhold tax from payments of interest and certain other amounts, as the case may be, on each Loan to the Issuer. There is some uncertainty as to whether the special exemption will be available in practice since it is contingent upon receipt of a tax residency certificate, which under newly introduced rules may be interpreted as requiring the beneficial owner of income to present the tax residency certificate, while the Russian Ministry of Finance in its Letter expressed a view that a foreign issuer of eurobonds may not be viewed as the beneficial owner of interest income.

Importantly, the Russian Tax Code does not provide an exemption to the foreign interest income recipients from Russian withholding tax, although currently there is no requirement and mechanism in the Russian tax legislation for the foreign income recipients being the legal entities to self-assess and pay the tax to the Russian tax authorities. The Russian Ministry of Finance acknowledged in its information letter published on its website that the release from obligation to act as a tax agent means, in effect, that tax at source within Russia should not arise in connection with eurobonds, since there is neither a mechanism nor obligation for a non-resident to independently calculate and pay such tax. There can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not change their position on the matter in connection with Eurobond structures or would not make attempts to collect the tax from the foreign income recipients, including the Issuer or the Noteholders.

If interest and/or any other amounts due under any Loan become payable to the Trustee pursuant to the Trust Deed, there is some residual uncertainty whether the release from the obligation to withhold tax under the Russian Tax Code would be available to Gazprom. See “Taxation—Russian Federation.” There is a potential risk that Russian withholding tax in respect of payments of interest and some other amounts to the Trustee at the rate of 20% (or such other tax rate as may be effective at the time of payment) or, with respect to non-resident individual Noteholders, Russian personal income tax at the rate of 30% (or such other tax rate that may be effective at the time of payment) should be deducted by Gazprom upon making such payments to the Trustee. It is not expected that the Trustee will, or will be able to, claim a Russian withholding tax exemption or reduction under any applicable double tax treaty under such circumstances. In addition, while some Noteholders that are persons not residing in Russia for tax purposes may seek a reduction or elimination of Russian withholding tax or personal income tax, as applicable, or a refund of the respective taxes under applicable double tax treaties entered into between their countries of tax residence and the Russian Federation, where such treaties exist and to the extent they are applicable, there is no assurance that any treaty relief will be available to them in practice under such circumstances.

If interest payments or any other amounts due under any Loan become subject to Russian withholding tax (as a result of which the Issuer will reduce the respective payments made under the corresponding Series of the Notes by the amount of such withholding tax) we will be obligated under the terms of the relevant Loan Agreement to increase the respective payments, as may be necessary to ensure that the net amount of payments received by the Issuer will not be less than the amount it would have received in absence of such withholding. It is unclear however whether provisions of the relevant Loan Agreement obliging us to gross up any payments under the Loans will be enforceable under Russian law as currently in effect. There is a risk that gross-up for withholding tax will not take place and that payments we made under the Loans will be reduced by the amount of Russian income tax or Russian personal income tax withheld by us at source. See “Taxation—Russian Federation.”

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

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

Where proceeds from the sale or other disposal of the Notes (including accrued and paid interest on the Notes) are deemed to be received from a source within Russia by a Noteholder, who is an individual not qualifying as a Russian tax resident, a Russian personal income tax at a tax rate of 30% (or such other tax rate as could be effective at the time of such sale or other disposal) will apply to the gross amount of sales or other disposal proceeds realized upon such sale or other disposal of the Notes less any available duly documented cost deductions (including the acquisition cost of the Notes and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes), provided that the documentation supporting cost deductions is available to the person obliging to calculate and withhold Russian personal income tax in a timely manner.

Although technically Russian personal income tax due could be reduced or eliminated based on provisions of an applicable double tax treaty entered into between Russia and the country of tax residency of a particular Noteholder subject to timely compliance by that Noteholder with the treaty clearance formalities, in practice Russian non-resident Noteholders who are individuals may not be able to obtain the advance treaty relief in relation to sales or disposal proceeds and/or accrued interest income, as may be relevant, received from a source within Russia. Obtaining a refund of Russian personal income taxes that were excessively withheld in relation to this income can be extremely difficult, if not impossible.

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

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

An investment in the Notes is subject to ERISA restrictions.

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

Ratings of the Notes.

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

This list of important factors is not exhaustive. When relying on forward- looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise except as otherwise required by applicable law or under the Prospectus Directive and the relevant implementing measures in Ireland. We do not make any representation, warranty or prediction that the results or events anticipated by such forward-looking statements will be achieved or occur, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

ENFORCEABILITY OF JUDGMENTS

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

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

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

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

A final judgment obtained in a court in the United Kingdom will be enforceable in Luxembourg subject to applicable exequatur proceedings, as provided for in Council Regulation (EC) 44/2001 of December 22, 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters and the Council Regulation (EC) No.805/2004 of April 21, 2004 creating a European enforcement order for uncontested claims.

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

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

SUPPLEMENTAL BASE PROSPECTUS

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

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

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

PRESENTATION OF CERTAIN INFORMATION

References

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

Unless the context otherwise requires, in this Base Prospectus the term "Gazprom Neft" refers to JSC Gazprom neft (formerly JSC Sibneft) and its consolidated subsidiaries, taken as a whole.

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

We measure our gas condensate and crude oil in metric tons. This Base Prospectus contains conversions of certain volumes from tons into barrels solely for the convenience of the reader. The conversion of volumes from metric tons to barrels varies at each of our fields due to different geological conditions. In this document, however, we use a conversion rate for all conversions of tons to barrels of one ton of crude oil = 7.33 barrels of crude oil and one ton of gas condensate = 8.18 barrels of gas condensate. This Base Prospectus also contains conversions of cubic meters of natural gas and barrels of gas condensate and crude oil into barrels of oil equivalent solely for the convenience of the reader. In this Base Prospectus, we use a conversion rate for all conversions of one mcm of natural gas = 5.89 barrels of oil equivalent, one barrel of gas condensate = one barrel of oil equivalent and one barrel of crude oil = one barrel of oil equivalent.

Unless otherwise indicated, the proved and probable gas reserves of Gazprom and its subsidiaries are expressed in this Base Prospectus in terms of "separator" gas. See the DeGolyer and MacNaughton letter attached to this Base Prospectus as Appendix B. Generally, separator gas is gas that has not been treated and therefore includes an amount of gas that is not sold to customers.

Our reserves and production calculation methodology is consistent with IFRS consolidation principles. Thus, our subsidiaries' reserves and production information is included in full in our total reserves and production, disregarding our effective share in such subsidiaries. Reserves and production information of our joint arrangements determined to be joint operations for accounting purposes is included in our reserves and production data pro rata to our interest in such joint operations. Consistent with IFRS consolidation principles, the information on hydrocarbon reserves and production of our associated companies is not included in our total reserves and production figures. However, material information on the ABC_1 hydrocarbon reserves of our associated companies is presented separately.

Reproduction of information

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

Currencies

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

Exchange rates

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

	High	**Low**	**Average**(1)	**Period End**
2015 (through October 1, 2015)	70.75	56.24	59.66	65.74
2014	67.79	32.66	39.15	56.26
2013	33.47	29.93	31.97	32.73
2012	34.04	28.95	31.07	30.37
2011	32.68	27.26	29.39	32.20
2010	31.78	28.93	30.38	30.48
2009	36.43	28.67	29.45	30.24

Source: The CBR.

Note:

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

This Base Prospectus contains conversions of certain amounts into dollars at specified rates solely for the convenience of the reader. The U.S. dollar amounts have been translated from the ruble amounts at the rate of RR55.52 = U.S.$1.00, which was the CBR rate on June 30, 2015. The CBR rate on October 1, 2015 was RR65.74 = U.S.$1.00.

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

OVERVIEW OF THE PROGRAMME

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

Summary of Loans under the Programme

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

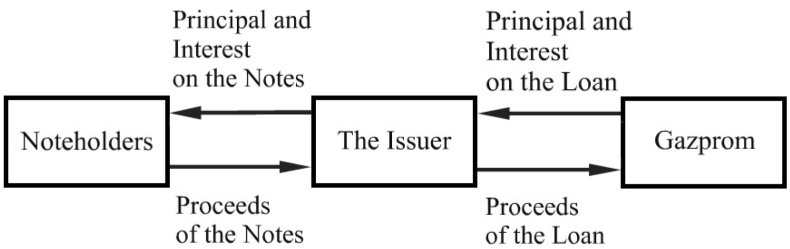
Each Series of Notes will be issued on a limited recourse basis and the Issuer will not have any obligations to the Noteholders of such Series of Notes save for to account to the Noteholders of the relevant Series for amounts equivalent to the amounts of payments of principal and interest received by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

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

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

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

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


Principal and Interest on the Notes
Principal and Interest on the Loan
Noteholders
The Issuer
Gazprom
Proceeds of the Notes
Proceeds of the Loan

Notes to be issued under the Programme and the corresponding Loans

Issuer	Gaz Capital S.A., a "*société anonyme*" incorporated in Luxembourg with limited liability (the "Issuer") with its registered office at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, Grand Duchy of Luxembourg, registered with the Luxembourg Register of Commerce and Companies under the number B-95071.
Gazprom (as the Borrower)	Public Joint Stock Company Gazprom (the "Borrower" or "Gazprom") with its registered office and business headquarters at 16 Nametkina Street, 117997 Moscow, Russia.
Description	Programme for the Issuance of Loan Participation Notes with limited recourse pursuant to which the Issuer may issue loan participation notes (the "Notes").
Programme Size	Up to U.S.$40,000,000,000 (or its equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. Gazprom may increase the amount of the Programme in accordance with the Dealer Agreement (as defined herein). For the purpose of calculating the aggregate principal amount of Notes outstanding, Notes issued at a premium shall be treated as having been issued at the amount of their net proceeds received by the Issuer.
Arrangers	Deutsche Bank AG, London Branch and UBS Limited.
Dealers	Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, J.P. Morgan Securities plc, Joint Stock Commercial Bank Rosbank, Merrill Lynch International, METROPOL Investment Financial Company Ltd., Morgan Stanley & Co. International plc, National Reserve Bank, Renaissance Securities (Cyprus) Limited, UBS Limited and UniCredit Bank AG. Pursuant to the terms of the Dealer Agreement, the Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Series of Notes or in respect of the whole Programme. References in this Base Prospectus to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "Dealers" are to all Permanent Dealers and all persons appointed as dealers in respect of one or more Series of Notes.
Trustee	Deutsche Bank Trust Company Americas.
Principal Paying Agent	Deutsche Bank AG, London Branch, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another principal paying agent is appointed in respect of that Series. References in this Base Prospectus to "Principal Paying Agent" are to Deutsche Bank AG, London Branch or such other alternative principal paying agent, as the case may be.
Registrars	Deutsche Bank Luxembourg S.A., and/or, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company Americas, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that an alternative registrar is appointed in respect of that Series. References in this Base Prospectus to "Registrar" are to Deutsche Bank Luxembourg S.A., Deutsche Bank Trust Company Americas or such alternative registrar, as the case may be.
Paying Agents	Deutsche Bank AG, London Branch and Deutsche Bank Luxembourg S.A., and/or, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company Americas, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another paying agent is appointed in respect of that Series. References in this Base Prospectus to "Paying Agents" are to Deutsche Bank AG, London Branch, Deutsche Bank Luxembourg S.A., Deutsche Bank Trust Company Americas or such alternative paying agent, as the case may be.
Transfer Agents	Deutsche Bank AG, London Branch, and Deutsche Bank Luxembourg S.A., and/or, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company Americas, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another transfer agent is appointed in respect of that Series. References in this Base Prospectus to "Transfer Agents" are to Deutsche Bank AG, London Branch, Deutsche Bank Luxembourg S.A., Deutsche Bank Trust Company Americas or such alternative transfer agent, as the case may be.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "Series") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. The specific terms of each Series will be completed in a final terms document (each, "Final Terms") which shall complete the Terms and Conditions of the Notes or a series prospectus (each, a "Series Prospectus"), which

	shall either complete or restate the Terms and Conditions of the Notes as the case may be.
Issue Price of Notes	Notes may be issued at their principal amount or at a discount or premium to their principal amount.
Status of the Notes	Each Series of Notes will constitute limited recourse secured obligations of the Issuer to apply the proceeds from the issue of the Notes solely for financing the corresponding Loan and to account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to such Loan, all as more fully described in "Terms and Conditions of the Notes—1. Status."
Ranking of the Loans	None of the Loans will be secured by any collateral. Each Loan will rank equal in right of payment with other outstanding and unsecured indebtedness of Gazprom but will effectively rank below all of our secured debt and the debt and other liabilities of Gazprom's subsidiaries.
Security	Each Series of Notes will be secured by way of first fixed charge on: • all principal, interest and other amounts payable by Gazprom to the Issuer under the relevant Loan Agreement and the right to receive all sums payable by Gazprom under any claim, award or judgment relating to such Loan Agreement; and • all of the Issuer's rights, title and interest in and to all sums of money held from time to time in an account specified in the relevant Final Terms or Series Prospectus, as the case may be, together with the debts represented thereby (including interest from time to time earned thereon) pursuant to the Trust Deed, in each case, other than certain Reserved Rights and any amounts in respect thereof.
Assignment of Rights	The Issuer with full title guarantee will assign absolutely its rights under the relevant Loan Agreement (save for those rights charged or excluded above) to the Trustee upon the closing of the offering of the corresponding Series of Notes.
Form of the Notes	The Notes will be issued in registered form. Each Series of Notes will be represented by a global unrestricted Note (each a "Regulation S Global Note") and, in the case of Rule 144A Notes, a global restricted Note (each a "Rule 144A Global Note" and together with any Regulation S Global Notes, the "Global Notes"), in each case without interest coupons. Global Notes will be exchangeable for Notes in definitive form in the limited circumstances specified in the Global Notes.
Clearing Systems	DTC (in the case of Rule 144A Notes), Clearstream, Luxembourg and Euroclear (in the case of Regulation S Notes or the Rule144A Notes) and, in relation to any Series, such other clearing system as may be agreed between the Issuer, the Borrower, the Paying Agent, the Trustee and the relevant Dealer.
Initial Delivery of Notes	On or before the issue date for each Series, the Regulation S Global Notes shall be deposited with Deutsche Bank AG, London Branch as a common depositary for Euroclear and Clearstream, Luxembourg and the Rule 144A Global Notes, if any, will be deposited with Deutsche Bank Trust Company Americas as custodian for DTC. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Borrower, the Paying Agent, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Borrower and the relevant Dealers.
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, Gazprom and the relevant Dealers.
Specified Denomination	Notes will be in such denominations as may be specified in the relevant Final Terms or Series Prospectus, as the case may be, subject to (i) the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes); and (ii) unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 ("FSMA") will have a minimum denomination of £200,000 (or their equivalent in other currencies). Notes resold pursuant to Rule 144A shall be in denominations of U.S.$200,000 (or its equivalent rounded upwards as agreed between the Issuer, Gazprom and the

	relevant Dealer(s)) or higher integral multiples of U.S.$1,000.
Rate of Interest................................	The Notes may be issued on a fixed rate or floating rate basis.
Fixed Rate Notes.............................	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms or Series Prospectus.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series and corresponding Loan as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or (ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Series Prospectus) as adjusted for any applicable margin.
Interest Periods and Interest Rates.....	The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms, or Series Prospectus, as the case may be.
Redemption.......................................	The relevant Final Terms, or Series Prospectus, as the case may be, will specify the redemption amounts payable and whether there will be any put or call options. Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of FSMA must have a minimum redemption amount of £200,000 (or its equivalent in other currencies).
Issuer's Restrictions and Covenants ..	So long as any Note remains outstanding, the Issuer will not, without the consent of the Trustee, among other things, incur any other indebtedness for borrowed moneys (other than issuing loan participation notes for the purposes of making loans to Gazprom), or enter into other transactions or engage in any business (other than transactions contemplated by this Base Prospectus), declare any dividends or have any subsidiaries. See "Terms and Conditions of the Notes—4. Restrictive Covenants."
Withholding Tax and Increased Costs	If any payments to be made by the Issuer under any Notes become subject to any withholding tax imposed by the Russian Federation or the country of incorporation of the Issuer or any taxing authority thereof, the Issuer will be required (subject to certain customary exemptions (including the ICMA Standard EU Tax exemption Tax Language) and subject to receiving funds from Gazprom in respect thereof) to pay an additional amount to compensate Noteholders for any amounts so withheld. If any payments to be made by Gazprom under a Loan Agreement become subject to any withholding tax imposed by the Russian Federation or the country of incorporation of the Issuer (or following the enforcement of the security created in the Trust Deed, the then jurisdiction of the Trustee) or any taxing authority thereof, or certain other circumstances result in the Issuer incurring any increased costs associated with the corresponding Loan, Gazprom will be required to pay an additional amount necessary to compensate the Issuer for the tax withheld or the increased cost to the Issuer.
Early Redemption	If Gazprom is required to pay additional amounts under a Loan Agreement as described above, it will have the right to prepay the corresponding Loan, upon not less than 10 days' notice to the Issuer, in whole (but not in part) at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of repayment on the next Interest Payment Date (in the case of a Floating Rate Loan) or at any time (in the case of a Fixed Rate Loan). If it becomes unlawful for the Issuer to fund a Loan or allow such Loan to remain outstanding under the relevant Loan Agreement or allow the corresponding Notes to remain outstanding, as more fully described in the Facility Agreement, the Issuer may require such Loan to be repaid in full, upon giving notice to Gazprom and the Trustee, at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of repayment. In such circumstances, the Issuer will be required to redeem the Notes corresponding to such Loan, at their principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of such repayment.
Relevant Events	In the case of certain events in relation to an Issuer (as defined in the "Terms and Conditions of the Notes"), the Trustee may, subject as provided in the Trust Deed, enforce the security created in the Trust Deed in favor of the Noteholders.

Certain Restrictions and Covenants.	The Issuer will have the benefit of certain covenants made by Gazprom, including a negative pledge and restrictions on mergers and disposals, all as fully described in the relevant Loan Agreement.
Events of Default............................	In the case of an Event of Default (as defined in the relevant Loan Agreement), the Trustee may, subject as provided in the Trust Deed, require the Issuer to declare all amounts payable under the relevant Loan Agreement by Gazprom to be due and payable.
Use of Proceeds of the Notes and the Loans.....................................	The gross proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to the Borrower. Except as otherwise specified in the relevant Final Terms or Series Prospectus, the proceeds of such Loan will be used by the Borrower for general corporate purposes. The Borrower shall not use the proceeds of such Loan for the purpose of funding any person (other than the Borrower), activity, business or transaction (whichever is applicable pursuant to the nature and scope of the relevant sanctions regime), that is, as of the date of such funding, subject to any sanctions administered or enforced by the U.S. Government (including, without limitation, OFAC or the U.S. Department of State), or any enabling legislation or executive order relating thereto or any equivalent sanctions or measures imposed by the European Union, the United Kingdom, the United Nations, the Swiss State Secretariat for Economic Affairs (SECO), including sanctions imposed against certain states, organizations and individuals under the European Union's Common Foreign & Security Policy.
Further Issues..................................	The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series.
Listing and Admission to Trading ...	Application will be made, where specified in the relevant Final Terms or Series Prospectus, as the case may be, for a Series of Notes to be listed on the Official List of the Irish Stock Exchange and to admit them to trading on its regulated market or such other stock exchange as shall be specified in the relevant Final Terms or Series Prospectus, as the case may be, or the Series of Notes will remain unlisted.
Rating...	A Series of Notes issued under the Programme may be rated or unrated. If a Series of Notes is rated, such rating will be specified in the relevant Final Terms or Series Prospectus. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms or Series Prospectus. See "Risk Factors—Ratings of the Notes." Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or Gazprom could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analyzed independently from any other rating.
Governing Law	The Notes will be governed by English law. The provisions of articles 86 to 94-8 of the Luxembourg law of August 10, 1915, as amended, on commercial companies are excluded.
Selling Restrictions.........................	United Kingdom, United States, Russian Federation, Canada and any other jurisdiction relevant to any Series. See "Subscription and Sale."

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

Our financial information set forth herein, unless otherwise indicated, has been extracted or derived from our audited consolidated financial statements as of and for each of the years ended December 31, 2014 and 2013 (the "Annual consolidated financial statements"), prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board and our Unaudited consolidated interim condensed financial information as of and for the six months ended June 30, 2015 (the "Unaudited consolidated interim condensed financial information"), prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting (together, the "Group's Financial Statements"). IFRS differs in certain respects from U.S. GAAP. The summary consolidated financial information set forth below should be read in conjunction with the Group's Financial Statements and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" below and in this Base Prospectus.

The U.S. dollar amounts set forth below were not included in the Group's Financial Statements and are provided for convenience only. Totals may not sum due to rounding. They should not be construed as representations that the RR amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of the U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR55.52 = U.S.$1.00, which was the CBR rate on June 30, 2015.

	Six months ended June 30,				Year ended December 31,					
	2015		2014		2014		2013		2012	
	U.S.$	RR	U.S.$	RR	U.S.$	RR	U.S.$	RR	U.S.$	RR
	(amounts in millions)									
Statement of Income										
Sales	52,476	2,913,452	51,764	2,873,932	100,681	5,589,811	94,560	5,249,965	85,852	4,766,495
Net (loss) gain from trading activity	(143)	(7,953)	259	14,377	(405)	(22,510)	105	5,850	51	2,821
Operating expenses[1]	(40,062)	(2,224,215)	(40,502)	(2,248,659)	(76,673)	(4,256,877)	(66,077)	(3,668,606)	(61,575)	(3,418,639)
Operating profit	12,271	681,284	11,521	639,650	23,603	1,310,424	28,588	1,587,209	24,328	1,350,677
Net interest income (expense)[2]	519	28,810	(89)	(4,965)	400	22,223	(169)	(9,373)	(187)	(10,408)
Net monetary effects and other financing items[3]	1,532	85,071	(864)	(47,979)	(19,290)	(1,070,960)	(2,615)	(145,211)	1,292	71,729
Other[4]	1,114	61,845	862	47,858	813	45,136	963	53,458	2,625	145,738
Profit tax expense of which	(2,985)	(165,754)	(3,050)	(169,338)	(2,695)	(149,631)	(5,770)	(320,378)	(5,499)	(305,321)
Current profit tax expense	(2,207)	(122,538)	(2,243)	(124,525)	(2,186)	(121,343)	(3,636)	(201,872)	(5,044)	(280,070)
Deferred profit tax expense	(778)	(43,216)	(807)	(44,813)	(510)	(28,288)	(2,134)	(118,506)	(455)	(25,251)
Profit for the period	12,451	691,256	8,379	465,226	2,831	157,192	20,996	1,165,705	22,558	1,252,415
Profit (loss) attributable to non-controlling interest	277	15,352	264	14,648	(33)	(1,812)	476	26,444	503	27,941
Profit attributable to owners of Gazprom	12,174	675,904	8,116	450,578	2,864	159,004	20,520	1,139,261	22,055	1,224,474

	As of June 30,		As of December 31,					
	2015		2014		2013		2012	
	U.S.$	RR	U.S.$	RR	U.S.$	RR	U.S.$	RR
	(amounts in millions)							
Balance Sheet								
Assets								
Total current assets, of which	58,861	3,267,971	62,341	3,461,155	51,561	2,862,670	43,602	2,420,803
Cash and cash equivalents and certain restricted cash[5]	19,895	1,104,568	18,699	1,038,191	12,412	689,130	7,734	429,378
Total long-term assets, of which	217,746	12,089,255	211,029	11,716,315	190,446	10,573,566	171,759	9,536,033
Property, plant and equipment	182,692	10,143,082	179,218	9,950,209	161,025	8,940,088	143,177	7,949,170
Total assets	276,607	15,357,226	273,369	15,177,470	242,007	13,436,236	215,361	11,956,836
Liabilities and Equity								
Total current liabilities, of which	31,614	1,755,220	33,428	1,855,947	25,062	1,391,465	26,874	1,492,066
Taxes payable	3,156	175,244	3,134	174,024	2,951	163,845	2,349	130,440
Short-term borrowings and current portion of long-term borrowings	9,152	508,118	8,371	464,731	5,978	331,876	5,811	322,625
Short-term promissory notes payable	1	51	1	51	1	50	0	8
Total long-term liabilities, of which	55,558	3,084,567	57,664	3,201,502	43,415	2,410,417	35,750	1,984,825
Long-term borrowings	36,851	2,045,940	40,057	2,223,992	26,476	1,469,951	21,216	1,177,918
Long-term promissory notes payable	1	50	1	50	1	51	1	41
Total liabilities	87,172	4,839,787	91,092	5,057,449	68,478	3,801,882	62,624	3,476,891
Total equity, of which	189,435	10,517,439	182,277	10,120,021	173,529	9,634,354	152,737	8,479,945
Non-controlling interest	5,568	309,141	5,466	303,463	5,669	314,764	5,569	309,212
Shareholders' equity	183,867	10,208,298	176,811	9,816,558	167,860	9,319,590	147,167	8,170,733

	Six months ended June 30,				Year ended December 31,					
	2015		2014		2014		2013		2012	
	U.S.$	RR	U.S.$	RR	U.S.$	RR	U.S.$	RR	U.S.$	RR
	(amounts in millions, except for ratios)									
Certain Items and Ratios										
Adjusted EBITDA[6]	16,803	932,876	15,707	872,051	35,349	1,962,558	36,194	2,009,475	29,646	1,645,921
Gross interest expense[7]	(487)	(27,032)	(375)	(20,799)	(806)	(44,749)	(770)	(42,768)	(667)	(37,022)
Net interest income (expense)[2]	519	28,810	(89)	(4,965)	400	22,223	(169)	(9,373)	(187)	(10,408)
Total debt[8]	46,004	2,554,159	33,113	1,838,429	48,430	2,688,824	32,455	1,801,928	27,028	1,500,592
Net debt[9]	26,109	1,449,591	16,112	894,547	29,730	1,650,633	20,043	1,112,798	19,294	1,071,214
Adjusted EBITDA/Gross interest expense	34.51	34.51	41.93	41.93	43.86	43.86	46.99	46.99	44.46	44.46
Net debt/Adjusted EBITDA					0.84	0.84	0.55	0.55	0.65	0.65

Notes:

(1) Includes impairment provisions for accounts receivable and prepayments, property, plant and equipment, investments and other long-term assets and inventory obsolescence.

(2) Interest expense less interest income.

(3) Foreign exchange gains less foreign exchange losses.

(4) Share of net income (loss) of associated undertakings and joint ventures and gains (losses) on disposal of available-for-sale financial assets.

(5) Cash and cash equivalents and certain restricted cash include balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations but exclude cash restricted as to withdrawal under banking regulations.

(6) Reconciliation from Adjusted EBITDA to operating profit:

	Six months ended June 30,				Year ended December 31,					
	2015		2014		2014		2013		2012	
	U.S.$	RR	U.S.$	RR	U.S.$	RR	U.S.$	RR	U.S.$	RR
					(amounts in millions)					
Adjusted EBITDA	16,803	932,876	15,707	872,051	35,349	1,962,558	36,194	2,009,475	29,646	1,645,921
Less: Depreciation	(4,514)	(250,635)	(4,121)	(228,784)	(8,504)	(472,151)	(7,547)	(419,019)	(6,226)	(345,690)
less: (charges) releases (for) of impairment provisions[1]	(533)	(29,573)	(3,953)	(219,449)	(5,641)	(313,208)	(1,219)	(67,698)	58	3,208
plus: charges of provisions of accounts receivable and prepayments	515	28,616	3,887	215,832	2,400	133,225	1,161	64,451	851	47,238
Operating profit	12,271	681,284	11,521	639,650	23,603	1,310,424	28,588	1,587,209	24,328	1,350,677

Adjusted EBITDA should not be considered as an alternative to profit, operating profit, net cash provided by operating activities or any other measure of performance under IFRS and may not be comparable to similar non-GAAP measures used by other companies. Adjusted EBITDA has limitations as analytical tool. Adjusted EBITDA does not reflect the impact of finance income and expense, profit tax expense, depreciation, share of net income of associated undertakings and joint ventures, impairment provisions for property, plant and equipment, investments and other long-term assets and inventory obsolescence.

(7) Interest expense on taxes payable, short- and long-term debt and other interest expense, excluding capitalized interest on borrowings.

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

(9) Total debt less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

SUMMARY RESERVES INFORMATION

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

Our reserves and production calculation methodology is consistent with IFRS consolidation principles. Thus, our subsidiaries' reserves and production information is included in full in our total reserves and production, disregarding our effective share in such subsidiaries. Reserves and production information of our joint arrangements determined to be joint operations for accounting purposes is included in our reserves and production data pro rata to our interest in such joint operations. Consistent with IFRS consolidation principles, the information on hydrocarbon reserves and production of our associated companies is not included in our total reserves and production figures. However, material information on the ABC_1 hydrocarbon reserves of our associated companies is presented separately.

The following table shows our total ABC_1 natural gas, gas condensate and crude oil reserves and the percentage share of ABC_1 reserves evaluated by DeGolyer and MacNaughton in accordance with PRMS Standards as well as the proved, probable and possible reserves determined as a result of their evaluation as of the dates indicated. The September 30, 2015 DeGolyer and MacNaughton letter attached as Appendix B to this Base Prospectus contains additional information on the proved and probable gas, gas condensate and crude oil reserves of our subsidiaries evaluated in accordance with PRMS Standards as of December 31, 2014. The correlation between ABC_1 reserves and proved and probable reserves may differ in the fields that have not yet been evaluated. Moreover, the correlation may vary at different times for the same fields.

	As of December 31,			As of December 31,		
	2014	2013	2012	2014	2013	2012
	Gas, bcm			Gas, mmboe		
ABC_1	36,101.4	35,696.6	35,169.8	212,637.2	210,253.0	207,150.1
of which evaluated ABC_1	94%	93%	94 %	94%	93%	94%
Proved	18,894.8	18,939.3	19,133.0	111,290.4	111,552.5	112,693.4
Probable	4,616.0	4,325.2	4,254.0	27,188.2	25,475.4	25,056.1
Proved + probable	23,510.7	23,264.5	23,387.0	138,478.0	137,027. 9	137,749.5
Possible	6,803.9	5,786.9	5,705.6	40,075.0	34,084.8	33,606.0
	Gas condensate, million tons			Gas condensate, mmboe		
ABC_1	1,447.0	1,384.4	1,386.1	11,836.5	11,324.4	11,338.3
of which evaluated ABC_1	92%	89%	89%	92%	89%	89%
Proved	642.3	638.8	633.8	5,254.0	5,225.4	5,184.5
Probable	206.3	193.6	174.9	1,687.5	1,583.6	1,430.7
Proved + probable	848.6	832.4	808.7	6,941.5	6,809.0	6,615.2
Possible	637.2	709.2	670.3	5,212.3	5,801.3	5,483.1
	Crude oil, million tons			Crude oil, mmboe		
ABC_1	2,053.1	2,019.0	1,992.2	15,049.2	14,799.3	14,602.8
of which evaluated ABC_1	91%	89%	89%	91%	89%	89%
Proved	830.5	834.8	819.5	6,087.6	6,119.1	6,006.9
Probable	543.9	572.4	588.8	3,986.8	4,195.7	4,315.9
Proved + probable	1,374.4	1,407.2	1,408.3	10,074.4	10,314.8	10,322.8
Possible	730.6	747.7	638.0	5,355.3	5,480.6	4,676.5

	Gas, gas condensate, crude oil, mmboe		
ABC_1	239,522.9	236,376.6	233,091.2
of which evaluated ABC_1	94%	93%	93%
Proved	122,632.0	122,896.9	123,884.8
Probable	32,862.6	31,254.7	30,802.7
Proved + probable	155,494.5	154,151.7	154,687.5
Possible	50,642.6	45,366.7	43,765.6

The following table shows the ABC_1 natural gas, gas condensate and crude oil reserves of our associated companies pro rata to our effective interests therein as of the end of the respective periods.

	As of December 31,		
	2014	2013	2012
Natural gas (bcm)	971.7	851.5	732.2
(bboe)	5.7	5.0	4.3
Oil and gas condensate (million tons)	672.4	622.1	580.3
(bbls)	5.0	4.6	4.3
Total (bboe)	**10.7**	**9.6**	**8.6**

Note:

(1) Amounts in barrels differ from those provided in the letter from DeGolyer and MacNaughton attached as Appendix B because in this Base Prospectus we use a conversion rate from metric tons of crude oil to barrels of one ton = 7.33 barrels, a conversion rate from one thousand cubic meters of natural gas to barrels of oil of one mcm = 5.89 barrels, and a conversion rate from metric tons of gas condensate to barrels of gas condensate of one ton = 8.18 barrels. Amounts in barrels provided in the letter from DeGolyer and MacNaughton are calculated based on the specific gravities of each field.

SUMMARY PRODUCTION INFORMATION

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

	Six months ended June 30,		Year ended December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
Natural gas (bcm)	205.8	244.5	444.9	488.4	488.0
(mmboe)	1,212.2	1,439.8	2,620.5	2,876.6	2,874.3
Gas condensate (million tons)	7.8	8.4	14.5	14.7	12.8
(mmbls)	63.6	68.3	118.5	119.9	105.1
Crude oil (million tons)	21.8	21.3	43.5	42.3	42.3
(mmbls)	159.8	156.1	319.1	310.8	309.7
Total (mmboe)	**1,435.6**	**1,664.2**	**3,058.1**	**3,307.3**	**3,289.1**

SUMMARY SALES AND OPERATING INFORMATION

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

The U.S. dollar amounts below were not included in the Group's Financial Statements and are provided for convenience only. They should not be construed as representations that the RR amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR55.52 = U.S.$1.00, which was the CBR rate on June 30, 2015, unless otherwise stated.

	Six months ended June 30,				Year ended December 31,					
	2015		2014		2014		2013		2012	
	U.S.$	RR	U.S.$	RR	U.S.$	RR	U.S.$	RR	U.S.$	RR
	(amounts in millions, except for volumes)									
Gas (bcm)	221	221	242	242	440	440	477	477	482	482
Domestic sales(1)	7,660	425,284	7,935	440,528	14,780	820,567	14,307	794,349	13,705	760,885
Export sales(1)	27,099	1,504,511	25,655	1,424,377	47,479	2,636,055	47,198	2,620,429	43,836	2,433,767
FSU(1)	4,588	254,698	5,770	320,337	8,755	486,079	9,090	504,681	11,290	626,820
Europe and Other Countries(1)	22,511	1,249,813	19,885	1,104,040	38,724	2,149,976	38,108	2,115,748	32,546	1,806,947
Total	**34,759**	**1,929,795**	**33,590**	**1,864,905**	**62,259**	**3,456,622**	**61,505**	**3,414,778**	**57,541**	**3,194,652**

Note:

(1) Gross sales (including customs duties, excise tax and net of VAT).

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

	Six months ended June 30,				Year ended December 31,					
	2015		2014		2014		2013		2012	
	Average price, U.S.$(1)	Average price, RR	Average price, U.S.$(1)	Average price, RR	Average price, U.S.$(1)	Average price, RR	Average price, U.S.$(1)	Average price, RR	Average price, U.S.$(1)	Average price, RR
Europe and Other Countries	269.5	15,551.5	366.1	12,843.4	349.4	13,487.2	380.5	12,137.9	385.1	11,969.8
FSU	211.0	12,176.6	297.7	10,445.7	262.1	10,115.9	266.5	8,499.9	305.3	9,489.5
Russia	61.4	3,543.0	100.1	3,513.5	91.5	3,530.9	102.3	3,264.6	92.3	2,867.9

Note:

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

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

USE OF PROCEEDS

The gross proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to the Borrower. Except as otherwise specified in the relevant Final Terms or Series Prospectus, the proceeds of such Loan will be used by the Borrower for general corporate purposes. The Borrower shall not use the proceeds of such Loan for the purpose of funding any person (other than the Borrower), activity, business or transaction (whichever is applicable pursuant to the nature and scope of the relevant sanctions regime), that is, as of the date of such funding, subject to any sanctions administered or enforced by the U.S. Government (including, without limitation, OFAC or the U.S. Department of State), or any enabling legislation or executive order relating thereto or any equivalent sanctions or measures imposed by the European Union, the United Kingdom, the United Nations, the Swiss State Secretariat for Economic Affairs (SECO), including sanctions imposed against certain states, organizations and individuals under the European Union's Common Foreign & Security Policy.

CAPITALIZATION

The following table shows our consolidated cash and cash equivalents and certain restricted cash, short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable and total capitalization, consisting of long-term borrowings, long-term promissory notes payable and total equity, as of June 30, 2015, extracted from our Unaudited consolidated interim condensed financial information. For further information regarding our financial condition, see "Summary Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Group's Financial Statements included elsewhere in this Base Prospectus.

The U.S. dollar amounts set forth below were not included in the Unaudited consolidated interim condensed financial information and are provided for convenience only. They should not be construed as representations that the RR amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR55.52 = U.S.$1.00, which was the CBR rate on June 30, 2015.

	As of June 30, 2015	
	RR	**U.S.$**
	(amounts in millions)	
Cash and cash equivalents	1,104,568	19,895
Short-term borrowings and current portion of long-term borrowings	508,118	9,152
Short-term promissory notes payable	51	1
Total	**508,169**	**9,153**
Long-term borrowings	2,045,940	36,851
Long-term promissory notes payable	50	1
Total equity, of which:	**10,517,439**	**189,435**
Share capital(1)	325,194	5,857
Treasury shares	(103,919)	(1,872)
Retained earnings and other reserves	9,987,023	179,882
Non-controlling interest	309,141	5,568
Total capitalization(2)	**12,563,429**	**226,287**

Notes:

(1) Authorized, issued and paid-in share capital consists of 23.7 billion ordinary shares, each with a historical par value of RR5.
(2) Totals may not sum due to rounding.

Since June 30, 2015, we have incurred debt obligations, including the following:

In July 2015, we obtained a EURIBOR + 3.6% €300 million loan from UniCredit Bank Austria AG due in 2019.

In July 2015, we obtained a LIBOR + 5.9% U.S.$760 million loan due in 2018 and a EURIBOR + 5.45% €240 million loan due in 2018 from Sberbank.

In July 2015, we signed agreements to obtain loans from GPB in the amount of U.S.$310 million and U.S.$330 million with an interest rate of 6.95 % and 6.98 %, respectively, due in 2018.

In August 2015, we obtained a LIBOR + 3.5% U.S.$1.5 billion loan from a syndicate of banks due in 2020. China Construction Bank Corporation, Beijing branch was appointed as the agent bank.

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

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

Overview

We are one of the world's largest oil and gas companies in terms of reserves, production and market capitalization. Our revenues are primarily derived from sales of natural gas, crude oil and other hydrocarbon products to Europe and Other Countries, Russia and the FSU countries.

We divide our operations into the following principal businesses:

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

Other businesses primarily comprise production of other products and sales of various goods, works and services.

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

Summary of Significant Accounting Policies and Accounting Estimates

The principal accounting policies and the critical accounting estimates in applying accounting policies followed by the Group in 2015 year are consistent with those disclosed in the Annual consolidated financial statements for the year ended December 31, 2014. Profit tax in the interim periods is accrued using a tax rate that would be applicable to expected total annual earnings.

Impact of New Accounting Developments

A number of amendments to the current IFRS became effective for the periods beginning on or after January 1, 2015:

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

The Group has applied amendments to standards while preparing the Unaudited consolidated interim condensed financial information. The standards referenced above have no significant impact on the Unaudited consolidated interim condensed financial information.

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

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

- The amendments to IFRS 11 Joint Arrangements (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on accounting for acquisitions of interests in joint operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

- The amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on clarification of acceptable methods of depreciation and amortization. In this amendment the International Accounting Standards Board clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after January 1, 2017). The new standard introduces the core principle that revenue must be recognized when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognized as an asset and amortized over the period when the benefits of the contract are consumed.

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

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

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

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

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

Certain Factors Affecting our Results of Operations

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

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

(see "Risk Factors" for further information)

Current economic environment

Since Russia produces and exports large quantities of natural gas, crude oil and other commodities, its economy is particularly sensitive to fluctuations in world commodity prices. Rising crude oil prices in 2011 and their relative stability in 2012 and 2013 created favorable conditions for economic growth in Russia in 2011, 2012 and 2013. In 2014, crude oil prices significantly decreased which resulted in a slowdown of the Russian economy, which entered recession in 2015.

The Russian Federation displays certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, relatively restrictive currency controls, and relatively high inflation. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation. The political and economic instability, the current impact and ongoing situation with sanctions, uncertainty and volatility of the financial and commodities markets and other risks have had and may continue to have effects on the Russian economy. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment. However, the future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

Export price of natural gas

Our results of operations are heavily reliant on natural gas export prices. In the six-month period ended June 30, 2015 compared to the six-month period ended June 30, 2014, U.S. dollar prices for our natural gas we sell in Europe and Other Countries and in the FSU decreased. U.S. dollar prices for the natural gas we sell in the FSU and Europe and Other Countries decreased in 2014 compared to 2013 and in 2013 compared to 2012.

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

Natural gas export prices for sales to FSU countries are mainly based on one-year fixed price contracts. Average natural gas export prices to FSU countries are usually below the level of those for Europe and Other Countries. This is partly due to lower transportation costs but is principally due to the impact of intergovernmental agreements, which effectively limit the prices we can charge to FSU countries.

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

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

	For the six-month period ended June 30,		For the year ended December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
	(Including customs duties and excise tax, net of VAT)				
Our natural gas export price to Europe and Other Countries (average realized U.S.$ per mcm)(1, 3)	269.5	366.1	349.4	380.5	385.1
Our natural gas export price to Europe and Other Countries (average realized U.S.$ per mcf)(1, 2, 3)	7.6	10.4	9.9	10.8	10.9
Our natural gas export price to Europe and Other Countries (average nominal RR per mcm)(3)	15,551.5	12,843.4	13,487.2	12,137.9	11,969.8
Our natural gas export price to FSU countries (average realized U.S.$ per mcm)(1)	211.0	297.7	262.1	266.5	305.3
Our natural gas export price to FSU countries (average realized U.S.$ per mcf)(1, 2)	6.0	8.4	7.4	7.5	8.6
Our natural gas export price to FSU countries (average nominal RR per mcm)	12,176.6	10,445.7	10,115.9	8,499.9	9,489.5

Notes:

(1) Average nominal prices and not convenience translations of ruble prices.

(2) One mcm is equivalent to 35.316 thousand cubic feet.

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

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

Regulation of domestic natural gas prices and transportation tariffs

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

Natural gas prices in Russia have remained significantly below export prices (even after netting back export tariffs and transportation costs) primarily due to governmental regulations. Since 2000, however, domestic natural gas prices have increased at a rate greater than inflation. For example, in the period from January 1, 2002 to December 31, 2011, annual weighted average regulated wholesale gas prices increased by approximately 492%, while cumulative inflation in the same period was approximately 177% (according to the Federal State Statistics Service, source: www.gks.ru).

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

	For the six-month period ended June 30,		For the year ended December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
			(net of VAT)		
Our domestic natural gas price (average nominal RR per mcm)	3,543.0	3,513.5	3,530.9	3,264.6	2,867.9
Our domestic natural gas price (average nominal RR per mcf)(1)	100.3	99.5	100.0	92.4	81.2
Our domestic natural gas price (average U.S.$ per mcm)(2)	61.4	100.1	91.5	102.3	92.3
Our domestic natural gas price (average U.S.$ per mcf)(1, 2)	1.7	2.8	2.6	2.9	2.6

Notes:

(1) One mcm is equivalent to 35.316 thousand cubic feet.

(2) Average nominal prices and not convenience translations of ruble prices.

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

During the six-month periods ended June 30, 2015 and 2014 and years ended December 31, 2014, 2013 and 2012 our sales of gas transportation services were 3%, 3%, 3%, 3%, 3% of total sales (net of VAT, excise tax and customs duties) for each of these periods.

Price of crude oil

Our net sales of crude oil for the six-month periods ended June 30, 2015 and 2014 and for the years ended December 31, 2014, 2013 and 2012 were RR104,965 million, RR86,844 million, RR175,575 million, RR179,265 million and RR234,470 million, respectively. This represents approximately 4%, 3%, 3%, 3% and 5% of our net sales for such periods. Our operations are affected by the prevailing price of crude oil, both in domestic and international oil markets. Crude oil prices have historically been highly volatile, dependent upon the balance between supply and demand, global and regional economic and political developments in resource-producing regions, particularly in the Middle East, global economic conditions and production levels of OPEC. In 2012, 2013, 2014 and the six-month periods ended June 30, 2014 and 2015 the price of crude oil (for Brent crude benchmark) averaged approximately U.S.$111.7, U.S.$108.7, U.S.$99.4, U.S.$108.8, and U.S.$59.4, respectively. Crude oil prices in the Russian Federation have historically been lower than in the international market primarily due to additional costs (in particular, customs duties) associated with exporting crude oil. Domestic crude oil prices are contract specific as there is no active market for domestic crude oil and market prices are not available.

Price of electric and heat energy

For the six-month periods ended June 30, 2015 and 2014 and for the years ended December 31, 2014, 2013 and 2012 our electric and heat energy sales were RR217,728 million, RR218,683 million, RR426,951 million, RR375,589 million, RR343,509 million, respectively. This represents approximately 7%, 8%, 8%, 7% and 7% of our net sales (net of VAT, excise tax and customs duties) for such periods. Our operations are affected by applicable electricity tariffs and market (not regulated) prices of and demand for electricity. Until June 30, 2015 prices for natural gas, gas transportation and electricity tariffs in Russia had been regulated by the FTS. According to Presidential Decree No. 373 dated July 21, 2015 the regulatory powers of the FTS were transferred to the FAS.

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

For the six-month period ended June 30, 2015 and 2014 and for the years ended December 31, 2014, 2013 and 2012, 60%, 61%, 60%, 61% and 62% of our gross sales (including customs duties and excise tax, net of VAT), respectively, were denominated in foreign currencies, primarily in U.S. dollars or euros, while most of our costs were denominated in rubles. The relative movements of inflation and exchange rates therefore significantly affect our results of operations. In particular, our operating margins are generally adversely affected by appreciation of the ruble against the U.S. dollar or the euro, because this will generally cause our costs to increase relative to our sales revenues. The pressure on operating margins arising from ruble appreciation is further intensified by the relatively high inflation rate in Russia, which can further increase our costs, though this can be offset by domestic price rises to the extent permitted by the FAS. Conversely, our operating margins are generally positively affected by depreciation of the ruble against the U.S. dollar or the euro, because this will generally cause our costs to decrease relative to our sales revenues. However, an appreciation of the U.S. dollar or the euro against the ruble also potentially increases the cost of servicing our indebtedness denominated in these currencies.

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

	For the six-month period ended June 30,		For the year ended December 31,		
	2015	2014	2014	2013	2012
Inflation[1, 2]	8.3%	4.8%	10.8%	6.5%	6.6%
Nominal appreciation (depreciation) of the RR against the U.S.$[3]	1.3%	(2.8)%	(71.9)%	(7.8)%	5.7%
Real appreciation (depreciation) of the RR against the U.S.$[3]	9.6%	2.0%	(61.1)%	(1.2)%	13.0%
Nominal appreciation (depreciation) of the RR against the euro[3]	10.0%	(1.9)%	(52.0)%	(11.8)%	3.5%
Real appreciation (depreciation) of the RR against the euro[3]	18.3%	2.9%	(41.1)%	(4.8)%	10.4%

Notes:

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

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

(3) Source: The CBR (source: www.cbr.ru).

The official ruble to U.S. dollar exchange rates as determined by the CBR increased from 55.52 to 65.74 in the period from June 30, 2015 to October 1, 2015 (being the latest practicable date prior to the publication of this Base Prospectus). The official ruble to euro exchange rates as determined by the CBR increased from 61.52 to 73.78 in the period from June 30, 2015 to October 1, 2015 (being the latest practicable date prior to the publication of this Base Prospectus).

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

Our historically high tax burden

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

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

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

- Profit tax

  The maximum profit tax rate was 20% from 2009 through June 30, 2015. A depreciation premium of 30% (10% in respect of certain types of property) was applied in respect of certain types of fixed assets (initially 10% of the amount of capital investment in all types of assets, and increasing to 30% in 2009 for certain types of fixed assets). For certain production facilities operating in the aggressive environment (mainly gas pipelines and wells) an accelerated depreciation coefficient of 2 was applied. Starting from 2014 the accelerated depreciation coefficient was abolished for new fixed assets.

- Excise tax

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

- VAT

  VAT at a standard rate of 18% is payable on the difference between output VAT on sales of goods, works, services and property rights and recoverable input VAT charged by suppliers. Output VAT has been charged on the earliest of: either the date of the shipment of goods, works, services and property rights, or the date of advance payment by the buyer. Input VAT has been generally recoverable when purchases are accounted for and other conditions are met. Exports of goods and sales of certain services related to exported goods are subject to a 0% VAT rate upon the submission of confirmation documents to the tax authorities. Input VAT related to export sales is recoverable. A limited list of goods and services are not subject to VAT. Input VAT related to non-VAT goods and services should not be recovered and should be included in the value of purchased goods and services, except in certain cases.

- MET

  Effective from July 1, 2014 in response to changed economic conditions a new method of determining the MET rate for gas was established causing the MET rate to increase. The new method of MET rate calculation is directly related to the actual sales prices for gas and depends on the Urals crude oil blend price and the U.S. dollar exchange rate. The new legislation establishes a 0% MET rate for gas applicable to the fields located in the Republic of Sakha and the Irkutsk Region. In the first half of 2014, the MET rate for natural gas was set at RR700 per mcm as compared to RR582 per mcm in the first half of 2013, RR622 per mcm for the second half of 2013 and RR509 per mcm in 2012. Federal law No. 263-FZ dated September 30, 2013 effective July 1, 2014 introduced a formula for calculating the MET rate for natural gas and gas condensate instead of fixed MET rates. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—MET Changes."

  The MET rate for oil was equal to the statutory determined rate of RR766 for the six-month period ended June 30, 2015 (RR493, RR470 and RR446 in 2014, 2013 and 2012, respectively) per ton multiplied by the oil price ratio, that varied between 7.4 and 10.5 in the first half of 2015 (between 9.8 and 12.7 in 2014, between 10.3 and 12.2 in 2013, between 9.9 and 12.2 in 2012) and multiplied by the rate of field depletion, which, if applied, reduces the tax payable. An increase in the MET rate for oil in 2015 is compensated by lower export customs duties for crude oil and oil products. Effective from January 1, 2009 the method of oil price ratio calculation was amended leading, in general, to the decrease in the MET rate.

  The MET rate also depends on the geographic location of the oil field. In particular, extraction of oil from some fields located in the Republic of Sakha, the Irkutsk and Krasnoyarsk Regions, in the Arctic, the Yamal Peninsula, the Nenets Autonomous Area, the Black Sea, the Sea of Okhotsk, the Sea of Azov and the Caspian Sea are subject to 0% tax rate.

- Export customs duty

  Export customs duty rate on natural gas is 30%.

  Export customs duty on crude oil is currently reviewed by the Government once a month based on the average price of Urals blend. The average Urals crude oil blend price is calculated as the price for Urals blend in the international markets (Mediterranean and Rotterdam) for the month immediately preceding the month of calculation. The average export customs duty rates on crude oil for the six-month period ended June 30, 2015 and for the years 2014, 2013 and 2012 were approximately U.S.$130, U.S.$367, U.S.$392 and U.S.$404 per ton, respectively.

- Property tax

  The maximum property tax rate is 2.2%. The property tax is calculated based on the annual value of the fixed assets, part of the fixed assets for the property tax purposes are taxed at a reduced rate of 1.0% effective from January 1, 2015 as compared to 0.7% in 2014 and 0.4% in 2013 (primarily pipelines, electric power lines and other facilities forming an integral part of these assets). Effective from January 1, 2015 a 0% property tax rate is established in respect of the trunk pipelines and other facilities forming their integral technological part, gas production sites, helium production sites and storage facilities located in the Republic of Sakha (Yakutia), the Irkutsk Region and the Amur Region.

- Contributions to social funds

  From January 1, 2015 employee's salary and other remuneration are subject to additional 10% contribution to the Pension Fund in the portion exceeding RR711,000 per year (RR624,000 in 2014, RR568,000 in 2013 and RR512,000 in 2012). From January 1, 2015 the portion of employee's salary and other remuneration exceeding RR670,000 per year were not subject to the contribution to the Social Insurance Fund. Effective from January 1, 2010 social contributions have been calculated as a production of the gross salary and other remuneration of an employee and the rate of 34% from January 1, 2011 and 30% from January 1, 2012.

Overall effective profit tax rates (current and deferred profit tax expense as a percentage of the profit before profit tax) for the six-month period ended June 30, 2015 was 19.3%. For the year ended December 31, 2014, 2013 and 2012 they were 48.8%, 21.6% and 19.6%, respectively, while the statutory income tax rate in Russia was 20% since January 1, 2009. The difference between our effective profit tax rates and the statutory rates has been primarily the result of non-deductible expenses, such as social expenses, charitable donations, expenses exceeding prescribed limits for certain deductions and other non-production costs.

Starting January 1, 2012 significant changes in the tax transfer pricing law were introduced in Russia that impacted all Russian businesses, including the Group. Also, starting January 1, 2012 tax legislation was amended to provide new rules on the creation of consolidated taxpayers' groups. Taxpayers may create such a tax group, in order to pay profit tax on a consolidated basis by submitting an agreement to create a consolidated taxpayers' group to the tax authorities. Transactions among the members of a consolidated tax group are not subject to tax transfer pricing control. On January 1, 2012 we created a consolidated taxpayers' group, which as of June 30, 2015 consisted of 65 Russian entities.

Interest rates

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

Gas transportation agreements

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

Impairment provisions

Historically, our results have been affected by impairment provisions on accounts receivable, inventory, property, plant and equipment (including assets under construction), financial assets, other long-term assets and provisions for guarantees and other charges.

For the six-month periods ended June 30, 2015 and 2014 and the years ended December 31, 2014 and 2013, expenses net of release for such impairment provisions amounted to RR29,573 million, RR219,449 million, RR313,208 million and RR67,698 million, respectively. These amounts include charge for impairment provisions (net of release) in the amounts of RR11,276 million and RR183,053 million for the six-month periods ended June 30, 2015 and 2014 and RR34,068 million and RR nil for the years ended December 31, 2014 and 2013, respectively, with respect to accounts receivable owed to us by Naftogaz. For the year ended December 31, 2012, release of impairment provisions amounted to RR3,208 million. The release of impairment provision in 2012 consisted primarily of an impairment provision related to property, plant and equipment in the amount of RR49,934 million mainly in respect of the Bovanenkovskoye and Kharasaveyskoye fields and the Obskaya-Bovanenkovo railroad, partly offset by the impairment charge for provision relating to accounts receivable.

Our provisions for accounts receivable are significant. As of June 30, 2015, December 31, 2014, 2013 and 2012 the aggregate balance sheet provisions for accounts receivable and prepayments were RR694,644 million, RR679,137 million, RR348,811 million and RR286,776 million, or 33%, 31%, 19% and 17%, respectively, of the gross receivables and prepayments balance, respectively. Such provisions for accounts receivable relate mainly to receivables for natural gas sold to Ukraine, Moldova, former Yugoslavian countries, the Chechen Republic and other southern regions of Russia. The increases in provisions by RR330,326 million and RR62,035 million as of December 31, 2014 and 2013, respectively, compared to the same date in preceding years, were primarily due to increases in impairment provisions on continued sales related to debtors from the countries and Russian regions mentioned above.

Our provisions for property, plant and equipment are also significant. As of June 30, 2015, December 31, 2014, 2013 and 2012 the aggregate balance sheet provisions related to property, plant and equipment were RR173,618 million, RR173,267 million, RR96,920 million and RR97,425 million, or 1.7%, 1.7%, 1.1% and 1.2% of gross property, plant and equipment, respectively. As of June 30, 2015, RR44,135 million out of this aggregate balance sheet provisions related to assets under construction, representing 1.8% of gross assets under construction. The impairment provision for assets under construction as of June 30, 2015 primarily relates to RR32,849 million impairment provision for the Novy Urengoy Chemical Complex. Upon completion of the first phase of infrastructure development and commencement of operations of the Bovanenkovskoye field, the previously created impairment provision for assets under construction related to the Bovanenkovskoye and Kharasaveyskoye fields and the Obskaya-Bovanenkovo railroad, which amounted to RR47,574 million, was reversed as of December 31, 2012.

For the six-month periods ended June 30, 2015 and 2014 and for the years ended December 31, 2014 and 2013 the charge for impairment provision for property, plant and equipment (including assets under construction) generated expense totaled RR351 million, RR75 million, RR76,464 million and RR46 million, respectively, and for the year ended December 31, 2012 the release of impairment provision totaled RR49,934 million.

Because of our operating cycle, certain significant decisions about capital construction projects are made at the end of our fiscal year. Accordingly, we typically have larger charges (releases) in the fourth quarter of our fiscal year as compared to other quarters. For a discussion of our impairment provisions in the six-month period ended June 30, 2015 versus the six-month period ended June 30, 2014, see "Results of Operations—Six-month period ended June 30, 2015 versus six-month period ended June 30, 2014" below and in the years ended December 31, 2014, 2013 and 2012, see "Results of Operations—Year ended December 31, 2014 versus year ended December 31, 2013" and "Results of Operations—Year ended December 31, 2013 versus year ended December 31, 2012."

Certain Acquisitions, Dispositions and Changes in Control

Acquisitions and dispositions to and after June 30, 2015

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

In February 2008, a special-purpose company, Shtokman Development AG, was established to manage engineering, financing, construction and exploitation of installations during the first phase of the development of the Shtokmanovskoye field. Our initial stake in Shtokman Development AG was 51% with Total and Statoil ASA ("Statoil") holding the remaining 25% and 24% interests, respectively. In September 2012 and in July 2015, we purchased Statoil's and Total's interests in Shtokman Development AG, which made us the sole shareholder of Shtokman Development AG. As of June 30, 2015, we accounted for Shtokman Development AG as our joint venture. See "—Reserves and Production—Exploration, Development and Production regions—Russian sea shelf—The Barents Sea shelf—Shtokmanovskoye field."

From December 2008 to June 2013, we acquired 100% of the shares of Gazprom neftekhim Salavat, a leading Russian oil refining and petrochemical company for RR70,901 million.

In September 2009, we acquired a 51% interest in LLC SeverEnergia ("SeverEnergia") for U.S.$1.6 billion (approximately RR47 billion). In November 2010, as a result of the sale of our 51% interest in SeverEnergia to LLC Yamal razvitie ("Yamal Razvitie"), a joint venture between Gazprom Neft and Novatek, our share in SeverEnergia was reduced to 25.5%. In December 2013, Yamal Razvitie acquired a 60% interest in Artic Russia B.V., which owns a 49% interest in SeverEnergia, from Eni for U.S.$2.94 billion. As a result of this transaction, Gazprom Neft's effective interest in SeverEnergia increased to 40.2%. In March 2014, Yamal Razvitie acquired an additional 20% interest in Artic Russia B.V. for U.S.$980 million. As a result of the transaction, the Gazprom Neft's effective interest in SeverEnergia increased to 45.1%. In April 2014, we provided loans to Yamal Razvitie in the aggregate amount of U.S.$980 million to finance this acquisition. The loans are expected to form our contribution to the equity of Yamal Razvitie upon completion of its restructuring. Gazprom Neft's interest in SeverEnergia is now treated as "Investments in associated undertakings and joint ventures" on our balance sheet.

In August 2015, seeking to simplify the ownership structure and increase our shareholding in Yamal Razvitie to ultimately achieve equal interests with Novatek we contributed RR14,992 million to the share capital of Yamal Razvitie. Accordingly, Novatek contributed a 6.4% interest in the share capital of Artic Russia B.V. and RR2,512 million to the share capital of Yamal Razvitie. The contributions of RR14,992 million and RR2,512 million were paid by way of conversion of loans previously granted to Yamal Razvitie. As a result of these transactions, Gazprom Neft's effective interest in SeverEnergia increased to 46.7%.

In February 2012, we purchased 375,000 out of 4,534,500 ordinary shares of GPB, in the course of an additional share issuance. The remainder of the shares was purchased by other shareholders of GPB and VEB. As a result of this transaction, our effective share in GPB decreased from 46% as of December 31, 2011 to 38% as of December 31, 2012.

In May 2013, we acquired shares of 72 gas distribution organizations for RR25,862 million.

In September 2013, we acquired for RR99,866 million, including VAT, an 89.98% interest in MIPC and heating assets that MIPC leases from the government of Moscow. We expect to achieve synergies through the combining MIPC's capacities with the assets of Mosenergo.

In January 2014, we acquired an additional 20% interest in the ordinary shares of Gazprom Armenia (formerly Armrosgazprom) for U.S.$156 million in settlement for accounts receivable for gas supplies. As a result of the transaction, our interest in Gazprom Armenia increased to 100%.

In June 2014, we acquired additional 17.65% shares of OJSC Meretoyahaneftegaz for U.S.$18 million. As a result of the acquisition, we increased our interest in OJSC Meretoyahaneftegaz to 100%.

In December 2014, we acquired for €883 million an additional 50% interest in South Stream Transport B.V., the project company that was engaged in construction of the offshore section of the South Stream pipeline. On December 1, 2014, the South Stream project was cancelled and an alternative project to construct a pipeline under the Black Sea to Turkey, the Turkish Stream pipeline, was announced. In December 2014, we signed a memorandum of understanding with Botas Petroleum Pipeline Corporation regarding the construction of the Turkish Stream pipeline. Assets under construction related to the South Stream project are expected to be utilized for the Turkish Stream pipeline.

Results of Operations

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

	For the six-month period ended June 30,				**For the year ended December 31,**					
	2015		**2014**		**2014**		**2013**		**2012**	
	RR million	**% of sales**	**RR million**	**% of sales**	**RR million**	**% of sales**	**RR million**	**% of sales**	**RR million**	**% of sales**
Sales	2,913,452	100%	2,873,932	100%	5,589,811	100%	5,249,965	100%	4,766,495	100%
Net (loss) gain from trading activity	(7,953)	0%	14,377	1%	(22,510)	0%	5,850	0%	2,821	0%
Operating expenses	(2,194,642)	(75%)	(2,029,210)	(71%)	(3,943,669)	(71%)	(3,600,908)	(69%)	(3,421,847)	(72%)
Impairment provisions and other provisions	(29,573)	(1%)	(219,449)	(8%)	(313,208)	(6%)	(67,698)	(1%)	3,208	0%
Operating profit	**681,284**	**23%**	**639,650**	**22%**	**1,310,424**	**23%**	**1,587,209**	**30%**	**1,350,677**	**28%**
Net finance income (expense)	113,881	4%	(52,944)	(2%)	(1,048,737)	(19%)	(154,584)	(3%)	61,321	1%
Share of net income (loss) of associated undertakings and joint ventures	61,415	2%	47,884	2%	46,051	1%	56,670	1%	145,192	3%
Gains (losses) on disposal of available-for-sale financial assets	430	0%	(26)	0%	(915)	0%	(3,212)	0%	546	0%
Profit before profit tax	**857,010**	**29%**	**634,564**	**22%**	**306,823**	**5%**	**1,486,083**	**28%**	**1,557,736**	**33%**
Current profit tax expense	(122,538)	(4%)	(124,525)	(4%)	(121,343)	(2%)	(201,872)	(4%)	(280,070)	(6%)
Deferred profit tax expense	(43,216)	(1%)	(44,813)	(2%)	(28,288)	(1%)	(118,506)	(2%)	(25,251)	(1%)
Profit tax expense	(165,754)	(6%)	(169,338)	(6%)	(149,631)	(3%)	(320,378)	(6%)	(305,321)	(6%)
Profit for the period	**691,256**	**24%**	**465,226**	**16%**	**157,192**	**3%**	**1,165,705**	**22%**	**1,252,415**	**26%**
Profit attributable to:										
Owners of Gazprom	675,904	23%	450,578	16%	159,004	3%	1,139,261	22%	1,224,474	26%
Non-controlling interest	15,352	1%	14,648	1%	(1,812)	0%	26,444	1%	27,941	1%

Six-month period ended June 30, 2015 versus six-month period ended June 30, 2014

Sales

The following table summarizes our sales information for our operating segments for the six-month periods ended June 30, 2015 and 2014:

	Six-month period ended June 30, 2015	Six-month period ended June 30, 2014
	RR million	
Gas sales gross of custom duties to customers in:		
Russian Federation	425,284	440,528
Former Soviet Union (excluding Russian Federation)	254,698	320,337
Europe and Other Countries	1,249,813	1,104,040
	1,929,795	1,864,905
Customs duties	(283,322)	(278,234)
Excise tax(1)	(44,931)	-
Retroactive gas price adjustments(2)	17,220	-
Sales of gas	1,618,762	1,586,671
Sales of refined products to customers in:		
Russian Federation	461,269	449,793
Former Soviet Union (excluding Russian Federation)	47,835	35,200
Europe and Other Countries	252,499	308,639
Total sales of refined products	761,603	793,632
Sales of crude oil and gas condensate to customers in:		
Russian Federation	39,577	22,762
Former Soviet Union (excluding Russian Federation)	16,838	8,391
Europe and Other Countries	74,237	73,645
Sales of crude oil and gas condensate	130,652	104,798
Electric and heat energy sales:		
Russian Federation	207,984	211,034
Former Soviet Union (excluding Russian Federation)	8	599
Europe and Other Countries	9,736	7,050
Total electric and heat energy sales	217,728	218,683
Gas transportation sales:		
Russian Federation	89,516	81,914
Former Soviet Union (excluding Russian Federation)	1,101	803
Europe and Other Countries	4	4
Total gas transportation sales	90,621	82,721
Other revenues:		
Russian Federation	83,551	72,086
Former Soviet Union (excluding Russian Federation)	2,708	1,999
Europe and Other Countries	7,827	13,342
Total other revenues	94,086	87,427
Total sales	**2,913,452**	**2,873,932**

Notes:

(1) On January 1, 2015 changes came into effect to the Chapter 22 “Excise Tax” of the Russian Tax Code, according to which natural gas is subject to excise tax, if it is stipulated by international treaties of the Russian Federation.

(2) Retroactive gas price adjustments relate to gas deliveries in 2013 and 2014 for which a discount has been agreed or is in the process of negotiations. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made. The effect of retroactive gas price adjustments on sales for the six-month period ended June 30, 2015 was a credit of RR17,220 million reflecting a decrease in the related accrual following estimates made and agreements reached prior to the issuance of the Unaudited consolidated interim condensed financial information.

The following table sets out our volumes and realized prices for the six-month periods ended June 30, 2015 and 2014.

	Six-month period ended June 30, 2015	Six-month period ended June 30, 2014
	RR million unless stated otherwise	
Sales of gas		
Europe and Other Countries		
Gross sales [1]	1,249,813	1,104,040
Customs duties	(258,262)	(220,844)
Excise tax	(44,931)	-
Net sales	946,620	883,196
Volumes in billion cubic meters (bcm)	80.4	86.0
Gross average price, U.S.$ per mcm [2] (including excise tax and customs duties) [3]	269.5	366.1
Gross average price, RR per mcm [2] (including excise tax and customs duties)	15,551.5	12,843.4
FSU (Former Soviet Union)		
Gross sales [1]	254,698	320,337
Customs duties	(25,060)	(57,390)
Net sales	229,638	262,947
Volumes in bcm	20.9	30.7
Gross average price, U.S.$ per mcm [2] (including excise tax and customs duties) [3]	211.0	297.7
Gross average price, RR per mcm [2] (including excise tax and customs duties)	12,176.6	10,445.7
Russian Federation		
Gross sales (net of VAT)	425,284	440,528
Net sales	425,284	440,528
Volumes in bcm	120.0	125.4
Gross average price, RR per mcm [2] (net of VAT)	3,543.0	3,513.5
Total sales of gas		
Gross sales (net of VAT)	1,929,795	1,864,905
Customs duties	(283,322)	(278,234)
Excise tax	(44,931)	-
Effect of retroactive gas price adjustments	17,220	-
Net sales	1,618,762	1,586,671
Volumes in bcm	221.3	242.1
Net sales of refined products (net of VAT, excise tax and customs duties)	761,603	793,632
Net sales of electric and heat energy (net of VAT)	217,728	218,683
Net sales of crude oil and gas condensate (net of VAT and customs duties)	130,652	104,798
Net gas transportation sales (net of VAT)	90,621	82,721
Other revenues (net of VAT)	94,086	87,427
Total sales (net of VAT, excise tax and customs duties)	**2,913,452**	**2,873,932**

Notes:

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

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

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

Total sales (net of VAT, excise tax and customs duties) increased by RR39,520 million, or 1%, to RR2,913,452 million in the six-month period ended June 30, 2015 compared to the same period of the prior year mainly due to the increase in gas sales, in ruble terms, to Europe and Other Countries.

Net sales of gas accounted for 56% and 55% of total net sales in the six-month periods ended June 30, 2015 and 2014, respectively.

Net sales of gas increased by RR32,091 million, or 2%, to RR1,618,762 million in the six-month period ended June 30, 2015 compared to the same period of the prior year.

Net sales of gas to Europe and Other Countries increased by RR63,424 million, or 7%, to RR946,620 million in the six-month period ended June 30, 2015 as compared to the same period of the prior year. Overall increase in sales of gas to Europe and Other Countries was mainly driven by the increase in the gross average ruble price (including excise tax and customs duties) by 21% as compared to the same period of the prior year. Volumes of gas sold in the six-month period ended June 30, 2015 decreased by 7% as compared to the corresponding period of the prior year while the gross average U.S. dollar price decreased by 26%.

Retroactive gas price adjustments were recognized in the Unaudited consolidated interim condensed financial information as an RR17,220 million increase in sales reflecting a decrease in a previously recognized accrual.

Net sales of gas to FSU countries decreased by RR33,309 million, or 13%, to RR229,638 million in the six-month period ended June 30, 2015 compared to the same period of the prior year. The change was due to a 32% decrease in volume of gas sold and a 29% decrease in the gross average U.S. dollar price compared to the same period of the prior year. At the same time, gross average ruble price (including customs duties) increased by 17% for the six-month period ended June 30, 2015 compared to the same period of the prior year.

Net sales of gas in the Russian Federation decreased by RR15,244 million, or 3%, to RR425,284 million in the six-month period ended June 30, 2015 compared to the same period of the prior year. The change is primarily explained by the decrease in volumes of gas sold by 4% in the six-month period ended June 30, 2015 compared to the same period of the prior year.

Net sales of refined products (net of VAT, excise tax and customs duties) decreased by RR32,029 million, or 4%, to RR761,603 million in the six-month period ended June 30, 2015 in comparison with the same period of the prior year. The decrease was primarily driven by a decrease in export volumes of Gazprom Neft. In the six-month period ended June 30, 2015 and 2014 Gazprom Neft's sales comprised 72% and 71% of our net sales of refined products, respectively.

Net sales of electric and heat energy (net of VAT) decreased by RR955 million, or 0%, to RR217,728 million in the six-month period ended June 30, 2015 compared to the same period of the prior year.

Net sales of crude oil and gas condensate (net of VAT and customs duties) increased by RR25,854 million, or 25%, to RR130,652 million in the six-month period ended June 30, 2015 as compared to the same period of the prior year. Sales of crude oil included in net sales of crude oil and gas condensate (net of VAT and customs duties) amounted to RR104,965 million and RR86,844 million in the six-month periods ended June 30, 2015 and 2014, respectively.

Operating expenses

Operating expenses decreased by RR24,444 million, or 1%, in the six-month period ended June 30, 2015 to RR2,224,215 million from RR2,248,659 million in the same period of the prior year. Operating expenses as a percentage of sales decreased from 78% in the six-month period ended June 30, 2014 to 76% in the six-month period ended June 30, 2015. The table below presents a breakdown of operating expenses in each period:

	Six-month period ended June 30,	
	2015	2014
	RR million	
Taxes other than on income	429,063	394,392
Purchased gas and oil	391,851	382,928
Staff costs	289,681	259,288
Depreciation	250,635	228,784
Transit of gas, oil and refined products	242,826	191,409
Materials	128,941	133,393
Cost of goods for resale, including refined products	92,273	123,311
Repairs and maintenance	54,595	72,208
Foreign exchange rate differences on operating items	50,178	(3,566)
Electricity and heating expenses	45,295	44,461
Charge for impairment provisions	29,573	219,449
Rental expenses	20,449	17,580
Transportation services	20,205	16,034
Social expenses	13,367	16,215
Research and development expenses	13,335	8,558
Insurance expenses	12,475	12,410
Processing services	9,073	8,717
Derivatives (gains) losses	(16,046)	9,454
Other	171,201	132,443
	2,248,970	2,267,468
Changes in inventories of finished goods, work in progress and other effects	(24,755)	(18,809)
Total operating expenses	**2,224,215**	**2,248,659**

Taxes other than on income

Taxes other than income tax consist of:

	Six-month period ended June 30,	
	2015	2014
	RR million	
MET	320,047	290,423
Property tax	60,022	45,408
Other taxes	48,994	58,561
Taxes other than on income	**429,063**	**394,392**

The MET increased by RR29,624 million, or 10%, to RR320,047 million in the six-month period ended June 30, 2015 as compared to RR290,423 million in the six-month period ended June 30, 2014. The increase is mainly due to the changes in the MET rate for natural gas and oil and increase in production of crude oil by Gazprom Neft.

Purchased gas and oil

Cost of purchased gas and oil increased by RR8,923 million, or 2%, to RR391,851 million in the six-month period ended June 30, 2015 as compared to RR382,928 million in the same period of the prior year. Cost of purchased gas increased by RR21,543 million, or 8%. This increase mainly relates to an increase in cost of gas purchased from third parties abroad.

Cost of purchased oil included in the cost of purchased gas and oil decreased by RR12,620 million, or 10%, and amounted to RR107,718 million in the six-month period ended June 30, 2015 as compared with RR120,338 million in the same period of the prior year. The change is mainly related to decrease in prices of purchased oil.

Staff costs

Staff costs increased by RR30,393 million, or 12%, to RR289,681 million for the six-month period ended June 30, 2015 from RR259,288 million in the same period of the prior year. The increase was mainly driven by average salary indexation and increase in average number of personnel.

Depreciation

Depreciation increased by RR21,851 million, or 10%, to RR250,635 million in the six-month period ended June 30, 2015 from RR228,784 million in the same period of the prior year. The increase is primarily due to the growth in the fixed assets base.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 27% to RR242,826 million in the six-month period ended June 30, 2015 from RR191,409 million in the same period of the prior year. This increase was mainly driven by an increase in cost of transit of gas in ruble terms through the Nord Stream pipeline and through the territory of Germany and Eastern Europe.

Materials

Cost of materials decreased by 3% to RR128,941 million in the six-month period ended June 30, 2015 from RR133,393 million in the same period of the prior year primarily due to a decrease in purchases of materials from third parties.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products, decreased from RR123,311 million in the six-month period ended June 30, 2014 to RR92,273 million in the six-month period ended June 30, 2015 mainly due to the decrease in volumes of refined products purchased from third parties.

Repairs and maintenance

Cost of repairs and maintenance decreased by 24% to RR54,595 million in the six-month period ended June 30, 2015 from RR72,208 million in the same period of the prior year. The decrease was mainly caused by a decline in the volume of repair services rendered to us by third parties during six-month period ended June 30, 2015.

Foreign exchange rate differences on operating items

Foreign exchange rate differences on operating items amounted to a net loss of RR50,178 million in the six-month period ended June 30, 2015 as compared with a net gain of RR3,566 million in the same period of the prior year. The change is explained by a depreciation of the euro against the ruble by 10% and a depreciation of the U.S. dollar against the ruble by 1% in the six-month period ended June 30, 2015, compared to an appreciation of the euro against the ruble by 2% and an appreciation of the U.S. dollar against the ruble by 3% in the same period of the prior year.

Charge for impairment provisions

Charge for impairment provisions decreased by RR189,876 million as compared to the same period of the prior year and includes RR28,615 million and RR215,832 million of bad debt provision for accounts receivable in the six-month periods ended June 30, 2015 and 2014, respectively. The decrease was mainly driven by the charge for impairment provision for doubtful trade accounts receivable of Naftogaz for the six-month period ended June 30, 2014.

Other operating expenses

Other operating expenses increased by 29% to RR171,201 million in the six-month period ended June 30, 2015 from RR132,443 million in the same period of the prior year. Other expenses include gas and gas condensate production expenses, services from gas distribution companies, bank charges, security services, legal and consulting services, charity and financial aid and advertising.

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

Change in inventories of finished goods, work in progress and other effects increased by RR5,946 million to RR24,755 million in the six-month period ended June 30, 2015 as compared with RR18,809 million in the same period of the prior year. The change in this line item is mainly due to a decrease in the balances of finished goods as of June 30, 2015 compared to the balances as of December 31, 2014.

Operating profit

As a result of the factors discussed above, our operating profit increased by RR41,634 million, or 7%, to RR681,284 million in the six-month period ended June 30, 2015 from RR639,650 million in the six-month period ended

June 30, 2014. The operating profit margin increased from 22% in the six-month period ended June 30, 2014 to 23% in the six-month period ended June 30, 2015.

Net finance gain (loss)

	Six-month period ended June 30,	
	2015	**2014**
	RR million	
Exchange gains	1,007,461	149,754
Exchange losses	(922,390)	(197,741)
Net exchange gain (loss)	85,071	(47,987)
Interest income	55,842	15,842
Interest expense	(27,032)	(20,799)
Net finance gain (loss)	**113,881**	**(52,944)**

The net exchange gain of RR85,071 million in the six-month period ended June 30, 2015 in comparison with net exchange loss of RR47,987 million in the same period of the prior year is mainly explained by the depreciation of the U.S. dollar against the ruble by 1% and the depreciation of the euro against the ruble by 10% in the six-month period ended June 30, 2015, compared to the appreciation of the U.S. dollar against the ruble by 3% and the euro by 2% in the same period of the prior year.

Interest income increased by RR40,000 million, or 252%, to RR55,842 million in the six-month period ended June 30, 2015 from RR15,842 million in the same period of the prior year. The change is mainly driven by an increase in accrued interest on bank balances of the Group.

Interest expense increased by 30% to RR27,032 million in the six-month period ended June 30, 2015 from RR20,799 million in the same period of the prior year.

Share of net income of associated undertakings and joint ventures

Share of net income of associated undertakings and joint ventures increased by RR13,531 million to RR61,415 million in the six-month period ended June 30, 2015 as compared to RR47,884 million in the same period of the prior year. The change is mainly caused by an increase in net income of Yamal Razvitie and its subsidiaries by RR8,772 million and of Gazprom Germania group by RR6,142 million due to an increase in profit of these companies.

Profit tax

Total profit tax expense decreased by RR3,584 million, or 2%, to RR165,754 million in the six-month period ended June 30, 2015 as compared with RR169,338 million in the same period of the prior year. The effective profit tax rate was 19.3% and 26.7% in the six-month periods ended June 30, 2015 and 2014, respectively.

The change in the effective profit tax rate was mainly driven by the decrease in non-deductible expenses for tax purposes, which were primarily related to accrual of provision for doubtful trade accounts receivable.

Profit for the period attributable to owners of Gazprom

As a result of the factors discussed above, our profit for the period attributable to owners of Gazprom increased by RR225,326 million, or 50%, from RR450,578 million in the six-month period ended June 30, 2014 to RR675,904 million in the six-month period ended June 30, 2015.

Profit for the period attributable to non-controlling interest

Profit for the period attributable to non-controlling interest increased by RR704 million, or 5%, to RR15,352 million in the six-month period ended June 30, 2015 compared to RR14,648 million in the same period of the prior year.

Year ended December 31, 2014 versus Year ended December 31, 2013

Sales

The following table summarizes our sales information for our operating segments for the years ended December 31, 2014 and 2013:

	Year ended December 31,	
	2014	2013
	RR million	
Gas sales gross of custom duties to customers in:		
Russian Federation	820,567	794,349
Former Soviet Union (excluding Russian Federation)	486,079	504,681
Europe and Other Countries	2,149,976	2,115,748
	3,456,622	3,414,778
Customs duties	(472,186)	(517,348)
Retroactive gas price adjustments[1]	949	74,393
Sales of gas	2,985,385	2,971,823
Sales of refined products to customers in:		
Russian Federation	953,136	821,487
Former Soviet Union (excluding Russian Federation)	79,874	80,557
Europe and Other Countries	586,204	449,669
Total sales of refined products	1,619,214	1,351,713
Sales of crude oil and gas condensate to customers in:		
Russian Federation	51,603	32,094
Former Soviet Union (excluding Russian Federation)	16,013	50,115
Europe and Other Countries	141,618	128,007
Sales of crude oil and gas condensate	209,234	210,216
Electric and heat energy sales:		
Russian Federation	409,087	362,415
Former Soviet Union (excluding Russian Federation)	2,481	2,191
Europe and Other Countries	15,383	10,983
Total electric and heat energy sales	426,951	375,589
Gas transportation sales:		
Russian Federation	171,147	161,825
Former Soviet Union (excluding Russian Federation)	1,687	1,434
Europe and Other Countries	8	6
Total gas transportation sales	172,842	163,265
Other revenues:		
Russian Federation	152,459	144,529
Former Soviet Union (excluding Russian Federation)	4,757	4,992
Europe and Other Countries	18,969	27,838
Total other revenues	176,185	177,359
Total sales	**5,589,811**	**5,249,965**

Notes:

(1) Retroactive gas price adjustments relate to gas deliveries in 2010-2013 for which a discount has been agreed or is in the process of negotiations and where it is probable that a discount will be provided. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made. The effects of retroactive gas price adjustments on sales for the years ended December 31, 2014 and 2013 was a credit of RR949 million and RR74,393 million, respectively, reflecting a decrease in the related accruals following estimates made and agreements reached prior to the issuance of respective consolidated financial statements.

The following table sets out our volumes and realized prices for the years ended December 31, 2014 and 2013.

	Years ended December 31, 2014	Years ended December 31, 2013
	RR million unless stated otherwise	
Sales of gas		
Europe and Other Countries		
Gross sales[(1)]	2,149,976	2,115,748
Customs duties	(397,829)	(432,987)
Net sales	1,752,147	1,682,761
Volumes in bcm	159.4	174.3
Gross average price, U.S.$ per mcm[(2)] (including customs duties)[(3)]	349.4	380.5
Gross average price, RR per mcm[(2)] (including customs duties)	13,487.2	12,137.9
FSU (Former Soviet Union)		
Gross sales[(1)]	486,079	504,681
Customs duties	(74,357)	(84,361)
Net sales	411,722	420,320
Volumes in bcm	48.1	59.4
Gross average price, U.S.$ per mcm[(2)] (including customs duties)[(3)]	262.1	266.5
Gross average price, RR per mcm[(2)] (including customs duties)	10,115.9	8,499.9
Russian Federation		
Gross sales (net of VAT)	820,567	794,349
Net sales	820,567	794,349
Volumes in bcm	232.4	243.3
Gross average price, RR per mcm[(2)] (net of VAT)	3,530.9	3,264.6
Total sales of gas		
Gross sales (net of VAT)	3,456,622	3,414,778
Customs duties	(472,186)	(517,348)
Effect of retroactive gas price adjustments	949	74,393
Net sales	2,985,385	2,971,823
Volumes in bcm	439.9	477.0
Net sales of refined products (net of VAT, excise tax and customs duties)	1,619,214	1,351,713
Net sales of electric and heat energy (net of VAT)	426,951	375,589
Net sales of crude oil and gas condensate (net of VAT and customs duties)	209,234	210,216
Net gas transportation sales (net of VAT)	172,842	163,265
Other revenues (net of VAT)	176,185	177,359
Total sales (net of VAT, excise tax and customs duties)	**5,589,811**	**5,249,965**

Notes:

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

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

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

Total sales (net of VAT, excise tax and customs duties) increased by RR339,846 million, or 6%, to RR5,589,811 million in the year ended December 31, 2014 compared to the same period of the prior year. This increase was primarily attributable to the depreciation of the ruble in 2014 which caused our export sales revenues to increase as expressed in ruble terms.

Net sales of gas accounted for 53% and 57% of total net sales in the years ended December 31, 2014 and 2013, respectively.

Net sales of gas increased by RR13,562 million, or 0%, from RR2,971,823 million in the year ended December 31, 2013 to RR2,985,385 million in the year ended December 31, 2014.

Net sales of gas to Europe and Other Countries increased by RR69,386 million, or 4%, to RR1,752,147 million in the year ended December 31, 2014 as compared to the year ended December 31, 2013. Overall increase in sales of gas to Europe and Other Countries was mainly driven by an 11% increase in the gross average ruble price (including customs duties) as compared to the same period of the prior year, although the average U.S. dollar denominated price decreased by 8%. Volumes of gas sold decreased by 9% in the year ended December 31, 2014, compared to the same period of the prior year.

Net sales of gas to FSU countries decreased by RR8,598 million, or 2%, to RR411,722 million in the year ended December 31, 2014 compared to the same period of the prior year. The change was due to an increase of 19% in the gross average ruble price (including customs duties) as compared to the year ended December 31, 2013. The average price denominated in U.S. dollar decreased by 2%. Volumes of gas sold decreased by 19% in the year ended December 31, 2014, compared to the same period of the prior year.

Net sales of gas in the Russian Federation increased by RR26,218 million, or 3%, to RR820,567 million in the year ended December 31, 2014 compared to the same period of the prior year due to a 8% increase in the gross average domestic gas prices. Volumes of gas sold decreased by 4% in the year ended December 31, 2014 compared to the same period of the prior year.

Net sales of refined products (net of VAT, excise tax and customs duties) increased by RR267,501 million, or 20%, to RR1,619,214 million in the year ended December 31, 2014 in comparison with the same period of the prior year primarily due to an increase in prices and volumes of Gazprom Neft's sales to customers in the Russian Federation, Europe and Other countries. In the year ended December 31, 2014 and 2013 the Gazprom Neft's sales comprised 72% and 76% of the total amount of net sales of refined products, respectively.

Net sales of electric and heat energy (net of VAT) increased by RR51,362 million, or 14%, to RR426,951 million in the year ended December 31, 2014 compared to the same period of the prior year. The increase was mainly driven by the consolidation of MIPC from September 2013.

Net gas transportation sales (net of VAT) increased by RR9,577 million, or 6%, to RR172,842 million in the year ended December 31, 2014 as compared with RR163,265 million in the year ended December 31, 2013. This increase is primarily due to an increase in transportation volumes and gas transportation tariffs for independent suppliers.

Operating expenses

Operating expenses increased by 16% in the year ended December 31, 2014 to RR4,256,877 million from RR3,668,606 million in the same period of the prior year. Operating expenses as a percentage of sales increased from 70% in the year ended December 31, 2013 to 76% in the year ended December 31, 2014. The table below presents a breakdown of operating expenses in each period:

	Year ended December 31,	
	2014	**2013**
	RR million	
Purchased gas and oil	792,723	753,829
Taxes other than income tax	775,826	706,667
Staff costs	516,778	497,852
Depreciation	472,151	419,019
Transit of gas, oil and refined products	399,561	358,829
Charge for impairment and other provisions, net	313,208	67,698
Cost of goods for resale, including refined products	292,150	136,776
Materials	267,552	236,354
Repairs and maintenance	172,395	200,621
Electricity and heating expenses	87,228	87,242
Social expenses	46,429	34,970
Transportation services	33,431	29,909
Rental expenses	33,292	27,167
Insurance expenses	29,096	25,052
Research and development expenses	19,653	16,738
Processing services	18,121	14,423
Derivatives losses (gains)	7,141	(8,512)
Heat transmission	180	5,075
Exchange rate differences on operating items	(243,438)	(45,050)
Other	300,099	233,795
	4,333,576	**3,798,454**

Changes in inventories of finished goods, work in progress and other effects	(76,699)	(129,848)
Total operating expenses	**4,256,877**	**3,668,606**

Purchased gas and oil

The cost of purchased gas and oil increased by RR38,894 million to RR792,723 million in the year ended December 31, 2014 as compared with RR753,829 million in the same period of the prior year. The cost of purchased gas increased by RR36,103 million, or 7%, mainly due to the increase in costs for gas purchased from third parties abroad. The cost of purchased oil included in the cost of purchased gas and oil increased slightly to RR218,069 million in the year ended December 31, 2014 as compared with RR215,278 million in the year ended December 31, 2013.

Taxes other than income tax

Taxes other than income tax consist of:

	Year ended December 31,	
	2014	**2013**
	RR million	
MET	563,404	512,885
Property tax	89,010	75,468
Other taxes	123,412	118,314
Taxes other than income tax	**775,826**	**706,667**

The MET increased by 10% to RR563,404 million in 2014 as compared with RR512,885 million in 2013. The increase is mainly due to changes in the MET rate for natural gas and oil.

Staff costs

Staff costs increased by 4% to RR516,778 million for the year ended December 31, 2014 from RR497,852 million in the same period of the prior year. The increase was mainly due to the average salary indexation and an increase in the average number of personnel.

Depreciation

Depreciation increased by 13%, or RR53,132 million, to RR472,151 million in the year ended December 31, 2014 from RR419,019 million in the same period of the prior year. The increase is primarily due to the growth in the fixed assets base.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 11% to RR399,561 million in the year ended December 31, 2014 from RR358,829 million in the same period of the prior year. This increase was mainly driven by an increase in transportation volumes through the Nord Stream pipeline and through pipelines on the territory of Germany.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products, increased from RR136,776 million in the year ended December 31, 2013 to RR292,150 million in the year ended December 31, 2014 mainly due to the growth in volumes of refined products purchased from third parties.

Materials

Cost of materials increased by 13% to RR267,552 million in the year ended December 31, 2014 from RR236,354 million in the same period of the prior year mainly due to the inclusion of MIPC in our consolidated financial statements from September 2013, as well as to an increase in purchases of materials from third parties and an increase in prices.

Foreign exchange differences on operating items

Foreign exchange differences on operating items, primarily on accounts receivable, amounted to a net gain of RR243,438 million for 2014 as compared with a net gain of RR45,050 million for 2013. The change was primarily driven by a 72% appreciation of the U.S. dollar against the ruble and a 52% appreciation of the euro against the ruble in 2014, as compared with an 8% appreciation of the U.S. dollar against the ruble and a 12% appreciation of the euro against the ruble in 2013.

Other operating expenses

Other operating expenses increased by 28% to RR300,099 million in the year ended December 31, 2014 from RR233,795 million in the same period of the prior year. Other expenses include gas and gas condensate production expenses, services from gas distribution companies, bank charges, security services, legal and consulting services, charity and financial aid and advertising.

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

Change in inventories of finished goods, work in progress and other effects decreased by RR53,149 million to RR76,699 million in the year ended December 31, 2014 as compared with RR129,848 million in the same period of the prior year. The negative amount of the line item in the year ended December 31, 2014 is mainly due to an increase in the balances of finished goods as of December 31, 2014 as compared with the balances as of December 31, 2013.

Charge for impairment and other provisions, net

Charge for impairment and other provisions amounted to RR313,208 million in 2014 as compared with RR67,698 million in 2013. Such an increase includes accrual of provision for doubtful trade accounts receivable of Naftogaz in the amount of RR34,068 million and of AO Moldovagaz in the amount of RR5,948 million, and for loans issued in the amount of RR14,124 million.

Based on the results of the impairment test, the Group recognized an impairment loss in the amount of RR42,630 million for power generating assets and RR33,752 million for oil production assets as of December 31, 2014. The impairment was primarily triggered by an increase in discount rates due to the economic environment in the Russian Federation.

Based on the results of the impairment test, conducted as of December 31, 2014 the Group recognized an impairment loss in relation to goodwill in refining and electric and heat energy generation and sale segments in the amount of RR47,620 million.

In December 2014, we provided a guarantee to GPB to secure obligations of Ostchem Holding Limited under a credit facility provided to finance its operating activities. We made a provision for the full sum of the guarantee which as of December 31, 2014 amounted to RR47,407 million.

Operating profit

As a result of the factors discussed above, our operating profit decreased by RR276,785 million, or 17%, to RR1,310,424 million in the year ended December 31, 2014 from RR1,587,209 million in the year ended December 31, 2013. The operating profit margin decreased from 30% in the year ended December 31, 2013 to 23% in the year ended December 31, 2014.

Net finance expense

	Year ended December 31,	
	2014	**2013**
	RR million	
Exchange gains	322,821	96,125
Exchange losses	(1,393,792)	(241,339)
Net exchange loss	(1,070,971)	(145,214)
Interest income	66,983	33,398
Interest expense	(44,749)	(42,768)
Net finance expense	**(1,048,737)**	**(154,584)**

The net exchange loss of RR1,070,971 million in the year ended December 31, 2014 in comparison with net exchange loss of RR145,214 million in the same period of the prior year is mainly explained by the appreciation of the U.S. dollar against the ruble by 72% and a 52% appreciation of the euro against the ruble in the year ended December 31, 2014, as compared with an 8% appreciation of the U.S. dollar against the ruble and an appreciation of the euro against the ruble by 12% in the same period of the prior year. These foreign exchange fluctuations increased the ruble equivalent of our liabilities denominated in foreign currencies.

Interest income increased by 101% to RR66,983 million in the year ended December 31, 2014 as compared with RR33,398 million in the same period of the prior year, mainly due to an increase in interest accrued on our cash held with banks.

Interest expense increased by 5% to RR44,749 million in the year ended December 31, 2014 as compared with RR42,768 million in the same period of the prior year.

Share of net income of associated undertakings and joint ventures

Share of net income of associated undertakings and joint ventures decreased by RR10,619 million, or 19%, to RR46,051 million in the year ended December 31, 2014 as compared to RR56,670 million in in the same period of the prior year. The decrease is mainly due to accrual of impairment provision for investment in Shtokman Development AG in the amount of RR27,378 million. This change was partially offset by an increase in net income of Sakhalin Energy due to an increase in revenues generated by its LNG and crude oil business.

Profit tax

Total profit tax expense decreased by RR170,747 million, or 53%, to RR149,631 million in the year ended December 31, 2014 as compared with RR320,378 million in the year ended December 31, 2013. The effective profit tax rate was 48.8% and 21.6% in 2014 and 2013, respectively.

The change in the effective tax rate was mainly driven by an increase in non-deductible expenses, which were primarily related to accrual of provision for impairment of assets and other reserves.

Profit for the period attributable to owners of Gazprom

As a result of the factors discussed above, our profit for the period attributable to owners of Gazprom decreased by RR980,257 million, or 86%, and amounted to RR159,004 million in the year ended December 31, 2014 as compared with RR1,139,261 million in the year ended December 31, 2013.

Loss for the period attributable to non-controlling interest

Loss for the period attributable to non-controlling interest amounted to RR1,812 million in 2014 as compared to profit attributable to non-controlling interest in the amount of RR26,444 million in 2013. The change is due to the recognition of loss from impairment of assets, attributable to non-controlling interest in the amount of RR18,312 million.

Year ended December 31, 2013 versus Year ended December 31, 2012

Sales

The following table summarizes our sales information for our operating segments for the years ended December 31, 2013 and 2012:

	Year ended December 31, 2013	Year ended December 31, 2012
	RR million	
Gas sales gross of custom duties to customers in:		
Russian Federation	794,349	760,885
Former Soviet Union (excluding Russian Federation)	504,681	626,820
Europe and Other Countries	2,115,748	1,806,947
	3,414,778	3,194,652
Customs duties	(517,348)	(434,796)
Retroactive gas price adjustments[1]	74,393	(102,749)
Sales of gas	2,971,823	2,657,107
Sales of refined products to customers in:		
Russian Federation	821,487	742,473
Former Soviet Union (excluding Russian Federation)	80,557	73,267
Europe and Other Countries	449,669	393,475
Total sales of refined products	1,351,713	1,209,215
Sales of crude oil and gas condensate to customers in:		
Russian Federation	32,094	40,726
Former Soviet Union (excluding Russian Federation)	50,115	30,186
Europe and Other Countries	128,007	204,648
Sales of crude oil and gas condensate	210,216	275,560
Electric and heat energy sales:		
Russian Federation	362,415	326,737
Former Soviet Union (excluding Russian Federation)	2,191	5,586
Europe and Other Countries	10,983	11,186
Total electric and heat energy sales	375,589	343,509
Gas transportation sales:		
Russian Federation	161,825	123,327
Former Soviet Union (excluding Russian Federation)	1,434	2,059
Europe and Other Countries	6	-
Total gas transportation sales	163,265	125,386
Other revenues:		
Russian Federation	144,529	139,393
Former Soviet Union (excluding Russian Federation)	4,992	5,058
Europe and Other Countries	27,838	11,267
Total other revenues	177,359	155,718
Total sales	**5,249,965**	**4,766,495**

Notes:

[1] Retroactive gas price adjustments relate to gas deliveries in 2010, 2011 and 2012 for which a discount has been agreed or is in the process of negotiations and where it is probable that a discount will be provided. The effects of gas price adjustments, including corresponding impact on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made. The effect of retroactive gas price adjustments on sales for the year ended December 31, 2013 was a credit of RR74,393 million reflecting a decrease in a related accrual following estimates made and agreements reached prior to the issuance of the 2013 consolidated financial statements. Effect of retroactive gas price adjustments recorded for the year ended December 31, 2012 was a charge of RR102,749 million reflecting an increase in a related accrual for volumes of gas delivered in 2010 and 2011 for which a discount was agreed in 2012 or was in a process of negotiations at the time the 2012 consolidated financial statements were issued where it was probable that a discount will be provided.

The following table sets out our volumes and realized prices for the years ended December 31, 2013 and 2012.

	Year ended December 31,	
	2013	2012
	RR million unless stated otherwise	
Sales of gas		
Europe and Other Countries		
Gross sales[1]	2,115,748	1,806,947
Customs duties	(432,987)	(337,492)
Net sales	1,682,761	1,469,455
Volumes in bcm	174.3	151.0
Gross average price, U.S.$ per mcm[2] (including customs duties)[3]	380.5	385.1
Gross average price, RR per mcm[2] (including customs duties)	12,137.9	11,969.8
FSU (Former Soviet Union)		
Gross sales[1]	504,681	626,820
Customs duties	(84,361)	(97,304)
Net sales	420,320	529,516
Volumes in bcm	59.4	66.1
Gross average price, U.S.$ per mcm[2] (including customs duties)[3]	266.5	305.3
Gross average price, RR per mcm[2] (including customs duties)	8,499.9	9,489.5
Russian Federation		
Gross sales (net of VAT)	794,349	760,885
Net sales	794,349	760,885
Volumes in bcm	243.3	265.3
Gross average price, RR per mcm[2] (net of VAT)	3,264.6	2,867.9
Total sales of gas		
Gross sales (net of VAT)	3,414,778	3,194,652
Customs duties	(517,348)	(434,796)
Effect of retroactive gas price adjustments	74,393	(102,749)
Net sales	2,971,823	2,657,107
Volumes in bcm	477.0	482.4
Net sales of refined products (net of VAT, excise tax and customs duties)	1,351,713	1,209,215
Net sales of electric and heat energy (net of VAT)	375,589	343,509
Net sales of crude oil and gas condensate (net of VAT and customs duties)	210,216	275,560
Net gas transportation sales (net of VAT)	163,265	125,386
Other revenues (net of VAT)	177,359	155,718
Total sales (net of VAT, excise tax and customs duties)	**5,249,965**	**4,766,495**

Notes:

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

[2] One mcm is equivalent to 35,316 cubic feet.

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

Total sales (net of VAT, excise tax and customs duties) increased by RR483,470 million, or 10%, to RR5,249,965 million in 2013 as compared with 2012.

Net sales of gas accounted for 57% and 56% of total net sales in 2013 and 2012, respectively.

Net sales of gas increased by RR314,716 million, or 12%, from RR2,657,107 million in 2012 to RR2,971,823 million in 2013.

Net sales of gas to Europe and Other Countries increased by RR213,306 million, or 15%, to RR1,682,761 million in 2013 as compared with 2012. The overall increase in net sales of gas to Europe and Other Countries was mainly driven by an increase of 15% in the volume of gas sold as compared with the prior year. The gross average ruble price (including customs duties) increased by 1% in 2013 as compared with 2012.

Retroactive gas price adjustments were recognized in the financial statements as a RR74,393 million increase in sales in 2013 that reflects a decrease in a previously recognized accrual.

Net sales of gas to FSU countries decreased by RR109,196 million, or 21%, and amounted to RR420,320 million in 2013 as compared with 2012. The change was due to a 10% decrease in the gross average ruble price (including customs duties) and a 10% decrease in the volumes of gas sold in 2013 as compared with 2012.

Net sales of gas in the Russian Federation increased by RR33,464 million, or 4%, and reached RR794,349 million in 2013 as compared with 2012 due to a 14% increase in the gross average domestic gas prices. In 2013, the volume of gas sold decreased by 8% as compared with 2012.

Net sales of refined products (net of VAT, excise tax and customs duties) increased by RR142,498 million, or 12%, to RR1,351,713 million in 2013 as compared with 2012 primarily due to an increase in volumes sold by Gazprom Neft to customers in Europe and Other Countries and in the Russian Federation and also due to an increase in prices. In 2013 and 2012, Gazprom Neft's sales comprised 76% and 77% of our total net sales of refined products, respectively. An increase in net sales of refined products was also due to the inclusion of the Gazprom neftekhim Salavat group in the consolidated financial statements from June 2012.

Net sales of electric and heat energy (net of VAT) increased by RR32,080 million, or 9%, to RR375,589 million in 2013 as compared with 2012 mainly due to the consolidation of MIPC from September 2013.

Net sales of crude oil and gas condensate (net of VAT and customs duties) decreased by RR65,344 million, or 24%, to RR210,216 million in 2013 as compared with RR275,560 million in 2012. Sales of crude oil included in net sales of crude oil and gas condensate (net of VAT and customs duties) amounted to RR179,265 million and RR234,470 million in 2013 and 2012, respectively. The change was mainly due to a decrease in crude oil volumes sold to customers in Europe and Other Countries. Sales of gas condensate decreased due to the inclusion of Gazprom neftekhim Salavat group in the consolidated financial statements from June 2012.

Net sales of gas transportation services (net of VAT) increased by RR37,879 million, or 30%, to RR163,265 million in 2013 as compared with RR125,386 million in 2012 primarily due to an increase in transportation volumes and gas transportation tariffs for independent suppliers.

Other revenues increased by RR21,641 million, or 14%, and amounted to RR177,359 million in 2013 as compared with RR155,718 million in 2012.

Operating expenses

Operating expenses increased by 7% in the year ended December 31, 2013 to RR3,668,606 million from RR3,418,639 million in the same period of the prior year. Operating expenses as a percentage of sales decreased from 72% in the year ended December 31, 2012 to 70% in the year ended December 31, 2013. The table below sets forth a breakdown of operating expenses in each period:

	Year ended December 31,	
	2013	**2012**
	(RR million)	
Purchased gas and oil	753,829	820,692
Taxes other than income tax	706,667	625,313
Staff costs	497,852	409,807
Depreciation	419,019	345,690
Transit of gas, oil and refined products	358,829	317,754
Materials	236,354	186,920
Repairs and maintenance	200,621	219,999
Cost of goods for resale, including refined products	136,776	129,812
Electricity and heating expenses	87,242	76,949
Charge for (reversal of) impairment and other provisions, net	67,698	(3,208)
Social expenses	34,970	31,736
Transportation services	29,909	38,839
Rental expenses	27,167	24,126
Insurance expenses	25,052	22,370
Research and development expenses	16,738	19,766
Processing services	14,423	14,396
Heat transmission	5,075	19,647
Derivatives (gains) losses	(8,512)	8,802
Exchange rate differences on operating items	(45,050)	14,147
Other	233,795	182,347
	3,798,454	**3,505,904**
Changes in inventories of finished goods, work in progress and other effects	(129,848)	(87,265)
Total operating expenses	**3,668,606**	**3,418,639**

Purchased gas and oil

The cost of purchased gas and oil decreased by RR66,863 million to RR753,829 million in 2013 as compared with RR820,692 million in 2012. The cost of purchased gas decreased by RR17,795 million, or 3% over the same period. This decrease mainly relates to the decline in volumes purchased from third parties both in Russia and abroad. The cost of purchased oil included in the cost of purchased gas and oil decreased by RR49,068 million, or 19%, and amounted to RR215,278 million in 2013 as compared with RR264,346 million in 2012 due to the decrease in volumes of purchased oil.

Taxes other than income tax

Taxes other than income tax consist of:

	Year ended December 31,	
	2013	**2012**
	(RR million)	
MET	512,885	458,322
Property tax	75,468	54,934
Other taxes	118,314	112,057
Taxes other than income tax	**706,667**	**625,313**

The MET increased by 12% to RR512,885 million in 2013 as compared with RR458,322 million in 2012. The increase is mainly due to an increase in the tax rate for gas from RR509 to RR582 per mcm starting from January 1, 2013 and to RR622 per mcm starting from July 1, 2013. The increase in MET on oil extraction resulted mainly from growth in the base tax rate for oil from RR446 to RR470 per ton.

Staff costs

Staff costs increased by 21% to RR497,852 million in 2013 from RR409,807 million in 2012. The increase was mainly due to the average salary indexation and increased average number of personnel.

Depreciation

Depreciation increased by 21%, or RR73,329 million, to RR419,019 million in 2013 from RR345,690 million in 2012. The increase is primarily due to the growth in the fixed asset base.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 13% to RR358,829 million in 2013 from RR317,754 million in 2012. This increase was mainly driven by growth in oil and refined products transit due to the inclusion of the Gazprom neftekhim Salavat group in the consolidated financial statements starting from June 2012, as well as growing transportation volumes through the Nord Stream pipeline.

Materials

The cost of materials increased by 26% to RR236,354 million in 2013 from RR186,920 million in 2012. The increase mainly relates to the inclusion of the Gazprom neftekhim Salavat group in the consolidated financial statements starting from June 2012, as well as to the increased purchases of materials from third parties.

Repairs and maintenance

Cost of repairs and maintenance decreased by 9% to RR200,621 million in 2013 from RR219,999 million in 2012. The decrease was mainly caused by a decline in the volume of repair services rendered by third parties to the Group during 2013.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased by 5% to RR136,776 million in 2013 from RR129,812 million in 2012. The increase was mainly due to the growth in volumes of refined products purchased externally by Gazprom Neft.

Electricity and heating expenses

Electricity and heating expenses increased by 13% to RR87,242 million in 2013 from RR76,949 million in 2012. The increase mainly resulted from the consolidation of MIPC starting from September 2013, as well as an increase in consumption of electricity and tariff growth.

Exchange rate differences on operating items

Exchange rate differences on operating items amounted to a net gain of RR45,050 million for 2013 as compared with a net loss of RR14,147 million for 2012. The change was primarily driven by an 8% appreciation of the U.S. dollar against the ruble and a 12% appreciation of the euro against the ruble in 2013, as compared with a 6% depreciation of the U.S. dollar against the ruble and 3% depreciation of the euro against the ruble in 2012.

Other operating expenses

Other operating expenses increased by 28% to RR233,795 million in 2013 from RR182,347 million in 2012. Other expenses include bank charges, security services, legal and consulting services, charity and financial aid, and advertising.

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

Change in inventories of finished goods, work in progress and other effects increased by RR42,583 million to RR129,848 million in 2013 as compared with RR87,265 million in 2012. The negative amount of the line item is mainly due to an increase in the balances of finished goods as of December 31, 2013 as compared with the balances as of December 31, 2012.

Charge for (reversal of) impairment and other provisions, net

The net release in 2012 was primarily due to the reversal of impairment for construction in progress more than the charge for new bad debt provisions. In October 2012, upon completion of the first phase of infrastructure development and commencement of operations of the Bovanenkovskoye field, the Group reversed the previously created impairment provision for assets under construction related to the Bovanenkovskoye and Kharasaveyskoye fields and the Obskaya-Bovanenkovo railroad. Total amount of the impairment provision reversal was RR47,574 million.

Charges for provisions for short-term and long-term accounts receivable were RR64,451 million and RR47,238 million in 2013 and 2012, respectively.

Operating profit

As a result of the factors discussed above, our operating profit increased by RR236,532 million, or 18%, to RR1,587,209 million in 2013 from RR1,350,677 million in 2012. The operating profit margin increased from 28% in 2012 to 30% in 2013.

Net finance (expense) income

	Year ended December 31,	
	2013	**2012**
	RR million	
Exchange gains	96,125	281,863
Exchange losses	(241,339)	(210,146)
Net exchange (loss) gain	(145,214)	71,717
Interest income	33,398	26,626
Interest expense	(42,768)	(37,022)
Net finance (expense) income	**(154,584)**	**61,321**

The net exchange loss of RR145,214 million in 2013 as compared with net exchange gain of RR71,717 million in 2012 is mainly explained by an 8% appreciation of the U.S. dollar against the ruble and a 12% appreciation of the euro against the ruble in 2013, as compared with a 6% depreciation of the U.S. dollar against the ruble and 3% depreciation of the euro against the ruble in 2012. These changes in foreign exchange rates increased the Group's liabilities denominated in foreign currencies.

Interest income increased by 25% to RR33,398 million in 2013 from RR26,626 million in 2012, mainly due to an increase in interest accrued on Group's cash held with banks.

Interest expense increased by 16% to RR42,768 million in 2013 from RR37,022 million in 2012, mainly due to an increase in average borrowings balance during 2013 as compared with 2012.

Share of net income of associated undertakings and joint ventures

Share of net income of associated undertakings and joint ventures decreased by RR88,522 million, or 61%, to RR56,670 million in 2013 as compared with RR145,192 million in 2012.

The decrease in the Group's share of net income of associated undertakings and joint ventures in 2013 relates mainly to the decline in net income of Sakhalin Energy by RR30,675 million due to a decrease in revenue from crude oil and LNG sales as a result of decline in production, market price decrease for crude oil and LNG and the initial recognition of variable obligation on irredeemable preferred share (class R) attributable to the Russian Federation. The Group's share of net income of associated undertakings and joint ventures for 2013 includes an additional expense of RR25,961 million recognized for Slavneft and its subsidiaries as a result of a one-time adjustment to correct the prior understatement of depreciation resulting from the differences between the fair values of fixed assets and their carrying amounts as of the Group's acquisition of an interest in Slavneft. The Group's share of net income of associated undertakings and joint ventures for 2012 includes the share of net income of RosUkrEnergo AG related to the results of its operations in 2011 in the form of dividends received by the Group in the amount of RR17,017 million.

Profit tax

Total profit tax expense increased by RR15,057 million, or 5%, to RR320,378 million in 2013 as compared with RR305,321 million in 2012. The effective profit tax rate was 21.6% and 19.6% in 2013 and 2012, respectively.

The change in effective tax rate was mainly driven by an increase in non-deductible expenses and decrease in non-taxable income related to Share of other comprehensive income of associated undertakings and joint ventures for 2013 as compared with 2012.

Profit for the period attributable to owners of Gazprom

As a result of the factors discussed above, our profit for the period attributable to owners of Gazprom decreased by RR85,213 million, or 7%, and amounted to RR1,139,261 million in 2013 as compared with RR1,224,474 million in 2012.

Profit for the period attributable to non-controlling interest

Profit for the period attributable to non-controlling interest decreased by RR1,497 million, or 5%, and amounted to RR26,444 million in 2013 as compared with RR27,941 million in 2012.

Liquidity and Capital Resources

We make significant capital expenditures to explore for natural gas and crude oil, to develop our natural gas and crude oil fields and to produce natural gas, gas condensate and crude oil and their products, and to maintain and expand the GTS and international pipelines. Our capital expenditures (excluding the effect of acquisitions of subsidiaries) were RR580,298 million and RR500,972 million in the six-month periods ended June 30, 2015 and 2014, respectively, and RR1,433,806 million, RR1,475,169 million and RR1,545,162 million in the years ended December 31, 2014, 2013 and 2012, respectively.

We make significant investments in associated undertakings and jointly controlled entities and acquisitions of subsidiaries. See "Certain Acquisitions, Dispositions and Changes in Control—Acquisitions and dispositions to and after June 30, 2015."

In the six-month periods ended June 30, 2015 and 2014, and in the years ended December 31, 2014, 2013 and 2012 our operating cash flows were sufficient to cover our cash capital expenditures and other investment activities.

Other significant uses of our cash flows include servicing our debt and paying dividends. Interest paid and expensed was RR29,956 million and RR27,329 million in the six-month periods ended June 30, 2015 and 2014, respectively, and RR27,803 million, RR27,876 million and RR26,819 in the years ended December 31, 2014, 2013 and 2012, respectively. Interest paid and capitalized was RR57,448 million and RR35,776 million in the six-month periods ended June 30, 2015 and 2014 respectively, and RR94,016 million, RR64,148 million and RR66,873 million in the years ended December 31, 2014, 2013 and 2012 respectively. Total interest paid, both expensed and capitalized, was RR87,404 million and RR63,105 million in the six-month periods ended June 30, 2015 and 2014 respectively, and RR121,819 million, RR92,024 million and RR93,692 in the years ended December 31, 2014, 2013 and 2012 respectively.

We paid dividends (including dividends paid by subsidiaries to minority shareholders) of RR2,651 million and RR15,012 million in the six-month periods ended June 30, 2015 and 2014 respectively, and RR178,947 million, RR137,227 million and RR197,037 million in the years ended December 31, 2014, 2013 and 2012, respectively.

In the six-month period ended June 30, 2015 and the years ended December 31, 2014 and 2012, our repayments of debt exceeded our proceeds from debt. In the six-month period ended June 30, 2014 and in the year ended December 31, 2013, our proceeds from debt exceeded our repayments of debt. Our repayments of debt net of borrowings (including bonds and promissory notes) were RR20,923 million, RR43,250 million and RR31,285 million in the six-month period ended June 30, 2015 and in the years ended December 31, 2014 and 2012, respectively. Our borrowings net of repayments (including bonds and promissory notes) were RR15,455 million and RR129,441 million in the six-month period ended June 30, 2014 and in the year ended December 31, 2013, respectively.

Our total debt (including long-term borrowings, short-term borrowings, short-term promissory notes payable, long-term promissory notes payable) decreased from RR2,688,824 million as of December 31, 2014 to RR2,554,159 million as of June 30, 2015. Our cash and cash equivalents and certain restricted cash (i.e., cash balances restricted under certain borrowings) increased from RR1,038,191 million as of December 31, 2014 to RR1,104,568 million as of June 30, 2015.

Cash Flows

The following table summarizes our statements of cash flows for the six-month periods ended June 30, 2015 and 2014 and for the years ended December 31, 2014, 2013 and 2012:

	Six-month period ended June 30,		Year ended December 31,		
	2015	2014	2014	2013	2012
Net cash from operating activities	985,237	986,143	1,915,769	1,741,804	1,472,779
Net cash used in investing activities	(839,373)	(698,150)	(1,441,305)	(1,466,512)	(1,287,216)
Net cash used in financing activities	(53,458)	(27,390)	(262,587)	(33,262)	(253,870)

Net cash from operating activities

Net cash from operating activities decreased by RR906 million, and amounted to RR985,237 million in the six-month period ended June 30, 2015 compared to RR986,143 million in the six-month period ended June 30, 2014. The decrease was primarily due to a decrease of cash flows from operating activities before changes in working capital which was offset by positive dynamics in working capital changes.

Net cash from operating activities increased by RR173,965 million, or 10%, and amounted to RR1,915,769 million in 2014 compared to RR1,741,804 million in 2013. The increase was primarily due to positive dynamics in working capital changes.

Net cash from operating activities increased by RR269,025 million, or 18%, and amounted to RR1,741,804 million in 2013 as compared with RR1,472,779 million in 2012. The increase was primarily due to an increase in operating profit in 2013 as compared with 2012, which was partially offset by negative dynamics in working capital changes.

Net cash used in investing activities

Net cash used in investing activities increased by RR141,223 million, or 20%, to RR839,373 million in the six-month period ended June 30, 2015 as compared with RR698,150 million in the six-month period ended June 30, 2014. The change was primarily due to an increase in cash used for capital expenditures for the six-month period ended June 30, 2015 compared to the same period of the prior year.

Net cash used in investing activities decreased by RR25,207 million, or 2%, to RR1,441,305 million in 2014 as compared with RR1,466,512 million in 2013. The change was primarily due to a decrease in cash used for capital expenditures in 2014 as compared with 2013. The decrease was offset by an increase of investments in associated undertakings and increase in long-term loans issued in 2014 as compared with 2013.

Net cash used in investing activities increased by RR179,296 million, or 14%, to RR1,466,512 million in 2013 as compared with RR1,287,216 million in 2012. The increase was primarily due to an increase in cash used for capital expenditure, acquisition of subsidiaries and a decrease in proceeds from associated undertakings and joint ventures in 2013 as compared with 2012.

Net cash used in financing activities

Net cash used in financing activities amounted to RR53,458 million in the six-month period ended June 30, 2015 as compared with net cash used in financing activities in the amount of RR27,390 million in the same period of the prior year. This change was primarily due to excess of cash used for repayment of borrowings over proceeds from borrowings.

Net cash used in financing activities amounted to RR262,587 million in 2014 as compared with RR33,262 million in 2013. The change was primarily due to a decrease in proceeds from long-term borrowings and increase in dividends paid in 2014 as compared with 2013.

Net cash used in financing activities amounted to RR33,262 million in 2013 as compared with RR253,870 million in 2012. This change was primarily due to a decrease in dividends paid in 2013 as compared with 2012 and due to a shift from net repayment of long-term borrowings in 2012 to net proceeds in 2013.

Working Capital

Our working capital surplus (current assets less current liabilities) was RR1,512,751 million as of June 30, 2015 and RR1,605,208 million as of December 31, 2014. The decrease in our working capital by RR92,457 million in the six-month period ended June 30, 2015 was primarily due to a decrease in accounts receivable and prepayments and other current assets. These effects were partially offset by a decrease in accounts payable, accruals and provisions for liabilities and charges and an increase in cash and cash equivalents.

The decrease in accounts receivable and prepayments of RR171,700 million was mainly caused by a decrease in trade receivables for gas from customers in Germany and Turkey.

The decrease in other current assets of RR106,140 million was mainly caused by a decrease in VAT recoverable, short-term deposits and prepaid profit tax.

The increase in cash and cash equivalents of RR66,377 million was mainly caused by an increase in foreign currency cash and cash equivalents.

The decrease of accounts payable, accruals and provision for liabilities of RR145,334 million was caused mainly by a decrease in trade accounts payable and payables for plant, property and equipment and was partially offset by an increase in dividends payable.

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

The working capital surplus (current assets less current liabilities) was RR1,605,208 million as of December 31, 2014 and RR1,471,205 million as of December 31, 2013. The increase in our working capital by RR134,003 million in 2014 was primarily due to an increase in cash and cash equivalents and an increase in other current assets and inventories. These effects were offset by an increase in accounts payable and current portion of long-term borrowings.

The increase in other current assets by RR197,433 million was mainly caused by an increase in short-term deposits and an increase in prepaid profit tax due to a decrease in taxable profit in 2014.

The increase in inventories by RR102,192 million was driven by a growth in cost of gas in pipelines and storages.

The increase in accounts payable by RR321,447 million was mainly caused by an increase in accrued liabilities related to possible gas price adjustments on gas supplied to customers in 2014, accrual of provision under a financial guarantee provided to GPB in relation to a loan provided to Ostchem Holding Limited, and the inclusion of South Stream Transport B.V. and its subsidiaries in the consolidated financial statements in 2014.

The working capital surplus (current assets less current liabilities) was RR1,471,205 million as of December 31, 2013 and RR928,737 million as of December 31, 2012. The increase in our working capital of RR542,468 million in the year ended December 31, 2013 was primarily due to the decrease of accounts payable balance and increase in inventories, cash and cash equivalents and accounts receivable balance. These effects were partially offset by the increase in taxes payable balance and a decrease in VAT recoverable. The decrease in accounts payable of RR143,299 million was caused mainly by the decrease in accounts payable in respect of property, plant and equipment which is subject to seasonal fluctuations and a decrease in other payables which is mostly due to the effect of gas price adjustment. The increase in inventories amounted to RR106,978 million and was mainly due to the seasonal growth of gas volumes in pipelines and UGSFs. The increase in short-term accounts receivable of RR91,294 million was caused by the increased debt for supplied gas in all geographical segments.

Capital Expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segment for the six-month periods ended June 30, 2015 and 2014 and for the years ended December 31, 2014, 2013 and 2012 in nominal ruble terms, amounted to the following:

	Six-month period ended June 30,			
	2015		2014	
	(RR million)	(%)	(RR million)	(%)
Transport	245,686	42.3	176,389	35.2
Production of crude oil and gas condensate	142,164	24.5	110,510	22.1
Production of natural gas	65,961	11.4	112,897	22.5
Refining	57,092	9.8	45,143	9.0
Electric and heat energy generation and sales	30,549	5.3	30,023	6.0
Distribution	4,976	0.9	8,500	1.7
Gas storage	8,414	1.4	2,926	0.6
Other(1)	25,456	4.4	14,584	2.9
Total(2)	**580,298**	**100**	**500,972**	**100**

	Year ended December 31,					
	2014		2013		2012	
	(RR million)	(%)	(RR million)	(%)	(RR million)	(%)
Transport	523,690	36.5	470,449	31.9	706,414	45.7
Production of natural gas	308,559	21.5	317,177	21.5	285,925	18.5
Production of crude oil and gas condensate	255,706	17.8	266,603	18.1	148,531	9.6
Refining	153,038	10.7	134,675	9.1	170,860	11.1
Electric and heat energy generation and sales	92,023	6.4	91,975	6.2	70,440	4.6
Distribution	27,629	1.9	43,612	3.0	61,266	4.0
Gas storage	17,953	1.2	28,251	1.9	23,031	1.5
Other(1)	55,208	3.9	122,427	8.3	78,695	5.1
Total(2)	**1,433,806**	**100**	**1,475,169**	**100**	**1,545,162**	**100**

Notes:

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

(2) The capital expenditures in this table may differ from the capital additions disclosed within our business segments in the IFRS consolidated financial statements of Gazprom primarily due to VAT included in the amounts above.

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) increased by RR79,326 million, or 16%, from RR500,972 million in the six-month period ended June 30, 2014 to RR580,298 million in the six-month period ended June 30, 2015.

The increase in capital expenditures in the Transport segment was attributable to the construction of the Power of Siberia pipeline and the extension of the GTS to enable gas supplies to the South Stream pipeline.

The increase in capital expenditures in the Production of crude oil and gas condensate segment was mainly due to the increase in capital expenditures of Gazprom Neft.

The decrease in capital expenditures in the Production of natural gas was mainly due to acquisitions of production licenses during six-month period ended June 30, 2014.

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) decreased by RR41,363 million, or 3%, from RR1,475,169 million in the year ended December 31, 2013 to RR1,433,806 million in the year ended December 31, 2014.

The increase of capital expenditures in the Transport segment was due to construction of the Bovanenkovo-Ukhta gas pipeline system and the extension of the GTS to enable gas supplies to South Stream pipeline.

The decrease in capital expenditures in the segment of Production of crude oil and gas condensate was mainly due to the decrease in capital expenditures of Gazprom Neft.

The decrease in capital expenditures in other segments is mainly explained by completion of construction of facilities provided by the Program for Construction of Olympic Venues and the Development of Sochi as a Mountain Climate Resort.

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) decreased by RR69,993 million, or 5%, from RR1,545,162 million in 2012 to RR1,475,169 million in 2013.

The decrease in our capital expenditures in the Transport segment was primarily due to the putting into operation of the

Bovanenkovo-Ukhta and Ukhta-Torzhok pipelines following the launch of the Bovanenkovskoye field. The increase in capital expenditures in the Production of crude oil and gas condensate segment was due to capital expenditures of LLC Gazprom neft shelf and Gazprom Neft. The increase in capital expenditures in the Electric and heat energy generation and sales segment was primarily due to an increase in the capital expenditures of Mosenergo related to the construction of modern steam-gas power-generating units at TPP-12, TPP-16 and TPP-20. The increase in capital investments in other segments is mainly due to the construction of facilities under the Program for Construction of Olympic Venues and Development of Sochi as a Mountain Climate Resort.

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

	Six-month period ended June 30,		Year ended December 31,		
	2015	2014	2014	2013	2012
			(RR million)		
Cash capital expenditures	784,905	620,690	1,262,140	1,397,195	1,349,114
Interest paid and capitalized	51,421	35,776	94,016	64,148	66,873
Changes in settlements related to capital construction	(256,028)	(155,494)	77,650	13,826	129,175
Total capital expenditures(1)	**580,298**	**500,972**	**1,433,806**	**1,475,169**	**1,545,162**

Note:

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

Our budgeted total capital expenditures by segment for the year ending December 31, 2015 are as follows (excluding expenditures for certain of our subsidiaries, namely Mosenergo, PJSC OGK-2, OJSC TGK-1 and Gazprom Neft):

	Year ending December 31, 2015	
	(RR million)	(%)
Transportation	469,511	64.0
Production of gas	152,063	20.7
Gas storage	33,592	4.6
Refining	16,606	2.3
Distribution of gas	12,903	1.8
Production of crude oil and gas condensate	20,357	2.8
Other	28,095	3.8
Total	**733,127**	**100.0**

Debt Obligations

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings and long-term promissory notes payable, net of cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations) decreased by RR201,042 million, or 12%, from RR1,650,633 million as of December 31, 2014 to RR1,449,591 million as of June 30, 2015. This decrease resulted from a decrease in long-term borrowings, change in foreign currency exchange rates (primarily, depreciation of the euro against the ruble) and an increase in cash and cash equivalents.

Net debt balance increased by RR537,835 million, or 48%, from RR1,112,798 million as of December 31, 2013 to RR1,650,633 million as of December 31, 2014. This increase resulted from a depreciation of the ruble against the U.S. dollar and the euro which was offset by an increase in cash and cash equivalents.

Net debt balance increased by RR41,584 million, or 4%, from RR1,071,214 million as of December 31, 2012 to RR1,112,798 million as of December 31, 2013. This increase resulted from raising new long-term borrowings and a depreciation of the ruble against the U.S. dollar and the euro that was offset by an increase in cash and cash equivalents.

The following table shows our borrowings as of the dates indicated:

	As of June 30,	As of December 31,		
	2015	2014	2013	2012
		(RR million)		
Long-term borrowings				
Fixed interest rate borrowings	1,869,938	2,044,351	1,427,690	1,165,789
Weighted average interest rates for fixed rate borrowings	6.42%	6.15%	6.31%	7.12%
Variable interest rate borrowings	608,946	591,503	334,602	268,997
Weighted average interest rates for variable rate borrowings	3.44%	2.98%	2.97%	3.02%
Total long-term borrowings	**2,478,884**	**2,635,854**	**1,762,292**	**1,434,786**
RR denominated borrowings	327,963	289,934	245,412	207,953
Foreign currency denominated borrowings	2,150,921	2,345,920	1,516,880	1,226,833
Total long-term borrowings	**2,478,884**	**2,635,854**	**1,762,292**	**1,434,786**
Less: current portion of long-term borrowings	(432,944)	(411,862)	(292,341)	(256,868)
Add: long-term promissory notes, net of discount	50	50	51	41
Total long-term debt obligations	**2,045,990**	**2,224,042**	**1,470,002**	**1,177,959**
Short-term borrowings				
Fixed interest rate borrowings	21,701	21,279	38,699	55,385
Weighted average interest rates for fixed rate borrowings	13.50%	12.19%	6.87%	5.46%
Variable interest rate borrowings	53,473	31,590	836	10,372
Weighted average interest rates for variable rate borrowings	2.14%	3.10%	5.38%	1.94%
Total short-term borrowings	**75,174**	**52,869**	**39,535**	**65,757**
RR denominated borrowings	18,375	14,667	25,692	22,861
Foreign currency denominated borrowings	56,799	38,202	13,843	42,896
Total short-term borrowings	**75,174**	**52,869**	**39,535**	**65,757**
Add: current portion of long-term borrowings	432,944	411,862	292,341	256,868
Add: short-term promissory notes	51	51	50	8
Total short-term debt obligations	**508,169**	**464,782**	**331,926**	**322,633**
Total borrowings	**2,554,159**	**2,688,824**	**1,801,928**	**1,500,592**

The following table shows the breakdown by currency of our actual foreign currency denominated long-term borrowings as of June 30, 2015, December 31, 2014, 2013 and 2012 as well as the same balances expressed in rubles:

	As of June 30,	As of December 31,		
	2015	2014	2013	2012
U.S. dollar denominated (expressed in millions of U.S. dollars)	26,582	26,479	27,817	28,593
Euro denominated (expressed in millions of U.S. dollars)(1)	11,610	14,707	17,952	11,787
Other currencies denominated (expressed in millions of U.S. dollars)	547	513	577	12
Total long-term foreign currency denominated borrowings expressed in millions of U.S. dollars	**38,739**	**41,699**	**46,346**	**40,392**
Total long-term foreign currency denominated borrowings expressed in millions of RR(2)	**2,150,921**	**2,345,920**	**1,516,880**	**1,226,833**

Notes:

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

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

We used to use receivables generated by certain of our export contracts as collateral under some of our long-term borrowings denominated in convertible currencies. As of December 31, 2012, borrowings of RR12,509 million inclusive of current portion of long-term borrowings, were secured by revenues from export supplies of gas to Western Europe. As of June 30, 2015, we have no debt obligations secured by export receivables.

As of June 30, 2015 and December 31, 2014 pursuant to a project facility agreement entered into in connection with the development project of the Yuzhno-Russkoe field with a group of international financial institutions with UniCredit Bank AG acting as facility agent, ordinary shares of our subsidiary OJSC Severneftegazprom ("Severneftegazprom"), with the pledge value of RR16,968 million and fixed assets of Severneftegazprom with the pledge value of RR26,210 million were pledged to ING Bank N.V. (London branch) until all the obligations of OJSC Severneftegazprom under the project facility agreement are fulfilled. As of 30 June 2015 and December 31, 2014 the carrying value of these fixed assets was RR22,384 million and RR24,044 million, respectively.

The following table shows our schedule of repayments for long-term borrowings as of June 30, 2015, December 31, 2014, 2013 and 2012:

	As of June 30,	As of December 31,		
	2015	2014	2013	2012
		(RR million)		
Between one and two years	456,488	404,096	242,531	278,726
Between two and five years	879,706	970,608	640,741	502,440

After five years	709,796	849,338	586,730	396,793
Total	**2,045,990**	**2,224,042**	**1,470,002**	**1,177,959**

Recent developments

In July 2015, we obtained a EURIBOR + 3.6% €300 million loan from UniCredit Bank Austria AG due in 2019.

In July 2015, we obtained a LIBOR + 5.9% U.S.$760 million loan due in 2018 and a EURIBOR + 5.45% €240 million loan due in 2018 from Sberbank.

In July 2015, we signed agreements to obtain loans from GPB in the amount of U.S.$310 million and U.S.$330 million with an interest rate of 6.95 % and 6.98 %, respectively, due in 2018.

In August 2015, we obtained a LIBOR + 3.5% U.S.$1.5 billion loan from a syndicate of banks due in 2020. China Construction Bank Corporation, Beijing branch was appointed as the agent bank.

Contractual Obligations and Other Commitments

The amount of outstanding guarantees provided to third parties decreased by RR12,729 million to RR264,028 million between December 31, 2014 and June 30, 2015 primarily as a result of the decrease in outstanding amounts of existing guarantees issued due to the appreciation of the ruble against the U.S. dollar and the euro.

The amount of outstanding guarantees provided to third parties increased by RR75,714 million to RR276,757 million between December 31, 2013 and December 31, 2014 primarily as a result of the provision of a new RR47,407 million guarantee to GPB in favour of Ostchem Holding Limited to finance of its operating activities and due to the increase in the amount of outstanding guarantees issued due to a depreciation of the ruble against the U.S. dollar and the euro.

The amount of outstanding guarantees provided to third parties increased by RR14,125 million to RR201,043 million between December 31, 2012 and December 31, 2013 primarily as a result of the increase in outstanding amounts of existing guarantees issued to Société Generale on behalf of Nord Stream AG of RR10,311 million and to Sberbank on behalf of LLC Production Company VIS as a security under a credit facility provided to finance the projects for the construction of industrial facilities for the Group of RR5,657 million. This increase was partially offset by the redemption of guarantees to Gazstream S.A. on behalf of Blue Stream Pipeline Company B.V. of RR2,078 million.

We have significant obligations to supply gas under long-term contracts with European customers.

Qualitative and Quantitative Disclosures and Market Risks

We are exposed to market risk from changes in commodity prices, foreign currency exchange rates, interest rates and prices of marketable securities. We are exposed to commodity risk as we are a commodity business and our natural gas export sales are linked to oil product prices. We are exposed to foreign exchange risk to the extent that our sales revenues, costs, receivables for gas sales and debt are denominated in currencies other than rubles. We are subject to market risk from changes in interest rates that may affect the cost of our financing. We do not use any significant financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks and we do not hold or issue any significant derivative or other financial instruments for trading purposes.

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the ruble relative to the U.S. dollar and the euro. As of June 30, 2015, RR1,495,697 million and RR681,675 million of our borrowings were denominated in U.S. dollars and euro, respectively (out of RR2,554,058 million of our total borrowings, excluding promissory notes, at that date). Increases in the value of the ruble relative to the U.S. dollar or the euro will decrease our foreign currency denominated costs and expenses and our debt service obligations for foreign currency denominated borrowings in ruble terms. An appreciation of the ruble relative to the U.S. dollar and the euro will also result in a decrease in the value of our foreign currency borrowings in ruble terms. Share of U.S. dollar denominated borrowings in comparison with euro denominated borrowings in credit portfolio of the Group was approximately 58.6% share and 26.7% share, respectively, as of June 30, 2015.

We believe that the risks associated with our foreign currency exposure are mitigated by the fact that a significant portion of our revenues, approximately 60% for the six-month period ended June 30, 2015, are U.S. dollar or euro denominated. In the six-month period ended June 30, 2015, the ruble had appreciated against the U.S. dollar and the euro by approximately 1% and 10%, respectively.

A hypothetical, instantaneous and unfavorable 10% change (appreciation of the foreign currency in a net foreign currency liability position) in currency exchange rates would have resulted in additional interest expense of approximately RR5,224 million, RR5,134 million, RR8,126 million, RR7,621 million and RR7,831 million (nominal) for the six-month period ended June 30, 2015 and 2014 and for the years ended December 31, 2014, 2013 and 2012, respectively, reflecting the increased costs in rubles of servicing our foreign currency denominated borrowings held as of June 30, 2015 and 2014, December 31, 2014, 2013 and 2012, respectively.

A hypothetical, instantaneous and unfavorable 10% change (appreciation of the foreign currency in a net foreign currency liability position) in currency exchange rates as of June 30, 2015 and 2014 and as of December 31, 2014, 2013 and 2012, would have resulted in an estimated foreign exchange loss of approximately RR220,772 million, RR155,150 million, RR238,412 million, RR153,072 million and RR126,463 million (nominal), respectively, on foreign currency denominated borrowings held as of June 30, 2015 and 2014 and as of December 31, 2014, 2013 and 2012, respectively. Such effect would be at least partially offset by increased revenues generated by export contracts denominated in U.S. dollars and euro.

Interest rate risk

We are exposed to interest rate risk in our borrowings that bear interest at floating rates. As of June 30, 2015 and December 31, 2014, 2013, 2012, respectively, we had RR2,554,058 million, RR2,688,723 million, RR1,801,827 million and RR1,500,543 million in total borrowings (excluding promissory notes), of which approximately RR1,891,639 million, RR2,065,630 million, RR1,466,389 million and RR1,221,174 million bore interest at fixed rates and approximately RR662,419 million, RR623,093 million, RR335,438 million and RR279,369 million bore interest at floating rates determined generally by reference to the LIBOR or EURIBOR for U.S. dollar and euro deposits, respectively.

A hypothetical, instantaneous increase of 100 basis points in the interest rate applicable to floating rate financial liabilities held as of June 30, 2015 and as of December 31, 2014, 2013 and 2012 would have resulted in additional net interest expense of approximately RR6,428 million, RR4,793 million, RR3,049 million and RR2,809 million (nominal), respectively, in the six-month period ended June 30, 2015 and for the years ended December 31, 2014, 2013 and 2012. This sensitivity analysis is based on the assumption of an unfavorable 100 basis point movement of the interest rate applicable to each homogeneous category of financial liabilities. A homogeneous category is defined according to the currency in which financial liabilities are denominated and assumes the same interest rate movement within each homogeneous category (e.g., U.S. dollars and euro).

A hypothetical, instantaneous decrease of 100 basis points in the interest rate would have resulted in an increase in the fair value of fixed rate financial liabilities held as of June 30, 2015 and December 31, 2014, 2013 and 2012 of RR41,284 million, RR52,471 million, RR70,414 million and RR34,739 million, respectively.

Derivatives

For the purpose of reducing commodity risk, interest rate risk, currency risk and other market risks we continue to use a number of derivative instruments. These comprised commodity contracts, interest rate swap contracts, foreign currency derivatives and other derivatives. The objective, when using any derivative instrument, was to ensure that the risk to reward profile of any transaction was optimized. Our normal policy is to measure these instruments at their fair value, using the spot rate at the year end as the basis for the fair value measurement with resultant gains or losses being reported within gains less losses arising from dealing in foreign currencies within our consolidated statement of income.

Commodity risk

Substantially all of our natural gas, gas condensate and other hydrocarbon export sales to Europe and Other Countries are sold under long-term contracts. Our natural gas export prices to Europe and Other Countries are based on a formula linked to world oil product prices, which in turn are linked to world crude oil prices. Worldwide political developments and the actions of OPEC affect crude oil prices and thus our natural gas export prices. We do not use any significant derivative instruments to hedge our production in order to decrease our price risk exposure.

Securities price risk

We are exposed to movements in the prices of marketable securities that we hold in our investment portfolio. Specifically, as of June 30, 2015, we held RR242,036 million of marketable corporate shares and bonds. A change in Russia's sovereign credit rating, or an external event that impacts Russian debt and equity prices, have an impact on the market value of our trading securities. The fair value of our pension plan assets is also exposed to the prices of marketable securities.

GAZPROM

We are one of the world's largest oil and gas companies in terms of reserves, production and market capitalization. For the year ended December 31, 2014, our sales net of VAT and customs duties were RR5,589,811 million (U.S.$100,681 million) and our operating profit was RR1,310,424 million (U.S.$23,603 million). For the six months ended June 30, 2015 our sales net of VAT and customs duties were RR2,913,452 million (U.S.$52,476 million) and our operating profit was RR681,284 million (U.S.$12,271 million). As of December 31, 2014, we had total assets of RR15,177,470 million (U.S.$273,369 million) and total shareholders' equity (excluding non-controlling interest) of RR9,816,558 million (U.S.$176,811 million). As of June 30, 2015, we had total assets of RR15,357,226 million (U.S.$276,607 million) and total shareholders' equity (excluding non-controlling interest) of RR10,208,298 million (U.S.$183,867 million).

Reserves. We estimate our reserves using the Russian reserves system, which differs significantly from PRMS Standards, in particular, with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. As of December 31, 2014, our ABC_1 reserves amounted to 36.1 tcm (212.6 bboe) of natural gas, 1,447.0 million tons (11.8 bboe) of gas condensate and 2,053.1 million tons (15.0 bbls) of crude oil, for a total of 239.5 bboe. Approximately 70% of these ABC_1 hydrocarbon reserves are concentrated in Western Siberia and the adjacent Kara Sea shelf. Other reserves are mostly located on the Barents Sea shelf, in Eastern Siberia, the Far East and in Southern Russia.

Independent petroleum engineering consulting firm DeGolyer and MacNaughton evaluated our reserves as of December 31, 2014. The evaluation was conducted in accordance with PRMS Standards and covered approximately 94% of our ABC_1 natural gas reserves, 92% of our ABC_1 gas condensate reserves and 91% of our ABC_1 crude oil reserves. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Classification of Reserves." As of December 31, 2014, our proved reserves according to an evaluation by DeGolyer and MacNaughton amounted to 18.9 tcm (111.3 bboe) of natural gas, 642.3 million tons (5.3 bboe) of gas condensate and 830.5 million tons (6.1 bbls) of crude oil, for a total of 122.6 bboe, and our probable reserves amounted to 4.6 tcm (27.2 bboe) of natural gas, 206.3 million tons (1.7 bboe) of gas condensate and 543.9 million tons (4.0 bbls) of crude oil, for a total of 32.9 bboe. We believe that the evaluated fields are likely to contain most of our reserves that would be deemed proved or probable upon a full evaluation of our reserves in accordance with PRMS Standards. See "—Reserves and Production."

Exploration and production. In the year ended December 31, 2014, we produced 444.9 bcm (2,620.5 mmboe) of natural gas and 14.5 million tons (118.5 mmboe) of gas condensate, as compared with 488.4 bcm (2,876.6 mmboe) of natural gas and 14.7 million tons (119.9 mmboe) of gas condensate for the year ended December 31, 2013. In the year ended December 31, 2014, we produced 43.5 million tons (319.1 mmbls) of crude oil, as compared with 42.3 million tons (310.8 mmbls) of crude oil for the year ended December 31, 2013. In the six months ended June 30, 2015, we produced 205.8 bcm (1,212.2 mmboe) of natural gas, 7.8 million tons (63.6 mmboe) of gas condensate and 21.8 million tons (159.8 mmbls) of crude oil, as compared with 244.5 bcm (1,439.8 mmboe) of natural gas, 8.4 million tons (68.3 mmboe) of gas condensate and 21.3 million tons (156.1 mmbls) of crude oil in the six months ended June 30, 2014. Our gas production declined in 2014 compared to 2013 and in the six month period ended June 30, 2015 as compared to the respective period of 2014 primarily due to decreased demand for gas in our core markets. See "—Distribution." Our natural gas production represented approximately 69% and 73% of total natural gas production in Russia in 2014 and 2013, respectively. Our natural gas production in Western Siberia accounts for over 90% of our natural gas production. See "—Reserves and Production."

Gas transportation. We own and operate the world's largest gas transportation system, which collects, processes, transports, stores and delivers substantially all the natural gas sold in Russia. As of December 31, 2014, the total length of our GTS in Russia was approximately 170,700 km (not including distribution pipelines and pipelines for the transportation of gas condensate and WFLH) and included 250 compressor stations on the pipelines, with an aggregate capacity of 46,100 MW, and 26 UGSFs with an aggregate capacity of 71.1 bcm. We control and manage the transportation of gas in the GTS network from our central dispatch management center located in Moscow.

We pumped into the GTS 627.5 bcm and 659.4 bcm of natural gas in Russia in 2014 and 2013, respectively, and 301.0 bcm and 333.4 bcm of natural gas in Russia in the six months ended June 30, 2015 and 2014, respectively. The decrease in the volume of natural gas pumped into the GTS in 2014 compared to 2013 and in the six months ended June 30, 2015 as compared to the six-month period ended June 30, 2014 was primarily due to a decline in natural gas production and reduced transit of central Asian and Azerbaijanian gas. See "—Transport."

Processing, refining and petrochemical production. We refine a large amount of the natural and associated gas, gas condensate and crude oil that we produce. In 2014, we refined 30.5 bcm of natural and associated gas and 68.1 million tons of unstable gas condensate and crude oil, as compared with 31.5 bcm of natural and associated gas and 66.1 million tons of unstable gas condensate and crude oil in 2013, respectively. In the six months ended June 30, 2015, we refined 14.4 bcm of natural and associated gas and 29.8 million tons of unstable gas condensate and crude oil, as compared with 14.8 bcm of natural and associated gas and 30.2 million tons of unstable gas condensate and crude oil in the six months ended June 30, 2014. We also produce a wide range of refined gas and petrochemical products. See "—Refining."

Gas sales. We supply a major part of the natural gas consumed in Russia and a significant portion of the natural gas consumed in the FSU countries to which we export our natural gas. According to our estimates, we supplied approximately 30.2% of the volume of natural gas consumed in Europe in 2014, which made us the largest supplier of natural gas to Europe in that year. Most of our exports to Europe are transported by pipelines through Ukraine and Belarus. See "Risk Factors—Risks Relating to Our Business—We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas." In the year ended December 31, 2014, our gas sales volume amounted to 439.9 bcm as compared with 477.0 bcm in the year ended December 31, 2013. In the six-month period ended June 30, 2015, our gas sales declined to 221.3 bcm as compared with 242.1 bcm in the six months ended June 30, 2014 primarily due to modest industrial production growth rates in our core markets, warm weather conditions in 2014 in Russia and Europe and Other Countries, our reduced supplies of gas to Ukraine, as well as the reduction of gas off-take by our European customers in the first half of 2015 in anticipation of lower prices for our gas in the second half of the year as a result of declining prices for oil and oil products. See "—Distribution."

Electricity. We own significant power generation assets that provide approximately 15% of the electric power and approximately 24% of the heat generated in Russia. The aggregate power generation capacity of our subsidiaries in Russia was 38.7 GW and heat generation capacity was 70.6 Gcal/h as of June 30, 2015. We generated 155.4 billion kWh and 162.5 billion kWh of electric power and 125.2 million Gcal and 112.5 million Gcal of heat for the years ended December 31, 2014 and 2013, respectively. In the six months ended June 30, 2015, we generated 74.8 billion kWh of electric power and 64.2 million Gcal of heat as compared to 76.5 billion kWh of electric power and 67.1 million Gcal of heat during the six months ended June 30, 2014. See "—Electric and heat energy generation and sales—Russia" and "—Distribution—Europe and Other Countries—Europe."

Relationship with the Government. The Russian Federation currently controls more than 50% of our shares. As our controlling shareholder, the Russian Federation has a strong influence over the major decisions made at our shareholder meetings and, as the nominating party for a majority of the members of Gazprom's Board of Directors, is able to determine our strategy, make policy decisions in relation to the main areas of our business (including investments, borrowings, risk management and asset allocation), and supervise the implementation of such decisions. Currently, the Government regulates the tariffs that we charge for gas transportation through our trunk pipelines to independent gas suppliers, the wholesale prices for gas that we and our affiliated companies produce and sell in the domestic market, as well as some other areas of our business. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation." In addition, we are one of the largest taxpayers to the federal budget.

Strategy

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

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

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

We have consolidated our entire oil business within one subsidiary, Gazprom Neft. Gazprom Neft's strategic goal is to become a large international player with a regionally diversified portfolio throughout the value chain. Gazprom Neft is committed to high standards of social and environmental responsibility, and intends to actively engage in the development of Russian regions.

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

Assuming sufficient demand in Russia and favorable conditions in foreign markets, we expect our annual production (including production in Eastern Siberia and the Russian Far East) to reach approximately 550-560 bcm by 2020.

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

We develop resources in Eastern Siberia and the Far East in accordance with the program adopted in 2007 by the Ministry of Energy of the Russian Federation authorizing us to create a unified gas production, transportation and supply system in Eastern Siberia and the Far East with the potential to export gas to markets in China and other Asia-Pacific countries, the Eastern Program. Gazprom has been appointed the coordinator of the Eastern Program by the Government. The Eastern Program envisages the creation of the Sakhalinskiy, Yakutskiy, Irkutskiy, Krasnoyarskiy and Kamchatskiy gas production centers. The production in these regions is expected to reach up to 15-20 bcm of natural gas by 2020. The Eastern Program identifies the sea shelf of Sakhalin as the highest-priority area for full-scale commercial development in the first stage of the Eastern Program. We hold a 50% plus one share interest in Sakhalin Energy, the project operator of Sakhalin II. In the period from 2010 through 2014, we put on stream the Kshukskoye and Nizhne-Kvakchikskoye fields in the Kamchatka Territory, obtained the license for and performed exploration at the Kovyktinskoye field in the Irkutsk Region and commissioned the Kirinskoye field on the shelf of the Sea of Okhotsk. We continue the exploration and development of other fields and areas in Eastern Siberia and the Far East, including on the shelf of the Sea of Okhotsk. In October 2012, we started establishing a large gas production center in the Republic of Sakha (Yakutia) on the base of the Chayandinskoye field. See "—Reserves and Production—Exploration, Development and Production regions—Eastern Siberia and the Far East (Siberian and Far East Federal Districts)" and "—Reserves and Production—Exploration, Development and Production regions—Russian sea shelf."

We also intend to expand our reserves outside Russia and obtain licenses for exploration and development of hydrocarbon reserves in various international regions. Currently, the Group conducts business in Algeria, Bangladesh, Bolivia, Bosnia and Herzegovina, Hungary, Iraq, Kyrgyzstan, the Netherlands, Libya, Romania, Serbia, Tajikistan, United Kingdom, Uzbekistan, Venezuela, Vietnam and other countries. We are also negotiating to participate in projects in other countries, in particular, countries in South America. See "—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region."

Gazprom Neft intends to increase its annual hydrocarbon production up to 100 mtoe by 2020 and to maintain it at this level through 2025. Gazprom Neft expects to produce at least 10% of its overall hydrocarbon production outside Russia. The proved reserve-to-production ratio is planned to be maintained at the level of 20 years through 2025. To achieve this objective, Gazprom Neft intends to enhance profitability of extraction of the remaining resources at its active production sites by applying new production technologies and by optimizing development processes while reducing the cost of production technologies Gazprom Neft currently employs. Gazprom Neft is creating a new production center in the north of the Yamal-Nenets Autonomous Area and seeks to expand its presence in the Arctic shelf. Gazprom Neft considers unconventional reserves such as tight oil as an additional opportunity to increase production. Gazprom Neft seeks to establish new production centers in Russia after 2020 and to increase its international presence.

Gas transportation and storage. We reconstruct our existing, and develop new, transportation facilities to ensure the transportation of gas from the new production regions, to provide a reliable supply of gas to Russian consumers and to satisfy our contractual export obligations. In determining the sequence of the implementation of our new gas transportation facilities in the long term, we take into account the projected timing for achieving efficient utilization and optimal productivity of the existing gas transportation system and diversification of export routes. Our most significant current gas transportation projects are the construction of the Bovanenkovo-Ukhta and Ukhta-Torzhok trunk pipelines for gas transportation from the Yamal Peninsula, the GTS extension to enable supply to the central and southern regions of Russia and the Turkish Stream pipeline and the Power of Siberia pipeline. We have commenced work preparation for the construction of the Turkish Stream pipeline to transport gas from Russia to Turkey and Southern Europe. We are also considering the construction of the Nord Stream II pipeline and a GTS extension to enable supply to the Nord Stream II pipeline.

One of our long-term goals is the development of gas transportation facilities in Eastern Siberia and the Far East. From 2011 to 2014, we commissioned the first stage of the Sakhalin-Khabarovsk-Vladivostok gas transportation system with a pipeline on Sakhalin Island connecting the Kirinskoye field with the Sakhalin-Khabarovsk-Vladivostok gas transportation system and started gasification of the Sakhalin Region and Primorye Territory. We have put into operation a pipeline from the Kshukskoye and Nizhne-Kvakchikskoye fields located in the Sobolevsk region to Petropavlovsk-Kamchatskiy to develop gas supplies in the Kamchatka Territory. Additionally, we have started construction of the Power of Siberia pipeline, a trunk gas pipeline from Yakutia to Blagoveschensk, to transport gas from the Yakutskiy and Irkutskiy gas production centers, including the Chayandinskoye and Kovyktinskoye fields, to consumers in Russia and the Asia-Pacific region, including consumers in China. We are also considering the construction of the Power of Siberia II pipeline, which would extend from the fields in Western Siberia to the western part of the Russian-Chinese border. See "—Transport—Gas transportation projects in Russia," "—Transport—International projects in gas transportation" and "—Distribution—Europe and Other countries—Asia."

One of the strategic goals we pursue in developing our gas storage business in Russia is the technical re-equipment, reconstruction and expansion of existing storage facilities as well as the construction of new UGSFs in order to increase our daily withdrawal capacity and active gas storage reserve. Our long-term plans contemplate reaching the maximum daily withdrawal capacity of 1.0 bcm by 2025.

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

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

In accordance with the Eastern Program, we are considering gas refining capacity construction projects to develop the resources of Eastern Siberia and the Far East, which at the first stage are expected to be based on the resources of the Chayandinskoye and Kovyktinskoye fields. In particular, we intend to commission a gas processing plant in the city of Svobodniy in the Amur Region (Amurskiy GPP) with an expected annual capacity of up to 49 bcm of gas to separate ethane and other valuable components from gas produced in the Yakutskiy and Irkutskiy gas production centers. See "—Refining—Projects in refining."

Gazprom Neft prioritizes operational efficiency and modernization of its refining assets in developing our oil refining segment. The development of petroleum processing capacity abroad is focused on locating assets in Europe and South-East Asia, the two principal regional markets for Gazprom Neft. We anticipate that the strategy implemented by Gazprom Neft will allow it to process an average of 40 million tons of crude oil a year and achieve a processing depth of 95% and light oil products yield of 80% in Russia in 2025.

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

Until market pricing is introduced, we believe it is necessary to adjust regulated domestic wholesale gas prices to achieve an economically justified price level sufficient to supply gas in Russia at an acceptable profitability rate and accumulate funds to finance our investments.

Government Resolution No. 323 dated April 16, 2012, as amended, which was issued for the purpose of development of the market pricing principles, permitted us and our affiliates to sell on commodity exchanges and in trading systems up to 17.5 bcm of gas starting from 2013.

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

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

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

In order to ensure flexibility in determining which fields in the new gas-producing regions in Russia to develop, we are also seeking to cooperate with Central Asian countries in developing gas reserves as well as upgrading and modernizing gas transportation systems. See "—Distribution—The FSU—Cooperation with FSU countries in gas marketing."

As part of our strategy to diversify the markets to which we supply gas, we consider countries in the Asia-Pacific region as key new markets. In particular, in May 2014, we signed a contract with CNPC for the supply of 38 bcm of pipeline gas from Russia to China annually via the Eastern route for 30 years with an option to extend. The supplies under the contract are currently expected to start between 2019 through 2021, depending on the schedule for construction of relevant production and transportation facilities. During the first years of supply, we anticipate gradually increasing the volumes of supplies under the contract. See "—Distribution—Europe and Other Countries—Asia."

Gazprom Neft's primary objective with respect to its sales of refined petroleum products is to market nearly 100% of its Russian subsidiaries' refined petroleum production through its own high margin distribution channels to capture available margins within the value chain of the oil business. In the motor fuel sales segment, Gazprom Neft seeks to increase its sales of motor fuel in Russia and the CIS up to 24.7 million tons by 2025. In order to achieve this strategic objective, Gazprom Neft plans to expand its gasoline station network in Russia and the CIS to 1,880 stations by 2025. In the sales to industrial customers segment, Gazprom Neft is committed to expanding its premium product segments, including marketing of jet fuel, oils, lubricants and technical liquids, bitumen, petrochemicals and bunker fuel. Gazprom Neft intends to increase its premium segment sales to 18 million tons a year by 2025.

Electricity. We consider electricity to be a strategically important sector for the development of our business. We believe that we can improve the stability of our business and achieve additional revenue by increasing our share of the power generation sector. Our strategic goal in the electricity sector is to diversify tariff risks and realize synergies with our gas business. In implementing our electricity strategy, we plan to construct new, highly effective power generators, which are expected to increase the efficiency of our production of heat and energy. See "—Electric and heat energy generation and sales—Russia."

We own significant power generation assets in Russia. The aggregate capacity of our power generation subsidiaries in Russia was 38.7 GW as of June 30, 2015. Pursuant to our capacity supply contracts, we are obligated to supply certain capacity during specific periods through 2018. We implement investment projects in power generation primarily in order to meet our obligations under capacity supply contracts.

We are considering investing in the construction and acquisition of foreign electricity power assets to improve our position in the European and Asian electricity markets. We are also increasing our cooperation with utility companies that have a pre-existing client base and technology that we believe will expand our presence in the international electricity market. See "—Electric and heat energy generation and sales—FSU and Europe and Other Countries."

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

One of our priorities while expanding into new markets is the gradual implementation of the production, maritime transportation and marketing of LNG. Since 2005, we have been engaged in LNG spot trading. We also hold a 50% plus one share interest in Sakhalin Energy, the operator of the Sakhalin II project, which owns an LNG plant. See "—Reserves and Production—Exploration, Development and Production regions—Russian sea shelf—Associated companies and development of associated projects in the region—Sakhalin II project."

We intend to increase the LNG export volumes from the Far East. See "—Distribution—Europe and Other Countries—LNG." In particular, together with the other shareholders of Sakhalin Energy, we have started the FEED stage for the third production line of the Sakhalin LNG plant.

We have completed the feasibility study and are preparing for the design stage for the Baltic LNG Plant in the Leningrad Region. In addition, to ensure reliable gas supplies to the consumers in the Kaliningrad Region and further develop the local energy system we intend to construct a regasification terminal in the Kaliningrad Region with an annual capacity of 2.7 bcm of gas.

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

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

One of our strategic goals is enhanced use of natural gas as motor fuel. To enhance the efficiency of implementing our strategy in the gas engine fuel market, we established a subsidiary, OOO Gazprom gazomotornoe toplivo, which is engaged in the development of the gas engine fuel market in Russia and abroad in cooperation with relevant state authorities, financial institutions, producers of methane utilizing equipment and consumers. See "—Distribution—Russia—Domestic sales."

We intend to expand our gas engine fuel business in Europe and Other Countries both through the construction and acquisition of NGV-refuelling compressor stations and through making comprehensive proposals to large transportation companies in cooperation with car makers to encourage a shift from oil products to natural gas to power motor vehicles. See "—Distribution—Europe and Other Countries—Europe."

Corporate Governance

We maintain transparency of our operations by making ongoing public disclosures including interim and annual financial statements in accordance with IFRS and Russian accounting standards, annual reports, reports on sustainable development, environmental reports, press releases, information required by regulators of the securities market, in particular, in connection with our capital markets financing programs, and information disclosed for the purposes of improving investor relations. Gazprom's shareholders have approved a corporate governance code (code of conduct) designed to protect shareholders' rights; Gazprom's Board of Directors has approved a corporate ethics code outlining our business values and the most important rules of business conduct based on them. We have approved documents prescribing compliance procedures that are intended to prevent illegal use of insider information and market abuse, setting out procedures governing the internal exchange of confidential information and protection of information from unauthorized access.

Gazprom has approved internal corporate documents regulating activities and delineating functions and powers of the General Meeting of Shareholders, the Board of Directors, the Management Committee and the Chairman of the Management Committee as well as documents regulating interaction with subsidiaries and representation of Gazprom's interests in their management bodies. We have also adopted documents determining procedures for calculating remuneration of members of the Board of Directors. The size of such remuneration is approved by the General Meeting of Shareholders in its resolution. We have adopted internal documents setting forth the procedures regulating the participation of the executives of Gazprom and its subsidiaries in our annual bonus system and Gazprom's charter capital.

Gazprom's Board of Directors has approved a dividend policy setting the maximum amount of dividend payments up to 35% of Gazprom's net profit calculated in accordance with Russian accounting standards.

Gazprom's Board of Directors establishes a Committee of Gazprom's Board of Directors responsible for auditing (the "Audit Committee") which is annually re-elected by Gazprom's Board of Directors. The powers of the Audit Committee's members terminate concurrently with the termination of the powers of Gazprom's Board of Directors which elected members of the Audit Committee. The Audit Committee monitors the efficiency and reliability of risk management, efficiency of internal controls, including those ensuring completeness, accuracy and fairness of Gazprom's financial statements, assesses nominees to Gazprom's auditors, internal and external auditors' independence and objectivity and auditor's opinion to be presented to an annual General Meeting of Shareholders and prepares proposals on how to improve them. The Internal Audit Department of Gazprom's Management Committee Administration administratively reports to the deputy Chairman of the Management Board who is the head of Gazprom's Management Committee Administration and functionally reports to the Audit Committee. The centralized internal audit function ensures better monitoring of financial and business operations of Gazprom's subsidiaries, greater independency of internal audit subdivisions from the executive management and enables the implementation of a single internal audit methodology within the Group.

Our human resources management policy outlining a system of principles and conceptual approaches designed to reconcile interests of employees, shareholders, consumers and the state is a framework document covering human resources management in the Group. A collective bargaining agreement which applies to employees of Gazprom and its wholly owned subsidiaries who are involved in the production of natural gas, transportation, processing, storage and distribution of hydrocarbons and refined products ensures a balance between interests of employers and employees in the form of social partnership and, to the extent possible, offers additional guarantees, incentives and compensations for employees, including medical care. We have developed and introduced a unified health and industrial safety system. A trade union monitors compliance with the terms of the collective bargaining agreement.

We implement the cost management concept approved by Gazprom's Board of Directors. Based on the provisions of the concept we have implemented solutions improving budgeting procedures to focus current planning processes on long-term targets expressed as strategic target indicators and develop reserves rationing and use procedures and other solutions that are expected to elevate cost management to a higher level. Furthermore, work is ongoing to create single information space for the Group using modern information technologies based on the strategy approved by Gazprom's Management Committee to improve the Group's information systems.

For the purposes of improving procurement processes in relation to goods, works and services, Gazprom's Board of Directors has approved our Regulation on the Procurement of Goods, Works and Services. The document sets out the Group-wide procurement principles, optimizes methods for competitive tendering, requirements to the business processes associated with the preparation for and holding of competitive tenders from the planning stage to the control over performance of contracts entered into following the results of competitive tendering. Gazprom has in place internal documents setting out procedures for entering into, registering, safe-keeping and administering contracts as well as documents covering the assessment of potential and actual counterparties' reliability, trustworthiness and creditworthiness.

We procure liability insurance program for members of Gazprom's Board of Directors and Management Committee ("D&O") to indemnify them against claims made by shareholders, creditors or other persons against any harm caused by unintentional erroneous acts (omissions) of insured persons performed while discharging their managerial functions. The insurance coverage under such insurance policies is consistent with international D&O insurance standards in terms of the scope of risks and indemnity limits. The limit of indemnity under each insurance policy is U.S.$100 million.

History and Privatization

Prior to 1991, the Russian gas industry was controlled by the Ministry of the Gas Industry of the USSR. Pursuant to the Decree of the Council of Ministers of the USSR No. 619 of August 8, 1989, the state-owned gas concern Gazprom ("State Gas Concern "Gazprom"") was founded in 1989. This state-owned concern was transformed into a joint stock company in accordance with the Decree of the President of the Russian Federation No. 1333 of November 5, 1992 ("Decree No. 1333") and Order No. 138 of the Council of Ministers of the Russian Federation dated February 17, 1993 ("Order No. 138"). Decree No. 1333 made Gazprom responsible for ensuring efficient operation of the UGSS. Decree No. 1333 and the Decree of the President of the Russian Federation No. 2116 of December 6, 1993 made Gazprom responsible for natural gas exports through VEP Gazexport (now renamed Gazprom Export), our wholly owned foreign trade subsidiary.

The Council of Ministers of the Russian Federation approved Gazprom's original Charter in Order No. 138, and Gazprom was registered as an open joint stock company under the laws of the Russian Federation on February 25, 1993.

Decree No. 1333 provided for the transfer to Gazprom of 100% of the share capital of federally-owned enterprises (comprising the UGSS) and of controlling equity stakes (not less than 51%) in a number of other entities that had been reorganized into joint stock companies, the interests of State Gas Concern "Gazprom" in Russian and foreign enterprises, and other assets of State Gas Concern "Gazprom," the privatization of which was not restricted. Decree No. 1333 also provided for all rights and obligations of State Gas Concern "Gazprom" to inure to Gazprom's benefit, including its rights to use underground deposits and natural resources, as well as its rights and obligations under contracts.

Decree No. 1333, along with Directive No. 58-rp of the President of the Russian Federation dated January 26, 1993, our privatization plan and certain other legislative acts issued by the President and the Government, provided for 40.0% of Gazprom's shares to be fixed in federal ownership.

In December 1998, 2.5% of Gazprom's shares owned by the state were sold through a privatization auction. In 2005, we sold 10.74% of Gazprom's shares, which were held by certain of our subsidiaries, to OJSC Rosneftegaz ("Rosneftegaz"), a wholly state-owned company, for total consideration of RR203,501.7 million (U.S.$8.061 billion). As a result of this transaction, the Russian Federation controls more than 50% of Gazprom's shares. Pursuant to the Gas Supply Law, at least 50% plus one share of Gazprom, as the UGSS owner, must be retained in federal ownership for an indefinite period of time and may only be disposed of pursuant to federal law.

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

Corporate Structure

Gazprom is the parent company of the Group. See Note 32 to our Annual consolidated financial statements for the year ended December 31, 2014 included elsewhere in this Base Prospectus for a list of our significant subsidiaries.

We operate each of our core activities through a number of direct and indirect wholly or majority-owned subsidiaries. In addition, we hold direct and indirect equity interests in a number of other entities. Our subsidiaries include entities involved in production, transportation, storage, refining and marketing of natural gas, gas condensate, crude oil and electricity, and subsidiaries responsible for a number of other activities, including technical supervision of our pipeline systems, well drilling, research and development, telecommunications, data processing and procurement.

Our management analyzes the results of our operations, assets and liabilities within the operating segments based on internal financial reporting. The results of certain significant transactions and events, including business acquisitions as well as certain adjustments that may be required to conform the Group's internal financial reporting to the respective figures as reported in the consolidated financial statements prepared in accordance with IFRS, are analyzed by our management on a consolidated basis without separately identifying relevant operating segments. Profits and losses from financial assets available for sale, income and financing costs are also not separated into operating segments. In accordance with IFRS 8, we separate our operations into the following principal businesses (segments):

- Production of gas—exploration and production of gas;
- Transport—transportation of gas;
- Distribution—sales of gas within the Russian Federation and abroad;
- Gas storage—storage of extracted and purchased gas in UGSFs;

- Production of crude oil and gas condensate—exploration and production of oil and gas condensate and sales of crude oil and gas condensate;

- Refining—processing of oil, gas condensate and other hydrocarbons, and sales of refined products; and

- Electric and heat energy generation and sales.

We include other operations into the "All other segments" segment.

Our head office, located in Moscow, exercises managerial and financial control over the operations of our subsidiaries. Head office functions include strategy, planning, external financing, financial reporting, including preparation of our IFRS consolidated financial statements, allocation of financial resources and supervision of principal areas of operations, such as construction, drilling, production, transportation, some natural gas sales in Russia and the FSU and equipment procurement. The dispatch management center, based at our head office, continuously monitors, controls and manages our natural gas transportation system throughout Russia.

The short legal name of our parent company is PJSC "Gazprom" and its registered address is 16 Nametkina Street, 117997 Moscow, Russian Federation, its telephone number is +7 495 719 3001 and its fax number is +7 495 719 8333. Gazprom is a public joint stock company organized under the laws of Russia, initially registered on February 25, 1993. Gazprom was issued certificate 1027700070518 of entry into the Unified State Register of Legal Entities on August 2, 2002 by the Ministry of Taxes and Duties of the Russian Federation.

Investment Program

We allocate expenditures and capital investments in accordance with a three-year financial plan which is reviewed by Gazprom's Board of Directors annually. Gazprom's investment program, which is included within the financial plan, is approved annually by the Board of Directors and may be updated in the second half of each year in light of our financial situation and strategic priorities. The investment program is divided into two main sections: capital investments and long-term financial investments. We generally make long-term financial investments with a view to acquire shareholdings in other companies and to participate in joint projects with third parties. Capital investments made pursuant to the investment program (such as the creation and acquisition of certain fixed assets) are made by Gazprom and are subsequently leased to certain of its subsidiaries, especially those engaged in the operation of the GTS. The capital investment program, however, does not cover capital investments made by certain of our subsidiaries that we acquired or established after our privatization, such as Gazprom Neft, MIPC, Mosenergo, OGK-2, TGK-1, OAO Vostokgazprom ("Vostokgazprom"), Gazprom mezhregiongaz, OOO Gazprom gazomotornoe toplivo and OAO Zapsibgazprom. Generally, these subsidiaries establish their own capital investment plans.

In December 2014, Gazprom's Board of Directors approved the investment program for the year 2015 (the "2015 Investment Program"), providing for a total investment of RR840.4 billion, including capital expenditures of RR733.1 billion and long-term financial investments of RR107.2 billion.

The 2015 Investment Program provides for capital investments of approximately RR152.1 billion for the production of gas, RR20.4 billion for the production of crude oil and gas condensate, RR469.5 billion for transport, RR12.9 billion for distribution, RR16.6 billion for refining and RR33.6 billion for gas storage. Capital investments for all other segments are expected to amount to RR28.1 billion.

According to the 2015 Investment Program, the main investments in our gas production segment for 2015 are allocated to the implementation of certain key projects as follows: (1) the construction of facilities on the Bovanenkovskoye gas condensate field on the Yamal Peninsula (RR37.8 billion); (2) maintaining current production and production drilling at the Medvezhye, Urengoyskoye and Yamburgskoye fields (RR35.3 billion); and (3) field development projects abroad (RR22.2 billion in long-term financial investments).

According to the 2015 Investment Program, the main investments in our gas transportation segment for 2015 are allocated to the implementation of certain key projects as follows: (1) the construction of the Bovanenkovo-Ukhta pipeline system (RR70.8 billion); (2) the GTS extension to enable supply to the central and southern regions of Russia and the Turkish Stream pipeline (RR302.6 billion); (3) the construction of the Power of Siberia pipeline (RR31.0 billion); (4) the reconstruction of the Petrovsk-Pisarevka section of the Urengoy-Novopskov pipeline to enable supplies to the Turkish Stream pipeline (RR24.6 billion); and (5) other reconstruction and technical re-equipment of the GTS (RR46.6 billion). Our long-term financial investments for the construction of the offshore portion of the Turkish Stream pipeline are currently being considered by our management.

In addition to Gazprom's investment program, Gazprom mezhregiongaz's investment program for 2015 amounts to RR346 billion, including RR27.6 billion for the implementation of the gasification program for Russian regions, which envisages the development and revision of gasification plans, design and construction of gas distribution stations and networks, performed by Gazprom mezhregiongaz, and RR6.2 billion for the construction and refurbishment of NGV-refuelling compressor stations, performed by OOO Gazprom gazomotornoe toplivo.

Gazprom Neft's investments (not included in Gazprom's investment program) in 2015 are planned at RR380.9 billion, of which RR260.2 billion are anticipated to be allocated for exploration and production, RR48.9 billion for oil refining, RR18.8 billion for the marketing of oil refined products, RR18.3 billion for projects of NIS, and RR53.1 billion for mergers and acquisitions and other projects. The recent sanctions have effectively prohibited Gazprom Neft from accessing the U.S. and EU credit and capital markets. As a result, Gazprom Neft expects to fund its planned investments through its internal sources, funds raised in prior financing transactions, and external financing from non-U.S. and non-EU credit and capital markets. See "Risk Factors—Risks Relating to Our Business—Debt financing may not be available on desirable terms or at all."

In 2014, the investments of our electricity and heat subsidiaries are expected to be approximately RR101.4 billion.

Joint Ventures and Alliances

Our material alliances and joint ventures are described below. See "Risk Factors—Risks Relating to Our Business—We may not be successful in our efforts to integrate recent or future acquisitions and we may be unable to finance acquisitions we believe could be beneficial to our existing operations on terms desirable to us or at all."

BASF/Wintershall. In 2004 and 2007, we signed agreements with Wintershall Holding GmbH ("Wintershall Holding"), a subsidiary of BASF, regarding the joint development of block 1A of the Urengoyskoye field (achimovsk deposits) (see "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Ural Federal District)—Associated companies and development of associated projects in the region—Achimgaz") and the Yuzhno-Russkoye field (see "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Ural Federal District)—Yuzhno-Russkoye field"). In addition, we hold a 49% interest in Wintershall AG, which develops two oil projects in Libya (see "—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Libya"), as well as 49.98% interests in W&G Beteiligungs-GmbH & Co. KG (formerly known as WINGAS GmbH & Co. KG) with the remaining interests held by Wintershall Holding through its wholly owned subsidiary, Wintershall Erdgas Beteiligungs GmbH (see "—Transport—Existing routes of gas export and participation in foreign gas distribution networks—W&G Beteiligungs-GmbH & Co. KG").

Together with Wintershall Oil AG (BASF Group), Gasunie Infrastruktur AG (Gasuni Group), PEG Infrastruktur AG (E.ON Group) and GDF SUEZ Holding Switzerland AG (ENGIE Group, formerly known as GDF SUEZ Group) we are shareholders of Nord Stream AG (in which Wintershall Oil AG holds a 15.5% interest), which operates the Nord Stream pipeline. We also hold a 50% interest in Wintershall Erdgas Handelshaus GmbH & Co. KG ("WIEH"), the remaining interest in which is held by Wintershall Holding through its wholly owned subsidiary Wintershall Erdgas Beteiligungs GmbH. Wintershall Erdgas Handelshaus Zug AG ("WIEE"), a wholly owned subsidiary of WIEH, is engaged in supplying natural gas to Eastern Europe.

In December 2013, we entered into a master agreement with Wintershall Holding relating to an asset swap. In accordance with the agreement, Wintershall Holding is expected to receive a 25.01% interest in the project for the development of the fourth and fifth blocks of the achimovsk deposits of the Uregoyskoye field. In exchange, we expect to receive a 50% stake in Wintershall Noordzee B.V., a company implementing oil and gas exploration and production projects in the North Sea, and to receive additional interests in the gas trading and storage companies WINGAS GmbH and its subsidiaries ("WINGAS"), WIEE and WIEH which is expected to bring our ownership of these entities to 100%. The German Ministry of Economics and Technology and the European Commission have approved the transaction. We intend to complete the transaction by the end of 2015. See "Gazprom—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Ural Federal District)—Major fields in commercial operation—Urengoyskoye field."

In July 2015, we signed a memorandum of understanding with Wintershall Holding regarding the major terms and conditions of its participation in the Nord Stream II project. In September 2015, we signed a shareholders agreement with Uniper Infrastructure B.V. (E.ON Group), Shell Exploration and Production (LXXI) B.V. (Shell Group), OMV Nord Stream II Holding AG (OMV Group), Wintershall Nederland B.V. (BASF/Wintershall Holding Group) and GDF SUEZ Holding Switzerland AG (ENGIE Group) to establish New European Pipeline AG for the implementation of the project. See "—Transport—International projects in gas transportation—Nord Stream II."

In cooperation with Wintershall Noordzee B.V., we are involved in hydrocarbon exploration and production projects in the North Sea. See "Gazprom—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries."

Central Asia. In order to create effective industrial cooperation with countries in the region and to further strengthen our market position, we intend to make significant contributions to the recovery and development of the oil and gas industry in Central Asia. In furtherance of this goal, we signed agreements with several national oil and gas companies and the governments of Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan. These agreements provide for cooperation and joint participation in hydrocarbon exploration, field infrastructure development, production, construction, diagnostic and refurbishment of gas transportation and storage facilities as well as the establishment of joint ventures for these purposes. The Group also participates in the joint exploration and production projects in Uzbekistan. See "—Reserves and

Production—Exploration, Development and Production regions—FSU and Europe and Other Countries" and "—Transport—Existing routes of gas export and participation in foreign gas distribution networks."

We have also entered into long-term strategic cooperation agreements regarding our natural gas sales in Central Asia and long-term transit agreements with the transit countries in Central Asia. In addition, our subsidiary OOO Gazprom Kyrgyzstan owns and operates gas infrastructure and supplies gas to customers in Kyrgyzstan. See "—Distribution—The FSU—Cooperation with FSU countries in gas marketing."

E.ON. We developed the Yuzhno-Russkoye field with E.ON (acting through E.ON Ruhrgas E&P GmbH and E.ON Global Commodities SE). See "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Ural Federal District)—Major fields in commercial operation—Yuzhno-Russkoye field." In addition, together with E.ON, BASF, Gasunie and ENGIE (formerly known as GDF SUEZ), we are shareholders of Nord Stream AG, which operates the Nord Stream pipeline.

In June 2015, we signed a memorandum of understanding with E.ON regarding the major terms and conditions of its participation in the Nord Stream II project. In September 2015, we signed a shareholders agreement with Uniper Infrastructure B.V. (E.ON Group), Shell Exploration and Production (LXXI) B.V. (Shell Group), OMV Nord Stream II Holding AG (OMV Group), Wintershall Nederland B.V. (BASF/Wintershall Holding Group) and GDF SUEZ Holding Switzerland AG (ENGIE Group) to establish New European Pipeline AG for the implementation of the project. See "—Transport—International projects in gas transportation—Nord Stream II."

Gasunie. Together with Gasunie, E.ON, BASF and ENGIE (formerly known as GDF SUEZ), we are shareholders of Nord Stream AG, which operates the Nord Stream pipeline.

In April 2013, we signed a letter of intent with Gasunie that provides for the cooperation in considering the extension of the Nord Stream pipeline and the implementation of infrastructure projects in Europe to ensure reliable gas supplies to North-Western Europe and the United Kingdom.

In May 2013, we signed a memorandum of understanding on strategic cooperation with Gasunie that provides for the two companies' extended interaction in the field of gas transportation infrastructure, gas storage, scientific and technological cooperation, production and small-scale shipping of LNG, environmental protection, energy efficiency, innovative technologies, information and cultural exchange, personnel training, and other areas.

In July 2015, we signed a framework agreement with Gasunie on cooperation in the area of small scale LNG. The framework envisages the cooperation in the small scale LNG market in Europe, with a focus on joint projects for the construction of LNG receiving terminals, LNG filling stations and other infrastructure facilities.

ENGIE. In July 2010, ENGIE (formerly known as GDF SUEZ) acquired a 9% interest in Nord Stream AG. In June 2013, we signed a letter of intent with ENGIE which provides for the cooperation in analyzing an extension of the Nord Stream pipeline. In September 2015, we signed a shareholders agreement with Uniper Infrastructure B.V. (E.ON Group), Shell Exploration and Production (LXXI) B.V. (Shell Group), OMV Nord Stream II Holding AG (OMV Group), Wintershall Nederland B.V. (BASF/Wintershall Holding Group) and GDF SUEZ Holding Switzerland AG (ENGIE Group) to establish New European Pipeline AG for the implementation of the project. See "—Transport—International projects in gas transportation—Nord Stream II"

KazMunaiGaz. In April 2011, we signed an agreement with AO NK KazMunaiGaz ("KazMunaiGaz") to appoint our joint venture, TOO KazRosGaz ("KazRosGaz"), as an authorized entity for the implementation of the intergovernment agreement on cooperation in geological exploration of the Imashevskoye field. See "—Reserves and Production—Southern Russia (Southern Federal District, North Caucasian Federal District)—Associated companies and development of associated projects in the region—KazRosGaz."

KOGAS, Petronas, TPAO. In January 2010, Gazprom Neft, as a member of a consortium with KOGAS, Petronas and TPAO, signed a development and production service contract for the Badra field in Iraq. See "—Reserves and production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Iraq."

Lukoil. Pursuant to a strategic cooperation agreement with Lukoil and subject to the limits described therein, we have established OOO TsentrCaspNeftegaz ("TsentrCaspNeftegaz"), a joint venture which participates in the development of the Central geological structure in the Caspian Sea. See "—Reserves and Production—Exploration, Development and Production regions—Russian sea shelf—Associated companies and development of associated projects in the region—Tsentralnoye field."

National Oil Consortia. In 2009, Gazprom Neft acquired a 20% interest in the charter capital of OOO National Oil Consortia ("NOC"), which was established to implement projects in oil production in Latin America. See "—Reserves and Production—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Venezuela."

OMV. In September 2015, we signed an agreement with OMV regarding a possible participation of OMV in the project of development of the fourth and fifth blocks of the achimovsk formation of the Urengoiskoye field based on a possible exchange of assets. See "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Ural Federal District)—Urengoyskoye field."

In June 2015, we also signed a memorandum of understanding with OMV regarding the major terms of its participation in the Nord Stream II project. In September 2015, we signed a shareholders agreement with Uniper Infrastructure B.V. (E.ON Group), Shell Exploration and Production (LXXI) B.V. (Shell Group), OMV Nord Stream II Holding AG (OMV Group), Wintershall Nederland B.V. (BASF/Wintershall Holding Group) and GDF SUEZ Holding Switzerland AG (ENGIE Group) to establish New European Pipeline AG for the implementation of the project. See "—Transport—International projects in gas transportation—Nord Stream II."

Petrobangla. We have completed our first joint project with Petrobangla, a national oil and gas company of Bangladesh, which involved conducting production drilling on a number of gas fields. We are preparing to engage in another project relating to well infrastructure development. See "—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Bangladesh."

Petrovietnam. Vietgazprom, our joint-venture with Petrovietnam, performs exploration works on the Vietnamese continental shelf. We have also established another joint-venture OOO Gazpromviet ("Gazpromviet") to perform works in Russia and other countries. See "—Reserves and production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Vietnam." In July 2012, our subsidiary, GM&TS, and Petrovietnam Gas, signed a memorandum of understanding regarding cooperation in LNG supplies to Vietnam. In November 2013, we entered into an agreement with Petrovietnam which provides for the establishment of a joint venture, PVGAZPROM Natural Gas for Vehicles ("PVGAZPROM"), which is expected to engage in the production of gas engine fuel. See "—Distribution—Asia—Vietnam." In June 2015, we signed an agreement for the major terms and conditions of implementing the projects for developing the Nagumanovskoye and Severo-Purovskoye fields with Petrovietnam. See "—Reserves and Production—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Vietnam."

RAG, MND, Vitol, VNG, TAQA Energy, Srbijagas, WIEH. We have signed a number of agreements extending our participation in gas storage in Europe. See "—Gas storage—Gas storage in FSU, Europe and Other Countries."

Rosneft. In September 2012, we entered into an agreement to cooperate with Rosneft with respect to the joint construction and utilization of infrastructure for developing projects in the continental shelf. The agreement provides that the companies will work together to determine the most efficient methods and solutions to further explore, develop and replenish the resources of the continental shelf of the Russian Federation. We are also a party to another strategic cooperation agreement with Rosneft until 2015.

Royal Dutch Shell. In October 2013, Gazprom Neft and Royal Dutch Shell established ZAO Khanty-Mansi Oil and Gas Union ("KhMOGU"), a 50/50 joint venture formed to pursue new projects for shale oil exploration and development in the Khanty-Mansi Autonomous Area. See "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Ural Federal District)—KhMOGU."

Gazprom Neft and Royal Dutch Shell each own 50% in SPD and jointly decide all issues with respect to operation of the company. SPD develops the Salym group of fields comprised of the Zapadno-Salymskoye, Verkhne-Salymskoye, and Vadelypskoye fields. See "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Ural Federal District)—Salym Petroleum Development."

In April 2013, we signed a memorandum of intent with Royal Dutch Shell regarding joint hydrocarbon production in the Russian Arctic Shelf. The memorandum provides for cooperation at the two adjacent shelf blocks in the Chukchi and East Siberian Seas and in the Kara Sea. In December 2012, we submitted applications for the necessary licenses. In accordance with Resolution of the Government No.2356-r dated December 13, 2013, we were granted the right of subsoil use in relation to the Severo-Vrangelskiy area. See "—Reserves and Production—Licensing activities." We expect that our share in the project will be 66.7% while Royal Dutch Shell is expected to obtain the remaining 33.3%. The memorandum also provides us an opportunity to receive an option to enter a hydrocarbon exploration and production project implemented by Royal Dutch Shell in South Africa. We expect that our share in that project will be 33.3% with Royal Dutch Shell obtaining the remaining 66.7%.

In February 2014, we signed a memorandum with Royal Dutch Shell that provides for the development of the FEED and project design documentation for the third production line of the Sakhalin LNG plant. See "—Distribution—Europe and Other Countries—LNG."

In June 2015, we signed an agreement with Royal Dutch Shell on strategic cooperation which envisages a partnership in the gas sector from upstream work, including exploration and production, to sales, including possible asset swaps.

In June 2015, we signed a memorandum with Royal Dutch Shell to expand the Sakhalin II project, which provides for the implementation of the project to construct the third production line of the Sakhalin LNG plant. The memorandum sets forth the anticipated deadlines for engineering work and implementation of the project and determines further steps towards making an investment decision. See "—Distribution—Europe and Other Countries—LNG."

In June 2015, we signed a memorandum of understanding with Royal Dutch Shell regarding major terms and conditions of its participation in the Nord Stream II project. In September 2015, we signed a shareholders agreement with Uniper Infrastructure B.V. (E.ON Group), Shell Exploration and Production (LXXI) B.V. (Shell Group), OMV Nord Stream II Holding AG (OMV Group), Wintershall Nederland B.V. (BASF/Wintershall Holding Group) and GDF SUEZ Holding Switzerland AG (ENGIE Group) to establish New European Pipeline AG for the implementation of the project. See "—Transport—International projects in gas transportation—Nord Stream II."

As a result of the recent economic sanctions imposed by the U.S. and European Union, we are in discussions with Royal Dutch Shell and the relevant regulators regarding our projects with Royal Dutch Shell and are continuing to assess the effects of the recent sanctions on those projects.

Sibur. We intend to construct Amurskiy GPP in the Amur Region. In November 2013, we signed a memorandum of understanding with OAO Sibur Holding ("Sibur") which provides for the construction of a gas chemical complex which is intended to use ethane supplied from the Amurskiy GPP. See "—Refining—Projects in refining."

Sonatrach. We are participating in the exploration and development of hydrocarbon reserves of the El-Assel area in the Berkine geological basin in Sakhara. Our interest in the project is 49%. The remaining 51% interest is held by Sonatrach, the Algerian national oil and gas company. See "—Reserves and production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Algeria."

Total and Statoil. In June 2009, we signed a memorandum of understanding with Total and Statoil which was subsequently extended through 2015, that provides for implementation of joint projects in geological exploration, development and production of hydrocarbons in the northern regions of Russia and Norway. See "—Reserves and Production—Exploration, Development and Production regions—Russian sea shelf—The Barents Sea shelf—Shtokmanovskoye field." In August 2013, we and Total signed a service contract with Yacimientos Petrolíferos Fiscales Bolivianos ("YPFB") for the development of the Azero block in Bolivia. In September 2010, we purchased a 20% interest in the Ipati and Aquio blocks from Total. See "—Reserves and Production—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Bolivia."

Yamal Razvitie. In order to jointly develop fields in Western Siberia, Gazprom Neft and Novatek created Yamal Razvitie, a joint venture in which each party owns a 50% stake. Yamal Razvitie owns an effective interest of 93.3% in SeverEnergia. See "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Ural Federal District)—Associated companies and development of associated projects in the region—Yamal Razvitie."

YPFB. In March 2008, we signed an agreement with the leading Bolivian state energy company, YPFB, regarding geological exploration of the Sunchal and Azero blocks in Bolivia. In August 2013, we and Total signed a service contract with YPFB for the development of the Azero block. See "—Reserves and Production—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Bolivia."

YPF. In April 2015, we signed a memorandum on cooperation with YPF Sociedad Anonima which stipulates the main areas of future bilateral cooperation, including exploration, production and transmission of hydrocarbons in Argentina and third countries.

Other activities. In 2009, we signed an agreement with the Nigerian National Petroleum Corporation to establish a new joint venture. The agreement provides the basis for joint hydrocarbon production (including LNG), transportation and sale activities with Nigerian National Petroleum Corporation.

We also hold interests in a number of companies that supply natural gas to consumers in Austria, Bulgaria, Finland, Hungary, the United Kingdom, Italy, Greece, Macedonia, Croatia, Serbia, Turkey and the Czech Republic. In addition, we have entered into a number of joint ventures to construct and operate gas storage facilities in Europe and Other Countries. See "—Gas storage—Gas storage in FSU, Europe and Other Countries."

Reserves and Production

This section contains information relating to our Production of gas segment and Production of crude oil and gas condensate segment as regards exploration and production. For information in relation to sales of crude oil and gas condensate, see "—Distribution—Sales of liquid hydrocarbons and refined products."

We believe that we are the world's largest producer of natural gas. We produced approximately 12% of the world's natural gas in 2014. Our major reserves and production areas are Western Siberia, Southern Russia, the South Ural region and Northern European Russia. We also conduct operations in Eastern Siberia and the Far East, the Russian sea shelf and in certain countries in the FSU and Europe and Other Countries.

We operate our production activities through our production subsidiaries, which develop and operate our hydrocarbon fields. Natural gas and gas condensate production is carried out mainly by our wholly owned subsidiaries. Our subsidiary Gazprom Neft produces the majority of our crude oil, principally through fields located in Western Siberia. Our well-drilling operations are carried out by our subsidiary, OOO Gazprom flot, the drilling departments of some of our subsidiaries and third-party contractors. In addition, we participate in a number of exploration and production projects and joint ventures with Russian and foreign partners.

Financial highlights

Our Production of gas segment operates in exploration and production of gas, and its sales mainly consist of inter-segment gas sales to our Distribution segment and Refining segment.

The following table sets forth selected financial data with regard to our Production of gas segment as defined in the Group's Financial Statements.

	Production of gas				
	As of and for the six months ended June 30,		As of and for the year ended December 31,		
	2015	2014	2014	2013	2012
Assets, million RR	2,252,390	2,092,161	2,276,369	2,051,204	1,875,535
Share of Group's total assets	15%	16%	15%	16%	15%
Sales,(1) million RR	8,801	7,687	19,068	8,672	9,126
Share of Group's total sales	0%	0%	0%	0%	0%
Capital additions, million RR	41,481	93,607	254,881	257,407	232,705
Share of Group's total capital additions	9%	22%	21%	21%	19%

Note:

(1) Excluding inter-segment and intra-segment operations.

Production of crude oil and gas condensate segment operates in exploration and production of oil and gas condensate, sales of crude oil and gas condensate and its sales mainly consist of inter-segment sales of oil and gas condensate to the Refining segment for further refining and sales to third parties.

The following table sets forth selected financial data with regard to our Production of crude oil and gas condensate segment as defined in the Group's Financial Statements.

	Production of crude oil and gas condensate				
	As of and for the six months ended June 30,		As of and for the year ended December 31,		
	2015	2014	2014	2013	2012
Assets, million RR	1,776,023	1,697,417	1,896,609	1,585,429	1,399,797
Share of Group's total assets	12%	13%	13%	12%	11%
Sales,(1) million RR	130,652	104,798	209,234	210,216	275,560
Share of Group's total sales	4%	4%	4%	4%	6%
Capital additions, million RR	118,264	101,532	227,421	223,557	121,167
Share of Group's total capital additions	26%	23%	19%	18%	10%

Note:

(1) Excluding inter-segment and intra-segment operations.

Reserves categories

We estimate our hydrocarbon reserves in accordance with the Russian reserves system and under PRMS Standards. The Russian reserves system differs significantly from PRMS Standards, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. In addition, PRMS Standards differ in certain material respects from current SEC Standards. If we applied SEC Standards our estimated proved natural gas, gas condensate and crude oil reserves could potentially be lower than under PRMS Standards. For a description of the Russian reserves system, PRMS Standards, SEC Standards and the principal differences between them, see "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Classification of Reserves." Unless otherwise specified, this Base Prospectus provides information on explored reserves in accordance with the Russian reserves system or ABC_1 reserves.

Reserves

Most of our reserves are concentrated in unique fields, each with ABC_1 natural gas reserves of more than 500 bcm. Over 35% of our ABC_1 natural gas reserves are in cenomanian deposits, which are characterized by low bedding depth, high delivery rates of wells and dry natural gas. Approximately 70% of our ABC_1 reserves are located in Western Siberia and the Kara sea shelf. Most of our other reserves are located on the Barents Sea shelf, in Eastern Siberia, the Far East and Southern Russia.

Our reserves and production calculation methodology is consistent with IFRS consolidation principles. Thus, our subsidiaries' reserves and production information is included in full in our total reserves and production, disregarding our effective share in such subsidiaries. Reserves and production information of our joint arrangements determined to be joint operations for accounting purposes is included in our reserves and production data pro rata to our interest in such joint operations. Consistent with IFRS consolidation principles, the information on hydrocarbon reserves and production of our associated companies is not included in our total reserves and production figures. However, material information on the ABC_1 hydrocarbon reserves of our associated companies is presented separately.

The following table shows our total ABC_1 natural gas, gas condensate and crude oil reserves in accordance with the Russian reserves system, and the percentage share of our ABC_1 reserves evaluated by DeGolyer and MacNaughton in accordance with PRMS Standards, as well as our proved, probable and possible reserves determined as a result of this evaluation, as of the dates indicated. As part of our annual reports, we publish information in relation to our reserves in accordance with PRMS Standards. Appendix B to this Base Prospectus contains breakdown information on the proved and probable gas, gas condensate and crude oil reserves of our subsidiaries in accordance with PRMS Standards as of December 31, 2014, as extracted from the September 30, 2015 DeGolyer and MacNaughton letter. The correlation between ABC_1 reserves and proved, probable and possible reserves may differ in the fields that have not yet been evaluated. Moreover, the correlation may vary at different times for the same fields.

	As of December 31,			**As of December 31,**		
	2014	**2013**	**2012**	**2014**	**2013**	**2012**
	Gas, bcm			**Gas, mmboe**		
ABC_1	36,101.4	35,696.6	35,169.8	212,637.2	210,253.0	207,150.1
of which evaluated ABC_1	94%	93%	94 %	94%	93%	94%
Proved	18,894.8	18,939.3	19,133.0	111,290.4	111,552.5	112,693.4
Probable	4,616.0	4,325.2	4,254.0	27,188.2	25,475.4	25,056.1
Proved + probable	23,510.7	23,264.5	23,387.0	138,478.0	137,027. 9	137,749.5
Possible	6,803.9	5,786.9	5,705.6	40,075.0	34,084.8	33,606.0
	Gas condensate, million tons			**Gas condensate, mmboe**		
ABC_1	1,447.0	1,384.4	1,386.1	11,836.5	11,324.4	11,338.3
of which evaluated ABC_1	92%	89%	89%	92%	89%	89%
Proved	642.3	638.8	633.8	5,254.0	5,225.4	5,184.5
Probable	206.3	193.6	174.9	1,687.5	1,583.6	1,430.7
Proved + probable	848.6	832.4	808.7	6,941.5	6,809.0	6,615.2
Possible	637.2	709.2	670.3	5,212.3	5,801.3	5,483.1
	Crude oil, million tons			**Crude oil, mmboe**		
ABC_1	2,053.1	2,019.0	1,992.2	15,049.2	14,799.3	14,602.8
of which evaluated ABC_1	91%	89%	89%	91%	89%	89%
Proved	830.5	834.8	819.5	6,087.6	6,119.1	6,006.9
Probable	543.9	572.4	588.8	3,986.8	4,195.7	4,315.9
Proved + probable	1,374.4	1,407.2	1,408.3	10,074.4	10,314.8	10,322.8
Possible	730.6	747.7	638.0	5,355.3	5,480.6	4,676.5
				Gas, gas condensate, crude oil, mmboe		
ABC_1				239,522.9	236,376.6	233,091.2
of which evaluated ABC_1				94%	93%	93%
Proved				122,632.0	122,896.9	123,884.8
Probable				32,862.6	31,254.7	30,802.7
Proved + probable				155,494.5	154,151.7	154,687.5
Possible				50,642.6	45,366.7	43,765.6

The amounts in barrels do not match the amounts in the DeGolyer and MacNaughton letter attached to this Base Prospectus as Appendix B because in this Base Prospectus we use conversion rates set forth in the Conversion Table on page 262, while the amounts set forth in the DeGolyer and MacNaughton letter are calculated based on the specific gravities of each field.

The following table shows the ABC_1 natural gas, gas condensate and crude oil reserves of our associated companies pro rata to our effective interests therein as of the end of the respective periods.

	As of December 31,		
	2014	**2013**	**2012**
Natural gas (bcm)	971.7	851.5	732.2
(bboe)	5.7	5.0	4.3
Oil and gas condensate (million tons)	672.4	622.1	580.3
(bbls)	5.0	4.6	4.3
Total (bboe)	**10.7**	**9.6**	**8.6**

Our hydrocarbon reserves abroad as of December 31, 2014, 2013 and 2012 were considered insignificant, constituting less than 1% of our ABC_1 reserves in Russia as of each of the above dates.

As compared to the assessment made as of December 31, 2013, our proved and probable reserves increased by 1.4 bboe in 2014. The increase in PRMS reserves was attributable to the inclusion of assessed reserves at the Khandinskiy area of the Kovyktinskoye field and the results of exploration at the Chayandinskoye and Semakovskoye fields, as well as the results of exploration conducted by Gazprom Neft in Eastern Siberia.

Licensing activities

Most of our hydrocarbon licenses were granted between 1993 and 1996. See Appendix A "Certain Exploration and Production Information—Licenses." The licenses impose certain obligations on us to perform exploration works and ensure certain production volumes, prepare project documentation, meet certain environmental and rational subsoil use requirements, and pay charges for subsoil use. Licenses may be suspended or revoked if we fail to comply with their terms. None of the licenses for our major natural gas fields expires prior to 2017. See Appendix A "Certain Exploration and Production Information—Licenses." A subsoil user has the right to request an extension of the term of the license in order to complete the exploration, assessment and development of the natural resources until the end of a field's exploitation period if such user complies with the terms and conditions of the license. We believe that we are in material compliance with our license agreements, and that we will be entitled to extend them to the full economic lives of the associated fields upon the expiration of their primary terms. Currently, there have been no suspensions of production as a result of decisions by the relevant federal and regional authorities. See "Risk Factors—Risks Relating to Our Business—Our licenses may be suspended, amended or terminated prior to the end of their terms, and we may not be able to obtain or maintain various permits and authorizations" and "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Subsoil licensing."

In 2014, our licensing activities resulted in our ABC_1 reserves growth of 182.3 bcm of natural gas and 8.6 million tons of oil and gas condensate as compared to 484.1 bcm of gas and 3.5 million tons of gas condensate in 2013.

In 2014, we obtained 13 subsoil licenses, including three licenses for subsoil plots of federal importance issued by decrees of the Government, including licenses for geological survey, exploration and production at the Khandinsky area, which includes a portion of the Kovyktinskoye field in the Irkutsk Region at the Kheisovsky and Severo-Zapadniy subsoil areas on the shelf of the Barents Sea.

Our one-time license payments amounted to approximately RR18.4 billion for all licenses obtained in 2014. Subsurface areas, for which subsoil licenses were obtained under resolutions of the Government in 2014, were not covered by the audit of reserves under PRMS Standards as of December 31, 2014.

We are subject to regular inspections conducted by Rosprirodnadzor which occasionally requires us to remedy certain violations at our licensed areas. In 2012, 2013 and 2014, following planned and unscheduled inspections, Rosprirodnadzor issued prescriptions that require us to remedy alleged violations relating, primarily, to the timeline for performing geological works at various subsoil areas, as well as alleged environmental law violations that we believe have been rectified. Currently, prescriptions remain outstanding in relation to the Severo-Tambeyskiy, Zapadno-Tambeyskiy, Tasiyskiy, Malyginskiy, Kruzenshternskiy, Seyakhinskiy, Severo-Kolpakovskiy, Zapadno-Kamchatskiy licensed areas and the Vostochno-Medvezhye, Vyngapurovskoye, Zapadno-Tarkosalinskoye and Lenskoye fields. Remedial periods set by Rosprirodnadzor currently range from October 2015 to May 2016. We are working to comply with the requirements before the designated deadlines. If we are unsuccessful in complying with the prescribed requirements, respective licenses could be suspended, amended or terminated or fines could be imposed on us. See "Risk Factors—Risks Relating to Our Business—Our licenses may be suspended, amended, or terminated prior to the end of their terms, and we may not be able to obtain or maintain various permits and authorizations."

Exploration activities

We are continually engaged in the exploration of new and existing deposits of natural gas and crude oil. These activities include prospecting and exploration drilling and geophysical activities in our existing production license areas and fields, and new areas for which we hold licenses. We perform our exploration activities in Russia in accordance with the

Program for Mineral Resource Base Development until 2035 (the "MRBD Program"). The MRBD Program provides for an increase of our reserves through geological exploration by 16.9 billion toe in Russia between 2015 and 2035. We perform exploration works in Western and Eastern Siberia as well as Southern Russia, the Far East and in other regions in Russia. We are also involved in exploration projects abroad, including in Algeria, Bolivia, Bosnia and Herzegovina, Hungary, Iraq, Libya, the Netherlands, Serbia, the United Kingdom, Venezuela, Vietnam, Romania and Central Asia. See "—Exploration, Development and Production regions—FSU and Europe and Other Countries."

In 2014, as a result of our geological exploration activities in Russia, we discovered 822.5 bcm of natural gas reserves, 114.2 million tons of gas condensate and 24.7 million tons of oil. The exploration discoveries of natural gas were mainly attributable to the Astrakhanskoye field (600.6 bcm), Yuzhno-Kirinskoye field (115.2 bcm) and Semakovskoye field (47.9 bcm). The discoveries of gas condensate reserves were mainly attributable to the Astrakhanskoye and Yuzhno-Kirinskoye fields.

Our discoveries from exploration works in our exploration license areas or beyond license areas are to be transferred to the Undistributed Subsoil Fund of Russia and are subject to application to government authorities for licenses. We have a pre-emptive right to receive licenses for the fields we have explored. In 2014, we transferred the reserves discovered in the course of our exploration works to the Undistributed Subsoil Fund of Russia in the amount of 91.1 bcm of natural gas and 4.6 million tons of crude oil and gas condensate.

In the six-month period ended June 30, 2015, as a result of our exploration activities our ABC_1 gas reserves increased by approximately 445 bcm of natural gas and 35.9 million tons of liquid hydrocarbons. Such increase is primarily attributable to the exploration work performed at the Chayandinskoye field, where we reclassified more than 200 bcm of natural gas reserves from category C_2 to category C_1, and the Yuzhno-Kirinskoye field, where we increased our natural gas reserves by more than 210 bcm as a result of exploration drilling.

Reserve replacement ratio

In July 2006, the Board of Directors approved the adoption of key strategic indicators for a period of ten years, including that the reserve replacement ratio with respect to natural gas was to be maintained at or above 100%. Our aggregate ABC_1 natural gas, gas condensate and crude oil reserve replacement ratio attributable to exploration activities was 194% and 131% and our ABC_1 natural gas reserves replacement ratio attributable to exploration activities was 186% and 133% in the years ended December 31, 2014 and 2013, respectively. We do not include reserve life among our key strategic indicators. However, if our proved and probable natural gas, gas condensate and crude oil reserves are divided by our aggregate natural gas, gas condensate and crude oil production figures, the resulting reserve life ratio would be equal to approximately 52 and 47 years as of December 31, 2014 and 2013, respectively.

Production costs

Our hydrocarbon production costs largely reflect the geographic location of our fields, the geological composition of the hydrocarbon deposits under production, the cost of operating the infrastructure that is necessary to sustain our production levels as well as Government policy with respect to MET. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Recent Changes In Russian Tax Regulation—MET Changes."

Production costs at our mature fields in the Nadym-Pur-Taz region will likely increase because we expect to be required to use more expensive extraction techniques to compensate for declining pressure in the deposits in order to extract natural gas from deeper, more geologically complex deposits. At the first stage of development, production costs at our fields in the Yamal Peninsula are also expected to be high because of challenging climatic conditions in the area, geographic remoteness and special environmental requirements. We expect the production costs at these fields to decrease when the fields reach their projected capacity. We also seek to substantially mitigate challenging local conditions of production by using our own unique technology while developing the Yamal Peninsula fields.

Production

The following table sets forth our summary production data in Russia for the periods indicated.

	For the six months ended June 30,		**For the year ended December 31,**		
	2015	**2014**	**2014**	**2013**	**2012**
Natural gas (bcm)	205.8	244.5	444.9	488.4	488.0
(mmboe)	1,212.2	1,439.8	2,620.5	2,876.6	2,874.3
Gas condensate (million tons)	7.8	8.4	14.5	14.7	12.8
(mmbls)	63.6	68.3	118.5	119.9	105.1
Crude oil (million tons)	21.8	21.3	43.5	42.3	42.3
(mmbls)	159.8	156.1	319.1	310.8	309.7
Total (mmboe)	**1,435.6**	**1,664.2**	**3,058.1**	**3,307.3**	**3,289.1**

Our gas production in 2014 declined compared to production in 2013 primarily due to the cessation of gas deliveries to Ukraine in the second quarter of 2014 and shortfalls in gas off-take by other customers in Russia and abroad. Despite decreased gas production in 2014, our potential daily peak production during the 2014-2015 heating season averaged 1,690 mmcm of natural gas. However, the natural decline in production in the Nadym-Pur-Taz region is expected to reduce our potential daily peak production to 1,595 mmcm of gas in 2015. In contrast, our production at the Bovanenkovskoye field has been growing rapidly since it was brought on stream in 2012. In 2014, the field produced 42.8 bcm of gas as compared to 22.8 bcm in 2013. We expect to produce 56 bcm of gas at the field in 2015 while increasing its daily production to 218 mmcm of gas by the end of 2015.

The growth in our crude oil production in 2014 was attributable to the increased oil production by Gazprom Neft at the Priobskoye field and various fields in the Orenburg Region.

The decrease in our natural gas and gas condensate production in the six-month period ended June 30, 2015 compared to the six-month period ended June 30, 2014 was primarily due to a decline in demand for our gas and gas condensate in Russia and the FSU countries.

The following table sets forth summary production data of our associated companies in Russia attributable to the Group for the periods indicated.

	For the six months June 30,		For the year ended December 31,		
	2015	2014	2014	2013	2012
Natural gas (bcm)	12.0	9.1	18.2	13.0	11.9
(mmboe)	70.7	53.6	107.2	76.8	70.1
Gas condensate (million tons)	2.1	0.9	2.3	1.3	1.1
(mmbls)	17.2	7.4	18.8	10.3	9.2
Crude oil (million tons)	4.8	5.1	10.0	10.2	10.8
(mmbls)	35.2	37.4	73.3	75.1	79.3
Total (mmboe)	**123.0**	**98.3**	**199.3**	**162.0**	**158.3**

The increase in gas and gas condensate production by our associated companies in 2014 as compared to 2013 was attributable to an increase in production at the Samburgsky licensed area developed by JSC Arktikgaz ("Arktikgaz") controlled by SeverEnergia.

We also operate and participate in certain projects abroad which have commenced hydrocarbons production. See "—Exploration, Development and Production regions—FSU and Europe and Other countries."

Exploration, Development and Production regions

We are focusing our exploration and development activities in gas and oil fields in Western Siberia. In order to reach the long-term projected levels of gas production, we intend to develop new strategic fields in the Yamal Peninsula in Western Siberia, the Russian sea shelf, Eastern Siberia and the Far East. In addition, we are participating in exploration and production projects in the FSU and Europe and Other Countries (in Algeria, Bangladesh, Bolivia, Bosnia and Herzegovina, Hungary, Iraq, Libya, the Netherlands, Serbia, the United Kingdom, Venezuela, Vietnam, Romania and Central Asia).

The terms and timeline of one or more of the projects described below in this section may be revised due to changes in demand for our products or sanctions programs. See "Risk Factors—Risks Relating to Our Business—Non-compliance with the U.S. and EU sanctions programs, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition."

Western Siberia (Ural Federal District)

This is our main region for the production of natural gas, gas condensate and crude oil. It is characterized by severe weather conditions. Approximately 85% of our proved hydrocarbon reserves and over 90% of our hydrocarbon production are concentrated in this region. Our wholly owned production subsidiaries OOO Gazprom dobycha Nadym, OOO Gazprom dobycha Urengoy, OOO Gazprom dobycha Yamburg and OOO Gazprom dobycha Noyabrsk operate in this region, as does ZAO "Purgaz" in which the Group companies' cumulative share in charter capital is 51% and in which we retain operational and financial control and consolidate 100% of its reserves, and Severneftegazprom, of which we own over 50% of the voting shares, which is equal to a 40.0004% interest in its share capital. Our major producing gas fields, consisting of the Yamburgskoye, Medvezhye, Urengoyskoye and Zapolyarnoye gas fields are located in this area. In addition, most of Gazprom Neft's oil reserves and production capacities are located in Western Siberia. Gazprom Neft's most significant fields located in Western Siberia are the Priobskoye, Vyngapurovskoye, Sugmutskoye, Sutorminskoye, Yety-Purovskoye and Vyngayakhinkoye fields.

Vostokgazprom, in which we hold a 99.98% interest, and its subsidiaries produce natural gas and liquid hydrocarbons from five fields in the Tomsk Region.

Most of the oil produced by Gazprom Neft in the region is classified as “Siberian Light crude” and has sub-average density (34.20 degrees API or 830-850 kg/cm) and sub-average sulfur content (0.56%) compared to average Russian crude oil. When not blended with other Russian crude oil, crude oil produced by Gazprom Neft may be sold at a premium price over the Urals blend. This advantage, however, is generally lost because two-thirds of crude oil produced by Gazprom Neft is blended with crude oil belonging to other Russian companies when transported through the trunk pipeline system owned by Transneft.

Gazprom Neft and Rosneft each own equal interests of 50% in Tomskneft and jointly decide all issues with respect to the operation of the company. Tomskneft holds licenses for the development of fields in the Tomsk Region and Khanty-Mansi Autonomous Area.

Major fields in commercial operation

Major fields in long-term production. Three of our four major fields in the Nadym-Pur-Taz region, Medvezhye, Urengoyskoye and Yamburgskoye, were brought on stream between 1970 and 1990. The production of natural gas from the cenomanian layers of these fields amounted to approximately 69 bcm (approximately 16% of the aggregate Group production of natural gas) in 2014. Currently, the depletion rate of the initial geological reserves of the cenomanian layers of the fields is approximately 70%. The production of the fields has declined due to falling pressure in the layers of the fields.

We are currently engaged in exploration of the neighboring areas of our major depleted fields. In 2010, we commissioned the Zapadno-Pestsovaya area of the Urengoyskoye field with annual production capacity of 2 bcm of natural gas and the Yareiskaya area of the Yamsoveiskoye field with annual production of 1.25 bcm of natural gas. In 2011, we commenced the production of gas and gas condensate from the aptian-albian deposits in the Nydinskaya area of the Medvezhye field. We produced 2.1 bcm of gas and approximately 4,400 tons of gas condensate in this area in 2014, and we expect that area to reach its projected production capacity of 2.7 bcm of gas by 2015 to 2016. In 2013, the Kharvutinskaya area of the Yamburgskoye field produced 27.1 bcm of natural gas, and we expect the area to produce 21.7 bcm of natural gas in 2015.

Zapolyarnoye field. This field is located near our main fields developed in the Nadym-Pur-Taz region. We brought on stream the cenomanian deposits of the field in 2001 and the lower cretaceous deposits in 2011. In early 2013, the field reached its total annual gas production capacity of 130 bcm. The Zapolyarnoye field produced 97.4 bcm of natural gas in 2014, and we expect the field to produce 87.1 bcm of natural gas in 2015.

Yuzhno-Russkoye field. This field is located in the Nadym-Pur-Taz region. This field was brought on stream in 2007 and reached its projected annual capacity of 25.0 bcm in 2010. The field produced 25.1 bcm of natural gas in 2014 and we expect it to produce 25.0 bcm of natural gas in 2015. In 2010, we started pilot production of gas from the turonian deposit in the Yuzhno-Russkoye field and expect to start commercial production between 2022 and 2024 and achieve the annual projected capacity of 9 bcm by 2031.

Our subsidiary, Severneftegazprom, holds the license for the development of the Yuzhno-Russkoye field. BASF Group holds two class A and one class C preference shares and a 25% interest minus three ordinary shares in Severneftegazprom, which represents 35% of the charter capital of Severneftegazprom. E.ON holds three class B preference shares and a 25% interest minus three ordinary shares in Severneftegazprom, which represents 25% of the charter capital of Severneftegazprom. Our interest in Severneftegazprom amounts to 50% plus six ordinary shares, which represents 40% of the charter capital of the company.

The asset swap agreement with our German partners in respect of the Yuzhno-Russkoye field provides for a compensation to be paid upon revaluation of the reserves of the field. We signed supplemental agreements with E.ON and BASF extending the period of reserves revaluation and payment of compensation to 2023.

Yubileynoye field. This field was put into operation in 1993. We put into operation a gas preparation unit and commissioned seven new gas wells at the aptian-albian layers of the field in 2013 which provided 1.74 bcm of additional natural gas production beginning in 2014. The field produced 9.8 bcm of natural gas in 2014 and we expect it to produce 7.6 bcm of natural gas in 2015.

Bovanenkovskoye field is located in the Yamal Peninsula. According to our estimates, the annual projected production level at the cenomanian-aptian layers of the field of 115 bcm of natural gas is expected to be achieved between 2019 and 2021. In the longer term, it is expected that the field production can increase to 140 bcm of natural gas after putting into operation neocomian-jurassic gas condensate layers. We started production at the field in 2012. The field produced 42.8 bcm of natural gas in 2014 and we expect it to produce 56 bcm of natural gas in 2015 and its daily production to reach 218 mmcm by the end of the year.

Komsomolskoye field was put into operation in 1993. The field produced 12.4 bcm of natural gas in 2014 and we expect it to produce 8.8 bcm of natural gas in 2015.

Pestsovoye field is located in Nadym region of the Yamal-Nenets Autonomous Area 150 km to north-west of Novy Urengoy. It was put into operation in 2004 and reached its projected capacity of 27.5 bcm of gas in 2006. We anticipate bringing on stream the lower cretaceous deposits of the Pestsovoye field in 2017-2018 with its projected annual capacity reaching 1.7 bcm of gas between 2019 and 2020. The Pestsovoye field, including the Zapadno-Pestsovoye field, produced 19.3 bcm of natural gas in 2014 and we expect it to produce 17.9 bcm of natural gas in 2015.

Urengoyskoye field (achimovsk formation). In October 2009, we put into operation the second block of the achimovsk formation of the Urengoyskoye field. The projected production capacity of the field amounts to 8.7 bcm of gas and 2.8 million tons of unstable gas condensate per annum. We currently produce 7.5 mmcm of gas daily from the block in periods of peak gas production and expect it to achieve its projected production capacity between 2016 and 2019.

We expect the fourth and fifth blocks of the achimovsk formations at the Urengoyskoye field to come on stream in 2017 and, together with the first two blocks, to reach an aggregate rated capacity of approximately 36.3 bcm of gas and 10 million tons of gas condensate between 2023 and 2024. We estimate the aggregate gas production capacity of the fourth and fifth sections to be 15 bcm of natural gas and 3 million tons of gas condensate.

In December 2013, we entered into a master agreement with Wintershall Holding relating to an asset swap. In accordance with the agreement, Wintershall Holding is expected to receive a 25.01% interest in the project for the development of the fourth and fifth blocks of the achimovsk deposits of the Uregoyskoye field which is licensed to our subsidiary OOO Gazprom dobycha Urengoy. In exchange, we expect to receive a 50% stake in Wintershall Noordzee B.V., a company implementing oil and gas exploration and production projects in the North Sea, and to receive additional interests in the gas trading and storage companies WINGAS, WIEE and WIEH which is expected to bring our ownership of these entities to 100%. The German Ministry of Economics and Technology and the European Commission have approved the transaction. We intend to complete the transaction by the end of 2015.

In September 2015, we signed an agreement with OMV, which contemplates a potential asset swap transaction, pursuant to which OMV is expected to obtain a 24.98% interest in the project for the development of the fourth and fifth blocks of the achimovsk formation of the Urengoiskoye field and we expect to receive interests in assets owned by OMV.

In addition, ZAO Achimgaz ("Achimgaz"), our joint venture with Wintershall Holding, is developing the first section of the achimovsk formations at the Urengoyskoye field. See "—Associated companies and development of associated projects in the region—Achimgaz."

Muravlenkovskoye and Novogodneye fields. The Muravlenkovskoye and Novogodneye oil and gas fields are located in Yamal-Nenets Autonomous Area in the Nadym-Pur-Taz region. The licenses for the development of the fields are held by Gazprom Neft. In 2010, we started production from the cenomanian gas deposits. The total gas production of the fields was approximately 5.4 bcm of gas in 2014. We expect the total annual gas production of the fields to reach 5.4 bcm of gas in 2015.

Priobskoye field. The largest field operated by Gazprom Neft is located in the southern area of the Priobskoye field in the Khanty-Mansi Autonomous Area. The production from this field amounted to 12.0 million tons of crude oil in 2014. We expect the field to produce 11.8 million tons of crude oil in 2015.

Prospective fields in the long term

Yamal Peninsula. The Yamal Peninsula is located to the north of the Nadym-Pur-Taz region and is characterized by harsher climate conditions. According to our estimates, the total explored category ABC_1 reserves of the Yamal Peninsula and the adjacent shelf amount to over 12 tcm of natural gas and 500 million tons of crude oil and gas condensate. More than half of these reserves are located in the Bovanenkovskoye, Kharasaveiskoye and Kruzenshternskoye gas condensate fields and the Novoportovskoye oil and gas condensate field. We hold production licenses for these fields. We plan to develop the on-shore fields of the Yamal Peninsula in the Bovanenkovo, Tambey and Southern production zones.

Bovanenkovo group of fields. The Bovanenkovskoye, Kharasaveyskoye and Kruzenshternskoye fields are the most significant fields of the Bovanenkovo production zone. In 2012, we put on stream the cenomanian-aptian layers of the Bovanenkovskoye field. We intend to put on stream the cenomanian-aptian layers of the Kharasaveyskoye field between 2021 and 2022 and the Kruzenshternskoye field between 2025 and 2026 when the Bovanenkovskoye field is expected to reach its projected capacity. We estimate the annual projected natural gas production from the cenomanian-aptian layers of the Kharasaveyskoye field and the Kruzenshternskoye field to be 32 bcm and 33 bcm, respectively.

Tambey group of fields. In accordance with the general scheme for the development of the gas industry through 2030, developed by the Ministry of Energy of the Russian Federation, the Tambey group of fields, including the Severo-Tambeyskoye, Tasyiskoye and Zapadno-Tambeyskoye fields, is planned to be put on stream between 2026 and 2030. We estimate the annual projected capacity of the Severo-Tambeyskoye, Tasyiskoye and Zapadno-Tambeyskoye fields to be 33.0 bcm, 16.6 bcm and 5.7 bcm, respectively.

Southern group of fields. The Southern group of fields is planned to be put on stream after 2030 to maintain stable production and effectively utilize gas and liquid hydrocarbons transportation capacities in the region when the Bovanenkovo and the Tambey group of fields enter the stage of declining production. The annual projected capacity of the Southern group of fields is estimated at 30 bcm. The Southern group of fields includes nine fields, of which we currently hold the license for the Novoportovskoye oil and gas condensate field.

Novoportovskoye field. This is the largest field in the Yamal Peninsula in terms of oil and gas condensate reserves. OOO Gazprom Neft Novy Port, a subsidiary of Gazprom Neft, holds the license for the development of the field. We started pilot production at the field in 2012. This field is expected to start industrial production in 2016. We are currently considering two alternative scenarios for developing the field. The first scenario envisages achieving peak annual production level of 8.4 million tons of crude oil by 2019. Under the second scenario, the project company would maintain an annual production level of 5.5 million tons of crude oil for a longer period with reaching a peak production level of 6.1 million tons of crude oil a year by 2023. We anticipate that the election of the field development scenario will be completed in 2016. We consider the development of natural gas reserves separately and expect to determine the strategy in 2017. We are constructing infrastructure facilities and an Arctic terminal with a capacity of 8.5 million tons per annum to be used for the shipment of crude oil.

Production from unconventional sources

Kuznetsky Coal Basin. Our subsidiary OOO Gazprom dobycha Kuznetsk is implementing an innovative project in the Kemerovo Region to produce coal gas. We are conducting exploratory activities and have launched experimental production from exploration wells at the Narduksko-Ostashkinskaya area. We are also working to move from the experimental production at the Taldynsky coal gas field to the pilot production stage. After achieving its projected capacity, we expect this project to cover the demand for gas in the region.

Krasnoleninskoye field. Gazprom Neft continues to study the shale oil reserves at the Bazhenov complex of the Palyanovskaya area at the Krasnoleninskoye field in Western Siberia. Currently, Gazprom Neft is engaged in exploration works, including exploration drilling, as well as production drilling at pilot areas to determine the expediency of further development.

Salym Petroleum Development. Our subsidiary, Gazprom Neft, and Royal Dutch Shell each own 50% in SPD and jointly decide all issues with respect to operation of the company. SPD develops the Salym group of fields comprised of the Zapadno-Salymskoye, Verkhne-Salymskoye, and Vadelypskoye fields.

Gazprom Neft and Royal Dutch Shell implement joint projects through this joint venture. In particular, the joint venture was engaged in developing a project to produce shale oil from the Verkhne-Salymskoye field in the Khanty-Mansi Autonomous Area. Currently, this project has been suspended in connection with economic sanctions imposed by the U.S. and European Union. In addition, SPD is implementing a separate project in the Zapadno-Salymskoye field in the Khanty-Mansi Autonomous Area to use a new technology of chemical flooding with ASP targeted at the recovery of residual oil that remains undeveloped after a conventional waterflood. Gazprom Neft's share in the additional production from the Zapadno-Salymskoye field is estimated at 19 million tons of crude oil throughout the development period.

KhMOGU. In October 2013, Gazprom Neft and Royal Dutch Shell established a 50/50 joint venture KhMOGU to pursue new projects for shale oil exploration and development in the Khanty-Mansi Autonomous Area. In connection with economic sanctions imposed by the U.S. and European Union, the partners are currently assessing the prospects of the development of tight oil reserves in the achimovsk and tyumen deposits in Western Siberia (Khanty-Mansi Autonomous Area and Yamal-Nenets Autonomous Area) and another field in the southern part of the Yamal-Nenets Autonomous Area. In addition, KhMOGU continues preparation works to start exploration at three other areas for which it already holds licenses.

Associated companies and development of associated projects in the region

Our material associated companies in the region are described below.

Achimgaz. The achimovsk formation of the Urengoyskoye field is divided into several parts, each of which is gradually being developed. The development of the first part has been undertaken by Achimgaz, our joint venture with Wintershall Holding in which the parties have equal interests. The first experimental part of the field has been in commercial production since 2012 and produced approximately 3.4 bcm of natural gas and 1.5 million tons of gas condensate in 2014. We expect to achieve the projected production level of 9.6 bcm of gas and 2.95 million tons of unstable gas condensate annually in the period from 2016 to 2019.

Messoyakhaneftegaz. The East Messoyakhskoye and West Messoyakhskoye fields are located in the northern part of the West Siberian gas bearing province in the south-west of the Gydan Peninsula and are among the largest fields in terms of explored reserves. Due to the magnitude and complexity of the development of these fields, Gazprom Neft and TNK-BP (subsequently acquired by Rosneft) established a joint venture, ZAO Messoyakhaneftegaz, which holds the licenses to develop these fields. While Gazprom Neft and Rosneft each control equal interests of 50% in ZAO Messoyakhaneftegaz, Gazprom Neft was chosen to be the operator of the project. In 2015, we started production drilling at the East Messoyakhskoye field. In the period from 2015 to 2016, we expect to finalize construction of infrastructure facilities and commence commercial production at the field. In 2021, we plan to reach the maximum annual production level of 6.7 million tons of crude oil for stages 1 and 2 of the East Messoyakhskoye field. The peak annual production of 0.9 million tons of crude oil in the West Messoyakhskoye field is expected to be achieved in 2036. Our share in oil production of both fields is 50%. Currently, we continue exploration works and construction of core infrastructure facilities at the West Messoyakhskoye field. We expect to put the field on stream in 2016.

Nortgaz. As of December 31, 2012, we held a 51% stake in ZAO Nortgaz (“Nortgaz”). In May 2013, we contributed our interest in Nortgaz to the charter capital of OOO Gazprom Resurs Nortgaz in which we hold an 81.8% interest. In May 2013, the shareholders approved the issuance of additional shares of Nortgaz. As we chose not to participate in the issuance, OOO Gazprom Resurs Nortgaz’s stake in Nortgaz decreased from 51% to 50% in July 2013. Since 2014, Gazprom Neft has been managing our holding in Nortgaz. Nortgaz holds a license for the development of the neocomian layers of the Severo-Urengoyskoye field. In 2014 and 2013, Nortgaz produced 10.7 bcm and 4.8 bcm of natural gas and 1.5 million tons and 0.6 million tons of liquid hydrocarbons, respectively. In the six months ended June 30, 2015 and 2014 Nortgaz produced 5.5 bcm and 5.3 bcm of natural gas and 0.6 million tons and 0.7 million tons of liquid hydrocarbons, respectively.

Slavneft. Gazprom Neft and Rosneft control equal interests of 49.9% in Slavneft and jointly decide all issues with respect to the operation of the company. Gazprom Neft’s share of Slavneft’s production amounted to 3.9 million tons, 4.0 million tons, 8.1 million tons and 8.4 million tons of oil and 0.2 bcm, 0.2 bcm, 0.4 bcm and 0.4 bcm of associated gas in the six-month periods ended June 30, 2015 and 2014 and in 2014 and 2013, respectively. Based on PRMS Standards, Gazprom Neft held a share in the proved and probable reserves of Slavneft of 344 million tons of oil and 9.2 bcm of associated gas as of December 31, 2014.

Yamal Razvitie. In September 2009, we acquired a 51% interest in SeverEnergia for U.S.$1.6 billion (approximately RR47 billion). In November 2010, we sold our 51% equity interest in SeverEnergia to Yamal Razvitie, a 50% joint venture established by Gazprom Neft and Novatek to implement joint oil and gas condensate development projects in the Yamal-Nenets Autonomous Area. As a result of this transaction, Gazprom Neft’s effective equity interest in SeverEnergia amounted to 25.5%. In December 2013, Yamal Razvitie acquired a 60% interest in Artic Russia B.V., which owned a 49% interest in SeverEnergia, from Eni for U.S.$2.94 billion which resulted in Gazprom Neft’s effective interest in SeverEnergia increasing to 40.2%. In March 2014, Yamal Razvitie increased its shareholding in Artic Russia B.V. to 80%, increasing Gazprom Neft’s effective interest in SeverEnergia to 45.1%. In April 2014, Gazprom Neft and Novatek agreed to bring their respective interests in SeverEnergia to equal stakes and are currently implementing the agreement. In August 2015, Gazprom Neft’s effective interest in SeverEnergia increased to 46.7%. SeverEnergia is treated as an investment in associated undertakings and joint ventures on our balance sheet as of June 30, 2015.

SeverEnergia owns 100% of the shares in Arktikgaz, which holds development licenses for the fields located in Western Siberia. Gazprom Neft held a share in the proved and probable PRMS reserves of SeverEnergia of 478 bcm of gas and 98.7 million tons of oil and gas condensate as of December 31, 2014. Arktikgaz holds the licenses to develop the Yaro-Yakhinskiy, Evo-Yakhinskiy and Severo-Chaselskiy licensed areas, as well as the Samburgskiy licensed area comprising the Samburgskoye, Urengoiskoye, Vostochno-Urengoiskoye and Severo-Esetinskoye fields. Arktikgaz has launched industrial production at the Samburgskoye, Urengoiskoye and Yaro-Yakhinskoye fields. In the six-month periods ended June 30, 2015 and 2014, the share in production attributable to Gazprom Neft amounted to 4.5 bcm and 1.1 bcm of gas and 1.5 million tons and 0.2 million tons of oil and gas condensate, respectively. In 2014 and 2013, the share in production attributable to Gazprom Neft amounted to 3.3 bcm and 1.2 bcm of gas and 0.9 million tons and 0.2 million tons of oil and gas condensate. Between 2017 and 2018 SeverEnergia plans to put on stream valanginian oil deposits at the Yaro-Yakhinskoye oil and condensate fields with an aggregate projected annual production capacity of 1.4 million tons of crude oil and 7.7 million tons of gas condensate.

Northern European Russia (Northwestern Federal District)

This region is characterized by severe weather conditions and has four active gas condensate fields. The operating production company for this region is our subsidiary OOO Gazprom dobycha Krasnodar.

Southern Russia (Southern Federal District, North Caucasian Federal District)

Our upstream activity in southern Russia is concentrated in two regions, the Astrakhan Region and the Northern Caucasus. The Astrakhan Region contains one active gas condensate field, Astrakhanskoye. Our subsidiary, OOO Gazprom dobycha Astrakhan, is the license holder operating the field. Our subsidiary OOO Gazprom dobycha Krasnodar is the license holder for and operates approximately 50 active fields in the Northern Caucasus region.

Astrakhanskoye field. According to our estimates, the Astrakhanskoye field in Southern Russia in the Volga river estuary can support production of separator gas of 50-60 bcm annually (or 25-30 bcm of sales gas). The Astrakhanskoye field produced approximately 10.3 bcm of gas in 2014 and we expect it to produce 10.7 bcm in 2015. The production capacity of the field is restrained at current level due to environmental restrictions and the need to use expensive technologies, which is mainly caused by high sulfur content in the reserves of the field. In order to increase production, we are considering developing the Astrakhanskoye field using a process of acid gas flooding which enables us to effectively decrease pollutant emissions and eliminate the storage and processing of illiquid related sulfur.

Associated companies and development of associated projects in the region

KazRosGaz. In September 2010, Russia and Kazakhstan signed an intergovernmental agreement on cooperation in geological exploration of the transboundary Imashevskoye field. Gazprom and KazMunaiGaz were appointed authorized entities for the implementation of the agreement. In April 2011, we signed an agreement with KazMunaiGaz to appoint our joint venture, KazRosGaz, in which we hold equal stakes, operator of the Imashevskoye field development. The Imashevskoye field is located 60 km northeast of Astrakhan in Russia and 250 km southwest of Atyrau in Kazakhstan. We are in the process of revising the intergovernmental agreement between the Russian Federation and Kazakhstan on cooperation in geological exploration of the transboundary Imashevskoye field.

We also purchase natural gas in Kazakhstan through KazRosGaz. We process the gas at our Orenburg gas processing plant and sell it in Kazakhstan and in other countries. See "—Refining—Projects in refining—Karachaganak gas processing."

South Ural region (Privolzhski Federal District)

The main active field, the Orenburgskoye field, in the South Ural region is operated by OOO Gazprom dobycha Orenburg, which produces, processes and transports natural gas, gas condensate and crude oil, and ZAO Gazprom Neft Orenburg, an oil and gas production subsidiary of Gazprom Neft. OOO Serviceneftegaz also produces natural gas, gas condensate and crude oil in the region.

Orenburgskoye field. The Orenburgskoye field is a rare field in terms of the size of its reserves and the qualities of its natural gas which apart from its hydrocarbon component, contains hydrogen sulphide, sour mercaptan, sulfur and helium. In 2014, the field produced approximately 14.9 bcm of natural gas and we expect it to produce 14.1 bcm in 2015.

Eastern area of the Orenburgskoye field is located southwest of Orenburg at the Orenburgskoye field. ZAO Gazprom Neft Orenburg, a subsidiary of Gazprom Neft, is the license holder. The field is at the stage of industrial production, and we expect to achieve its projected capacity of 3.9 million tons of crude oil and 4.4 bcm of gas in 2021.

Gazprom Neft intends to increase its annual production in the region to at least 11.0 mtoe by 2020. In 2011, Gazprom Neft obtained exploration and production licenses for the Tsarichansky and Kapitonovskiy licensed areas. The Tsarichanskoye and Kapitonovskoye fields located in these licensed areas are at the industrial production stage. In October 2012, Gazprom Neft acquired control over a company holding a license for exploration and production at the Baleykinskoye field and an exploration license for the Uranskaya area. Gazprom Neft is engaged in exploration of these fields.

Eastern Siberia and the Far East (Siberian and Far East Federal Districts)

Eastern Siberia and the Far East (including the shelf of Sakhalin) contain significant natural gas reserves, which are estimated at approximately 5.7 tcm of category ABC_1 and 5.5 tcm of category C_2 according to the Russian State Subsoil Balance as of December 31, 2013. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Classification of reserves." We are the coordinator of the Eastern Program approved by the Ministry of Energy of the Russian Federation to create a unified gas production, transportation and supply system in the region with the potential to export gas to China and other Asia-Pacific countries. We own exploration and development licenses and conduct exploration work in the Krasnoyarsk Territory, the Irkutsk Region, the Sakhalin Region, the Republic of Sakha (Yakutia) and the Kamchatka Territory that have been identified in the Eastern Program as new gas production centers. Our natural gas reserves in these license areas (including the shelf of Sakhalin) amounted to approximately 3.4 tcm of category C_1 and 2.4 tcm of category C_2 reserves as of December 31, 2014.

On January 1, 2015, amendments to the Russian Tax Code became effective. These amendments provide tax relief with respect to gas production and transportation projects implemented in various regions in Eastern Siberia and the Far East. In particular, the amendments established a zero MET rate for gas fields located in the Republic of Sakha (Yakutia) and the Irkutsk Region for 15 years following the start of commercial production, with a subsequent gradual increase in the MET rate from 10% to 100% of the standard MET rate over the following 10 years. The tax relief also includes a zero corporate property tax rate applicable through January 1, 2035 in respect of the trunk pipelines and other facilities forming their integral technological part, gas production sites, helium production sites and storage facilities located in the Republic of Sakha (Yakutia), the Irkutsk Region and the Amur Region.

Republic of Sakha (Yakutia)

Chayandinskoye field. In October 2012, we made an investment decision for the development of the Chayandinskoye field and the construction of gas transportation system and gas processing complex. The Chayandinskoye field is the core of the Yakutskiy gas production center in Eastern Siberia. We have started production drilling for pilot commercial development of the oil rim at the field. We expect to complete exploration works at the field in 2016. We intend to start gas production in late 2018. We expect to achieve projected annual production of 25.0 bcm of gas and 2.3 million tons of oil and gas condensate between 2023 and 2025. We are constructing the Power of Siberia pipeline, a trunk gas pipeline from Yakutia to Blagoveschensk via Skovorodino, to transport gas from the Yakutskiy and Irkutskiy gas production centers, including from the Chayandinskoye and Kovyktinskoye fields, to Russian and foreign customers (see "—Transport—Gas transportation projects in Russia—Power of Siberia pipeline"). We also intend to construct the gas processing and helium production facilities in the Amur Region. See "—Refining—Projects in refining—Amurskiy GPP."

In 2011, we received licenses for the Sobolokh-Nedzhinskoye, Verkhnevilyuchanskoye, Tas-Yuryakhskoye and Srednetyungskoye fields in Yakutia. We are currently conducting 3D seismics and preparation woks for the construction of exploration wells.

Krasnoyarsk Region

We continue exploration of certain licensed areas in the Krasnoyarsk Region including further exploration of the Omorinskoye gas condensate field, the Kamovskoye oil field, the Imbinskoye gas field, the Ilbokichskoye gas condensate field and the Abakanskoye gas field, as well as exploration works at the Troitskaya, Teterskaya and other areas. We also consider Baytiyskaya, Katangskaya and Prisayano-Eniseyskaya oil and gas provinces as prospective areas for potential exploratory drilling.

Irkutsk Region

Kovyktinskoye gas condensate field. In 2011, we acquired the property of OAO Rusia Petroleum, including a 100% interest in OOO Kovyktinskoyeneftegas, which in turn owned property located in the Khandinsky licensed area. The acquisition of this property allowed Gazprom to register the license for the Kovyktinskoye gas condensate field in its own name. In accordance with Government Resolution No. 668-r dated April 24, 2014, in May 2014, we obtained a license for exploration and production at the Khandinskiy area which lies adjacent to the Kovyktinskoye field and includes a portion of this field. The estimated C_1+C_2 hydrocarbon reserves of our licensed areas (Kovyktinskiy, Khandinskiy, Chikanskiy) of the field amount to over 2.5 tcm of natural gas and 86 million tons of gas condensate as of December 31, 2014.

We are continuing our exploration of the field. Projected annual production of the field is estimated at 35 bcm of natural gas and 1.9 million tons of gas condensate. The Kovyktinskoye field is currently in the pilot commercial development stage. The technological scheme for the development of the field was approved in September 2013. We expect to put the field on stream in 2022. Along with the Chayandinskoye field, we plan to transport natural gas from the Kovyktinskoye field to Russian customers and abroad through the Power of Siberia pipeline, which is now under construction. See "—Transport—Gas transportation projects in Russia—Power of Siberia pipeline."

Chonskiy project. The project relates to the development of three licensed areas, the Tympuchikanskiy area located in the Republic of Sakha (Yakutia), and the Vakunaiskiy and Ignyalinskiy areas in the Irkutsk Region. The strategic purpose of the project implemented by Gazprom Neft is to evaluate prospects of establishing a new oil production center in close proximity to the Eastern Siberia-Pacific Ocean oil pipeline, expand its resource base and increase production. The Tympuchikanskoye field is in the pilot production stage. The produced oil is currently being transported by motor transport for further sale from December through April due to geographical, climate and infrastructure conditions in the region. We continue exploration works. We expect to put on stream the Chonskiy group of fields in 2019 and achieve the maximum production level of 5.5 million tons of oil in 2026.

In June 2012, we signed an agreement with JOGMEC for the joint exploration of oil reserves of the Ignyalinskiy area located in the Irkutsk Region. The license for the Ignyalinskiy area is held by the subsidiary of Gazprom Neft, OOO Gazpromneft-Angara. In April 2015, JOGMEC terminated its participation in the project. We are currently considering other potential partners for the development of the project.

The Kamchatka Territory

In May 2013, we acquired a 92.25% interest in OAO Kamchatgazprom from Rosneftegaz for RR2.85 billion. The consideration for the interest is payable in equal annual interest free installments within 23 years. OAO Kamchatgazprom holds licenses for the Kshukskoye and Nizhne-Kvakchikskoye gas condensate fields in the Kamchatka Territory.

In 2009, we also obtained a license for the Severo-Kolpakovskoye field in the Kamchatka Territory. We are conducting exploration at the field.

Associated companies and development of associated projects in the region

Kuyumbinskiy project. Gazprom Neft is implementing the Kuyumbinskiy exploratory project at the Kuyumbinskiy, Tersko-Kamovskiy, Kordinskiy, Abrakupchinskiy and Podporozhniy sites in the Krasnoyarsk Region. OOO Slavneft – Krasnoyarskneftegas, a subsidiary of OAO NGK Slavneft (in which Gazprom Neft holds a 50% interest), is the licenseholder for these blocks. Gazprom Neft is currently implementing a program of pilot commercial development at the Kuyumbinskiy site for 2013-2015. We intend to put on stream the Kuyumbinskiy group of fields in 2018 after the commissioning of the Kuyumba-Tayshet pipeline, which forms part of the Eastern Siberia-Pacific Ocean pipeline system. The annual production from all areas of the Kuyumbinskiy project is expected to amount to 10.8 million tons of oil by 2029, with the cumulative production of 338 million tons of oil.

Russian sea shelf

We consider Russia's sea shelf, primarily the shelf of the Okhotsk and the Barents Seas, to be a promising area for the further development of new hydrocarbon deposits. At the Russian sea shelf, our subsidiaries, OOO Gazprom dobycha Shelf, OOO Gazprom dobycha Yamburg and Gazprom Neft Shelf, operate the gas development projects and oil development projects, respectively.

The Sea of Okhotsk shelf

Sakhalin III project

Kirinskoye field. In September 2008, we obtained a license for the development of the Kirinskoye field located on the sea shelf near Sakhalin. The Kirinskoye field is part of the Sakhalin III project. In October 2013, we commenced production at the field. We expect to produce 0.7 bcm of natural gas and 0.1 million tons of gas condensate at the field in 2015. We continue construction of exploitation wells and expect the field to produce up to 5.5 bcm of natural gas upon completion.

Yuzhno-Kirinskoye field. In 2010, as a result of exploration drilling, we discovered the large Yuzhno-Kirinskoye field in the Kirinsky prospective block. Currently, we continue exploration drilling and engineering works at the field, and we expect to put the field on stream in 2021 and achieve its annual projected capacity of 21 bcm of gas in 2031.

Putting the Yuzhno-Kirinskoye field into operation will create the Sakhalinskiy gas production center as required by the Eastern Program to cover demand in the neighboring Russian regions and supply gas for export.

In August 2015, the BIS added the Yuzhno-Kirinskoye field to its Entity List. This means that any person without a BIS license is prohibited from exporting, reexporting and transferring (in-country) all items subject to the U.S. Export Administration Regulations that can be used directly or indirectly in exploration or production from a deepwater (greater than 500 feet) project in Russia that has the potential to produce oil. We are currently assessing the impact of this designation on the prospects of development of the Yuzhno-Kirinskoye field. See "Risk Factors—Risks Relating to Our Business—Non-compliance with the U.S. and EU sanctions programs, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition."

Mynginskoye field. In 2011, we completed drilling the first exploration well at the Mynginskaya structure, resulting in the discovery of the Mynginskoye gas condensate field. The projected annual capacity of the Mynginskoye field is estimated at 3.3 bcm of gas. The field is expected to be put into operation after the Yuzhno-Kirinskoye field reaches its annual production capacity.

In 2009, we also obtained licenses for the Vostochno-Odoptinsky and Ayashskiy areas of the Sakhalin III project and the Zapadno-Kamchatskiy area on the shelf of the Okhotsk Sea. We have conducted 3D seismic exploration at those areas and are now analyzing the results and continue design and preparation works for the construction of exploration wells.

The Barents Sea shelf

Shtokmanovskoye field. The Shtokmanovskoye gas condensate field is located in the center of the Barents Sea northwest of the Yamal Peninsula and 650 km northeast of Murmansk. Shtokmanovskoye field's projected production capacity is approximately 71 bcm per year, which can potentially be increased to up to 95 bcm per year.

To manage engineering, financing, construction and exploitation of installations during the first phase of the development of the Shtokmanovskoye field, we established a special purpose company, Shtokman Development AG, with Gazprom, Total and Statoil owning initial shareholding interests of 51%, 25% and 24%, respectively. For the past few years we had been working to make the final investment decision but the shareholders of Shtokman Development AG did not come to an agreement on several material issues by the designated deadline. The initial shareholders' agreement, which expired in July 2012, provided that Total and Statoil must sell their respective shares of Shtokman Development AG to Gazprom at a minimum price set forth in the initial shareholders' agreement. In September 2012 and in July 2015, we purchased Statoil's and Total's interests in Shtokman Development AG, which made us the sole shareholder of Shtokman Development AG. In April 2013, we registered the license for the Shtokmanovskoye field with Gazprom, which was previously held by our subsidiary, Gazprom Neft Shelf.

We have decided to revise the feasibility study with respect to the comprehensive development of the Shtokmanovskoye field to enhance technical solutions and efficiency of the project. In connection with the ongoing revision of the project, we are adjusting our plans to construct related infrastructure facilities, including the Murmansk-Volkhov pipeline.

Prirazlomnoye oil field. This field is located on the Pechora Sea shelf. The projected maximum annual oil production volume for this field is 5.5 million tons by 2021. In 2011, we installed an offshore ice-resistant platform at the field. The production at the field began in December 2013. We produced 0.3 million tons of oil at the field in 2014 and expect to produce 0.8 million tons in 2015.

The Pechora Sea shelf

Dolginskoye oil field. OOO Gazprom Neft Sakhalin, a subsidiary of Gazprom Neft, holds a license for exploration and production at, and is currently engaged in the exploration of, the Dolginskoye oil field at the Pechora Sea. We have conducted substantial exploratory activities at the field which revealed a commercial oil content, and carried out an appraisal of reserves. We continue exploration works at the field. We expect to begin commercial production between 2020 and 2021 and achieve a peak production level of 4.8 million tons of oil in 2027.

The Kara Sea shelf

The total C_1+C_2 categories of reserves of the shelf of the Kara Sea, including the Obskaya and Tazovskaya Bays together with the adjacent onshore deposits, are estimated to amount to approximately 6.0 tcm of natural gas and 80.0 million tons of liquid hydrocarbons. We hold exploration and production licenses for a number of fields in the Kara Sea and the adjacent onshore deposits with total C_1 and C_2 categories of reserves amounting to approximately 4.7 tcm of gas and 31.0 million tons of gas condensate. We expect to begin hydrocarbon production in the region in 2023 to 2024, bringing on stream the Kamennomysskoe-more field. In 2025 to 2026, we expect to start production at the Severo-Kamennomysskoe field. The projected annual capacity of each field is over 14.5 bcm of natural gas.

Associated companies and development of associated projects in the region

Sakhalin II project. We own a 50% plus one share interest in Sakhalin Energy, the operator of the Sakhalin II project. According to the terms of the shareholders agreement, we currently do not control Sakhalin Energy. The company is included as an associated company in our financial statements. The Sakhalin II project is implemented pursuant to a production sharing agreement.

The Sakhalin II project is one of the largest integrated oil and gas shelf projects in the world. The project includes the Piltun-Astokhskoye and Lunskoye fields, 300 km of offshore pipelines, a joint onshore production facility, a trans-Sakhalin pipeline system with a length of approximately 1,600 km, the first Russian LNG production plant with an annual production capacity of 9.6 million tons of LNG and an oil and LNG export terminal. As of December 31, 2014, the proved and probable reserves of the Sakhalin II project under PRMS Standards amounted to 45.8 million tons of crude oil and gas condensate and 245.2 bcm of natural gas. In 2014 and 2013, oil and gas condensate production from the project amounted to 5.3 million tons and 5.3 million tons, respectively, and the LNG plant produced 10.7 million tons and 10.8 million tons of LNG, respectively. In the six-month periods ended June 30, 2015 and 2014, oil and gas condensate production from the project amounted to 2.6 million tons and 2.7 million tons, respectively, and the LNG plant produced 5.5 million tons and 5.6 million tons of LNG, respectively.

Tsentralnoye field. In June 2003, we formed TsentrCaspNeftegaz, a joint venture with Lukoil in which we and Lukoil have equal interests. TsentrCaspNeftegaz is authorized to act on behalf of the Russian Federation for the development of the Central geological structure in the Caspian Sea together with KazMunaiGaz, the latter acting on behalf of Kazakhstan. The Central geological structure is located within the Russian sector of the Caspian Sea, 150 km to the east of Makhachkala. In March 2005, TsentrCaspNeftegaz and KazMunaiGaz entered into an agreement for the joint development of hydrocarbon resources of the Central geological structure. In May 2008, in the course of testing the first exploration well on the Central geological structure, TsentrCaspNeftegaz discovered a large oil and gas condensate field, the Tsentralnoye field, with category C_1 and C_2 reserves of 118.4 mtoe. In January 2013, TsentrCaspNeftegaz and KazMunaiGaz established a joint venture, OOO Neftegazovaya Kompaniya Tsentralnaya ("NKTs"), to jointly implement the exploration and production projects in the central part of the Caspian Sea, which, among others, include the Tsentralnoye field. Currently, NKTs is preparing the second application to the Federal Agency for Subsoil Use ("Rosnedra") for a license to develop the Tsentralnoye field.

FSU and Europe and Other Countries

We participate in hydrocarbon exploration and development abroad. Our subsidiaries, Gazprom EP Int. and Gazprom Neft, generally operate our projects in the FSU and Europe and Other Countries.

Naftna Industrija Srbije. NIS, a subsidiary of Gazprom Neft, has been engaged in exploration, production and marketing projects in Serbia, Romania, Hungary, Bulgaria, and Bosnia and Herzegovina. NIS also owns oil refineries in the cities of Panchevo and Novi Sad, which have a total capacity of 7.3 million tons of oil per year.

Associated companies and development of associated projects in the region

Algeria. In 2008, Gazprom EP Int. won the bid for the exploration and development of hydrocarbon reserves of the El-Assel area in the Berkine geological basin in Sakhara. Our interest in the project is 49%. The remaining 51% interest is held by Sonatrach, the Algerian national oil and gas company. Gazprom EP Int. acts as the project operator. As a result of geological exploration we discovered the ZERN, ZER and RSHN hydrocarbons fields in the Berkine geological basin. Currently, we have commenced the third stage of exploration.

Bangladesh. In April 2012, our subsidiary Gazprom EP Int. signed contracts with certain subsidiaries of Petrobangla for the drilling of ten production wells on a number of gas fields in Bangladesh. In 2013 and 2014, we completed the production drilling and commissioned the wells and thus fulfilled our obligations under the contracts. We are currently negotiating a contract to construct five further production wells in cooperation with Petrobangla.

Bolivia. In March 2008, we signed an agreement with the leading Bolivian state energy company, YPFB, on geological exploration of the Sunchal and Azero blocks in Bolivia. In August 2013, we and Total signed a 40-year service contract with YPFB for the development of the Azero field. Pursuant to the contract, we and Total are expected to engage in drilling two exploration wells within five years. If hydrocarbon deposits are discovered, the parties intend to form a joint venture for the development of the field in which YPFB, the Group and Total are expected to hold 55%, 22.5% and 22.5%, respectively. Total acts as the project operator. In June 2014, we completed the purchase of a 20% interest in the Ipati and Aquio blocks, in which our partners Total and TecPetrol hold 60% and 20%, respectively. In 2011, the construction of an exploration well in the Aquio block was completed and a commercial discovery of natural gas was announced. We have completed construction of two wells at the Ipati block and are now developing infrastructure at the Incahuasi field located in the Ipati and Aquio blocks. The commercial gas production is expected to start in 2016.

Central Asia. We are engaged in implementing a number of exploration and production projects in Uzbekistan, Tajikistan and Kyrgyzstan. In June 2009, we discovered the Dzhel field in the Shakhpakhtinsky license block in Uzbekistan. We are engaged in negotiations with Uzbekistan relating to the development of the Dzhel field pursuant to a product sharing agreement. In 2014, at the recovery stage of the old fields, approximately 0.3 bcm of gas was produced in the Shakhpakhty field. We are engaged in exploration activities at the Sarikamysh and Zapadniy Shokhambary areas in Tajikistan. The licenses for both fields are set to expire at the end of 2018. In particular, we have completed drilling an exploration well with a projected depth of 6,450 meters at the Sarikamysh field. The results of the exploration drilling provided valuable geological information that allowed us to adjust the geological model and ascertain objectives for further exploration works. We are preparing for exploration of the Zapadniy Shokhambary area in Tajikistan and Kugart and Eastern Mailisu IV blocks in Kyrgyzstan. We are working to extend our licenses for the Kugart and Eastern Mailisu IV blocks which have expired.

For our agreements with Central Asian countries in natural gas sales and transit, see “—Distribution—The FSU—Cooperation with FSU countries in gas marketing.”

Iran. We participated in a project to develop the second and third phases of the South Pars field, located in the Iranian segment of the Persian Gulf with a total cost of more than U.S.$2 billion. We held a 30% interest in the project. The other participants in this project were Total, which held a 40% interest, and Petronas, a Malaysian company, which held a 30% interest. NIOC has been making payments to the project participants for construction work since the second quarter of 2002. Because of the U.S. and international sanctions imposed on Iran the issue of making final payments to the project participants remains unresolved. Iranian debt to Gazprom currently amounts to approximately U.S.$20 million.

In 2009, Gazprom Neft entered into a memorandum of understanding with NIOC, providing for potential joint exploration of certain fields in Iran. We believe that the memorandum is not binding and does not constitute any legal obligation for either of the parties. Gazprom Neft has not performed any work in relation to implementation of any projects contemplated by the memorandum and Gazprom Neft has no plans to take any further action in relation to the memorandum.

U.S. sanctions have been imposed on companies engaging in certain types of transactions with specified countries, including Iran, or companies in those countries. In May 1998, the U.S. Department of State waived otherwise applicable sanctions with respects to the investment made by our partners and us in Iran’s South Pars field under Section 9(c) of the Sanctions Act. The waiver applies to our activities in the South Pars field only, and not to any other activities we may conduct relating to Iran. We believe that we are not currently involved in any transactions relating to Iran that could result in sanctions against us or for which we have not received a waiver of such sanctions. See “Risk Factors—Risks Relating to Our Business—Violations of existing international or U.S. sanctions could subject us to penalties or prevent certain of our transactions that could have an adverse effect on us.”

Iraq. In January 2010, Gazprom Neft, as a member of a consortium with KOGAS (South Korea), Petronas (Malaysia) and TPAO (Turkey), signed a Development and Production Service Contract for the Badra field with the North Oil Company of the Iraq Ministry of Oil and Oil Exploration Company (“OEC”), representing the government of Iraq. North Oil Company subsequently assigned its rights under the contract to another state-owned company, Midland Oil Company. Pursuant to the contract, the consortium will finance 100% of the investments in the project, which are to be recovered following the start of commercial production. The service contract provides for the payment of remuneration to the consortium for the produced hydrocarbons in the amount of U.S.$5.5 per boe. Gazprom Neft is the operator of the Badra project. Its share in the profit distribution amounts to 30%, whereas the shares of KOGAS, Petronas, TPAO and OEC are 22.5%, 15%, 7.5% and 25%, respectively.

The development and production service contract for the Badra field has a validity period of 20 years but may be extended by another 5 years. In August 2015, the Iraqi party approved the preliminary development plan for the field with a projected maximum production level of 5.7 million tons of oil per annum. Gazprom Neft's portion of the total capital expenditure for the project is estimated to be approximately U.S.$3 billion. Gazprom Neft started commercial production on the field in May 2014. Gazprom Neft expects to produce approximately 1.3 million tons of oil at the field in 2015.

In August 2012, Gazprom Neft, through its subsidiary Gazprom Neft Middle East B.V., began new hydrocarbon exploration and production projects in Iraq. Gazprom Neft signed two production sharing agreements in relation to the Garmian and Shakal blocks located in the Southern Kurdistan Region in Iraq. The production sharing agreements permit engagement in exploration and commencement of production within 25 years, provided that the commercial discovery of oil is announced. Gazprom Neft obtained a 40% share and the government of the Kurdistan Region received a 20% share in the Garmian block. WesternZagros, a Canadian company receiving a 40% share of production under the production sharing agreement, is expected to remain the operator of the project until the end of 2015. Gazprom Neft obtained an 80% share in the Shakal block and acts as operator of the project. The government of the Kurdistan Region will receive a 20% share of production in the Shakal block under the production sharing agreement. Commercial production commenced in the Garmian block in February 2015. In the Shakal block, we expect to continue exploration through 2016 and start commercial production in 2018. Maximum production capacities of 1.0 million tons and 3.6 million tons of crude oil per annum are expected to be achieved in the Garmian and Shakal blocks in 2018 and 2025, respectively.

In February 2013, Gazprom Neft, through its subsidiary Gazprom Neft Middle East B.V., entered into a production sharing agreement with the regional government of Kurdistan in relation to the Halabja block. Gazprom Neft and the regional government of Kurdistan own interests in the project of 80% and 20%, respectively. Gazprom Neft is the operator of the project. Exploration is expected to continue on the Halabja block through 2018 but can be extended until 2020. We intend to start commercial production in the Halabja block in 2018 and achieve the annual maximum production level of 4.5 million tons of oil in 2024.

The cumulative geological resources of Gazprom Neft in Kurdistan are estimated at 1.0 billion tons of oil.

Gazprom Neft paid U.S.$260 million for its share in the Garmian and Shakal projects, including reimbursement of past costs. Gazprom Neft also paid a U.S.$130 million bonus for entering the Halabja project. Gazprom Neft expects its investments in exploration at the three blocks to be no less than U.S.$700 million in the period through 2015. The production sharing framework provides for a compensation of investor's past costs after the start of production.

Libya. Our involvement in the development of Libyan oil blocks 19 and 64 is governed by the terms of two production sharing agreements on geological exploration, development and production sharing with Libya's National Oil Corporation.

We have completed seismic assessments at each of blocks 19 and 64 and started exploratory drilling on block 64. Since February 2011, further work on the projects has been suspended due to unrest in the country. Pursuant to the production sharing agreements, if a force majeure event occurs and continues for two years, the agreements automatically terminate. We believe that a force majeure event has occurred and continued for over two years, thus terminating the agreements. On the other hand, the National Oil Corporation believes that a force majeure event occurred but ceased prior to the end of the two-year period. As such, National Oil Corporation maintains that the agreements are currently in effect. We are engaged in negotiations with the Libyan National Oil Corporation with respect to this matter.

We hold a 49% interest in Wintershall AG which is the developer of two Libyan oil blocks, C96 and C97, for the period through 2026. Total production in 2014 and 2013 (attributable to our interest of 49%) amounted to approximately 0.2 million tons and 1.2 million tons crude oil, respectively. In August 2013, Wintershall AG declared an occurrence of a force majeure event due to the unrest in the country and oil production has been suspended. This event of force majeure continues.

Venezuela. In June 2009, Gazprom Neft acquired a 20% interest in NOC, a company established to implement oil production projects in Latin America by Gazprom Neft, Rosneft, Lukoil, TNK-BP and Surgutneftegaz, each having an equal interest in NOC at incorporation. In 2013, Surgutneftegaz sold its share to Rosneft, which had also acquired TNK-BP, and thus increased its aggregate interest in NOC to 60%. In September 2009, the governments of Russia and Venezuela entered into an agreement for cooperation in the implementation of joint strategic projects. In April 2010, NOC and PdVSA established a joint venture Petromiranda to develop a low-grade oil field, Junin-6, in the basin of the Orinoko River in Venezuela. NOC holds a 40% interest in Petromiranda. In 2013, NOC appointed Rosneft to coordinate the Junin-6 project. Junin-6 entered into an early production stage in September 2012. The parties are continuing to perform exploration activities.

Vietnam. Under a framework on cooperation with Petrovietnam, a Vietnamese oil and gas company, we are currently conducting the development of block 112 on the continental shelf in the Gulf of Bak Bo in Vietnam on a production sharing basis. The operator of the project is Vietgazprom, a joint venture in which we and Petrovietnam have equal interests. As a result of exploration works, two new fields were discovered in block 112, Bao Wang in 2007 and Bao Den in 2009. We have completed exploration works and are currently estimating reserves of the Bao Wang field and working on the preliminary development plan.

In October 2008, we signed an oil and gas exploration agreement for 30 years, with a possibility of extension for five years, to develop four blocks (No. 129, 130, 131, 132) in the South China Sea, on the continental shelf of Vietnam. We plan to explore, produce and sell hydrocarbons from these blocks on the basis of a production sharing agreement. Vietgazprom acts as the operator for the development of these blocks. We have completed a complex interpretation of the geologic and geophysics data. In August 2015, we started drilling the first deepwater exploration well with a project depth of 4,950 meters in block 131.

In December 2009, we signed an agreement for strategic partnership with Petrovietnam which provides for further joint work on the sea shelf of Vietnam, in Russia and in other countries. We have established a joint venture, Gazpromviet, to comply with the undertakings pursuant to the partnership agreement. We hold a 51% interest, and Petrovietnam owns a 49% interest in Gazpromviet. We have transferred license for the development of the Nagumanovskoye oil and gas condensate field in the Orenburg Region to Gazpromviet. Also Gazpromviet received license for the Severo-Purovskoye field in the Yamal-Nenets Autonomous Area. In June 2015, we signed an agreement with Petrovietnam regarding the principal terms of development of the Nagumanovskoye and Severo-Purovskoye fields which sets forth the work schedule, marketing strategy and general financing and pricing terms. Technological schemes for the development of both fields have been approved by Rosnedra. Currently, we are finalizing the FEED phase with respect to the Nagumanovskoye field.

In April 2012, we entered into an agreement with Petrovietnam that provides for Gazprom to jointly develop license blocks 05.2 and 05.3 on the shelf of Vietnam, with aggregate proved and probable reserves estimated at 55.6 bcm of natural gas and 25.1 million tons of gas condensate. Pursuant to the agreement, we acquired a 49% interest in the product sharing agreements that form the legal framework of the project. Gazprom International is operating as the Russian party in the project. In 2013, we commenced production of gas and gas condensate in the Moc Tinh field (block 05.3) and the Hai Thach field (blocks 05.3 и 05.2). The planned output for both blocks of approximately 2.0 bcm for gas and 615 thousand tons per year for condensate is expected to be reached in 2016. In 2014 and 2013, our participation share in the production of the project amounted to approximately 0.6 bcm and 0.1 bcm of natural gas and 82 thousand tons and 13 thousand tons of gas condensate, respectively.

United Kingdom and the Netherlands. In cooperation with Wintershall Noordzee B.V., we are involved in certain exploration and production projects in the North Sea. In October 2011, the production of gas from the Wingate field started in the North Sea. Wintershall Noordzee B.V. is the operator of the project, and our participation share in the project is currently 20%. In 2014 and 2013, our participation share in the production of the project amounted to 0.1 bcm and 0.1 bcm of gas, respectively. In addition, we participate in hydrocarbons exploration projects in the geological structure Winchelsea (our interest in the project is 20%) and a cross-border geological structure Sillimanite (our interest in the project is 22.4%), both located in the North Sea and operated by Wintershall Noordzee B.V. The Sillimanite geological structure lies on the maritime border of the United Kingdom and the Netherlands.

In December 2013, we signed a master agreement with Wintershall Holding in relation to an asset swap, which, among other things, provides that we obtain a 50% interest in Wintershall Noordzee B.V. We intend to finalize the transaction by the end of 2015. See "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Ural Federal District)—Major fields in commercial operation—Urengoyskoye field").

Transport

Financial highlights

Our Transport segment generally renders gas transportation services to our Distribution segment.

The following table sets forth selected financial data with regard to our Transport segment as defined in the Group's Financial Statements.

	Transportation of gas				
	As of and for the six months ended June 30,		As of and for the year ended December 31,		
	2015	2014	2014	2013	2012
Assets, million RR…………………	6,076,731	5,160,945	6,088,335	5,271,761	5,275,864
Share of Group's total assets.…….	41%	39%	41%	40%	43%
Sales,(1) million RR……..…………	90,621	82,721	172,842	163,265	125,386
Share of Group's total sales……...	3%	3%	3%	3%	3%
Capital additions, million RR…….	184,223	145,699	434,433	380,547	563,825

Share of Group's total capital additions	41%	34%	36%	31%	46%

Note:

(1) Excluding inter-segment and intra-segment operations.

GTS

We own and operate the GTS, the world's largest high-pressure trunk pipeline gas transportation system. We estimate that as of December 31, 2014, the total length of the GTS in Russia was approximately 170,700 km (not including distribution pipelines, pipelines transmitting gas condensate and WFLH) and included 250 compressor stations on the pipelines, with an aggregate capacity of 46,100 MW. Our wholly owned regional subsidiaries engage in gas transportation and storage in Russia. We also own interests in gas distribution companies, which own and operate distribution networks that transport gas to end consumers. In addition, our wholly owned subsidiary Gazprom transgaz Belarus operates the gas transportation system of Belarus and owns most of its facilities (see "—Existing routes of gas export and participation in foreign gas distribution networks"). We also participate in natural gas transportation activities through a number of joint ventures with foreign partners. See "—International projects in gas transportation" and "—Gas storage."

Our high-pressure trunk pipeline system transports natural gas principally from large western Siberian fields westward toward the more heavily populated regions of Russia, the FSU countries and Europe and to refineries. The trunk pipeline system is highly integrated to ensure reliable natural gas deliveries to distributors, export customers and consumers. The high level of integration of our pipeline network is achieved through the use of multiple and parallel pipelines of large diameters (defined as pipes with diameters of 1,420 mm, 1,220 mm and 1,020 mm), inter-connectors and UGSFs. In most cases, the extensive branching structure of the GTS, together with the availability of spare pipeline throughput capacity, enables us to re-route or to increase natural gas flow in case of an emergency.

The age of our pipeline system in Russia as of December 31, 2014 is shown in the table below.

Since construction	**Length**	**% of total**
	(thousand km)	
Up to 10 years	20.6	12.0
11-20 years	20.7	12.1
21-30 years	50.6	29.7
31-40 years	46.6	27.3
41-50 years	20.6	12.1
Over 50 years	11.6	6.8
Total	**170.7**	**100.0**

We are continually working to improve the reliability and efficiency of the GTS. In March 2011, we adopted the Comprehensive Program for Upgrading and Technical Re-equipment of Gas Transportation Facilities and Underground Gas Storage Facilities for 2011-2015. In 2014, we replaced 14 gas pumping units with and aggregate capacity of 167 MW in Russia.

We also carry out annual capital repairs and preventive maintenance to improve the reliability of gas supply, technological and environmental safety and the efficiency of gas distribution. We recently increased the level of our capital repairs as a result of the aging of extensive sections of gas pipelines that were put into operation in the 1980s and the early 1990s. Annually, we make capital repairs to approximately 1,500 km of trunk pipelines and approximately 700 gas pumping units.

We also annually perform over 20,000 km of intratubal diagnostic activities and over 17,000 km of electrometric inspections. We are considering the possibility of increasing the volume of our intratubal diagnostic activities in order to timely detect critical defects while decreasing the frequency of inspections.

There have been no major interruptions of gas supplies caused by any failure or fault of the GTS over the last 10 years. As a result of our regular pipeline repairs and improvement in our pipeline technology, the incidence of technical faults that involve interruptions or restrictions of gas supply dropped from 32 in 2002 to between 20 and 26 per year recently. In the year ended December 31, 2014, we registered 26 technical faults of the GTS.

Gas transportation balance

Natural gas flows into our trunk pipelines from our own production, from the production of independent and Central Asian producers, and from withdrawals from underground storage. Natural gas flows from our trunk pipelines to customers in Russia, Europe and the FSU as well as to our UGSFs. After accounting for operational requirements of the pipeline system and other technical factors, total inflows are equal to total outflows in a particular period.

The following table sets out data on the natural gas balance of the GTS in Russia for the periods indicated (including natural gas in transit from Central Asia and Azerbaijan).

	For the six months ended June 30,		For the year ended December 31,		
	2015	2014	2014	2013	2012
			(bcm)		
Total GTS inflow[1]	**301.0**	**333.4**	**627.5**	**659.4**	**666.2**
System inflow	280.0	304.9	588.7	621.0	613.7
(including Central Asian and Azerbaijanian gas)	9.0	13.0	26.4	30.7	33.3
Withdrawals from Russian UGSFs	19.0	24.4	32.7	32.7	44.3
Decrease in GTS reserves[2]	2.0	4.1	6.1	5.7	8.2
Total distribution from GTS[1]	**301.0**	**333.4**	**627.5**	**659.4**	**666.2**
Deliveries to customers in Russia	182.0	186.8	356.5	354.6	362.3
(including Central Asian gas)	0.0	0.0	0.03	0.0	0.0
Deliveries outside Russia	92.2	110.1	196.2	220.2	209.3
(including transit of Central Asian and Azerbaijanian gas)	9.0	13.0	26.4	30.7	33.2
Addition to Russian UGSFs	10.2	15.2	35.1	38.4	44.1
Technological needs of GTS and UGSFs	14.7	17.9	33.2	40.6	40.9
Increase in GTS reserves[2]	1.9	3.4	6.5	5.6	9.6

Notes:

(1) These numbers do not include gas volumes withdrawn from foreign UGSFs and delivered outside Russia.

(2) A significant extension of the GTS involves maintaining a large volume of gas in the pipeline. This allows the system operators, increasing or decreasing the pressure at its different divisions, to accumulate excess gas in the pipeline for a certain period of time or to use it for extra supply. Thus, within a certain period, the shipment chain may transfer a lesser or larger volume of gas from one operator to another. The line shows the result of such operations as a total amount accumulated for a reporting period.

Our GTS natural gas throughput decreased by approximately 10% in the six months period ended June 30, 2015 compared to the six-month period ended June 30, 2014, and approximately 5% in 2014 compared to 2013, primarily due to a decline in natural gas production, decreased deliveries to Russian customers, lower addition to Russian UGSFs and reduced transit of central Asian and Azerbaijanian gas.

Most of the natural gas consumed by the pipeline system is used to power the GTS. The remainder is accounted for by technological losses, including gas lost during maintenance of the pipelines. We believe that our current volume of gas losses is low, and that our levels of consumption of gas as fuel are satisfactory.

Third-party access to the GTS

Pursuant to Government Resolution No. 858 dated July 14, 1997, we grant to independent suppliers access to the GTS subject to the following requirements:

- availability of spare transport capacity for the time period proposed by the independent supplier;
- quality and technical parameters of the natural gas supplies;
- availability of input connections from suppliers and output connections to consumers and natural gas recovery and quality control stations; and
- availability of gas supply agreements and relevant customer demand for the proposed time period.

Independent gas suppliers transported approximately 121.1 bcm and 111.4 bcm, or 19% and 17% of the natural gas supplied through the GTS for the years ended December 31, 2014 and 2013, respectively. For the six months ended June 30, 2015 and 2014, independent gas suppliers transported approximately 60.3 bcm and 58.8 bcm, or 20% and 17% of the natural gas supplied through the GTS. These amounts included gas in transit from central Asia. The increase in gas volumes and portion transported by independent suppliers resulted from growing gas sales by independent suppliers in the domestic market. In 2014, major third-party users of the GTS were Novatek (49% of supplies by independent suppliers) and Rosneft (19% of supplies by independent suppliers).

Tariffs charged to unaffiliated third parties for the transportation of natural gas through our trunk pipelines are set by the FAS. See "—Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Prices and tariffs."

The following table sets forth the levels of the average tariffs charged to unaffiliated third parties for the transportation of natural gas through our trunk pipelines for the periods indicated. The transportation tariff is currently below the economically justified level and is subject to annual increase.

	2015[(1)]	2014	2013	2012

Average tariff, RR for mcm per 100 km(2)	64.77	64.05	61.79	58.22

Notes:

(1) Estimated based on FTS Order No. 127-e/1 dated July 4, 2013 and currently available data, including anticipated volume of supplies by independent suppliers (On July 21, 2015, the FTS was dissolved with its regulatory powers being transferred to the FAS).

(2) Weighted by annual volume of services rendered to independent suppliers to transport gas to consumers located within and outside the members of the Customs Union.

Gas distribution networks

Gas distribution networks are designed to deliver gas from gas distribution stations on trunk pipelines and other sources of gas supplies to end-users. We are the leading gas distribution group in Russia. Our gas distribution assets are consolidated primarily in our subsidiary OAO Gazprom gazoraspredeleniye ("Gazprom gazoraspredeleniye"). As of December 31, 2014, companies controlled by Gazprom gazoraspredeleniye operated approximately 734 kilometers of gas distribution pipelines (which, according to our estimates, accounted for approximately 83% of the total gas distribution pipelines in Russia) facilitating supply of approximately 232.7 bcm of gas in transit and gas supplies to end-users in 2014.

In 2012 and 2013, in accordance with Governmental Orders No.1819-r dated November 30, 2009 and No. 2016-r dated November 13, 2010, we acquired interests in 74 companies engaged in the gas industry, the majority of which are gas distribution companies, from Rosneftegaz for approximately RR26.1 billion. The acquisition of the gas distribution companies forms part of our strategy to consolidate gas distribution assets and improve business processes in this area in order to ensure reliability and safety of the gas distribution system and increase profitability of the gas distribution business. Since 2013, we have been involved in legal proceedings with minority shareholders of these companies in connection with this acquisition (see "—Litigation and Investigations").

Since 2005, we have been implementing a gasification program for Russian regions, which provides for the extension of our distribution pipeline network in Russia. We allocated RR28.8 billion and RR33.9 billion toward the implementation of this program in 2014 and 2013, respectively. The gasification program provides for an investment of RR27.6 billion in 2015. In 2014, we constructed 105 gasification facilities with a total length of approximately 1,400 km in order to ensure gas supplies to 236 settlements in Russia.

Existing routes of gas export and participation in foreign gas distribution networks

Our projects to diversify transportation routes and the network of UGSFs include the Yamal-Europe pipeline, the Blue Stream project and the Nord Stream pipeline, which have been put on stream, the gas transportation system of our subsidiary Gazprom transgaz Belarus and our prospective projects Turkish Stream and Nord Stream II. These projects reduce our dependence on Ukraine and Belarus for the transportation of natural gas to Western Europe and Turkey. We also participate in gas transportation and distribution companies in Europe. In addition, our subsidiaries Gazprom Armenia and Gazprom Kyrgyzstan own and operate gas transportation and distribution assets in Armenia and Kyrgyzstan, respectively.

Nord Stream. The Nord Stream pipeline is a new export route for Russian gas to Europe. The Nord Stream pipeline is designed to ensure diversification of our export routes and increase the reliability of our natural gas supplies from Russia to Western European markets by avoiding the political and economic risks associated with deliveries through transit countries.

The European Union included the Nord Stream project in the list of the priority corridors of Trans-European Energy Networks (TEN-E). The pipeline extends under the Baltic Sea for 1,224 km from Vyborg, Russia to Greifswald, Germany, and consists of two pipeline branches. The projected annual capacity of the two branches of the Nord Stream pipeline is up to 55 bcm of natural gas. The project is primarily targeted on the markets of Germany, the United Kingdom, the Netherlands, France and Denmark.

Nord Stream AG, our Switzerland-based joint venture with Wintershall Oil AG (BASF Group), PEG Infrastruktur AG (E.ON Group), Gasunie Infrastruktur AG (Gasunie Group) and GDF SUEZ Holding Switzerland AG (ENGIE Group, formerly known as GDF SUEZ Group), is engaged in all stages of implementation of the Nord Stream pipeline project, including the design, construction, ownership and operation of the pipeline. We hold a 51% interest in Nord Stream AG. Wintershall Oil AG (BASF Group) and PEG Infrastruktur AG (E.ON Group) each own 15.5% of the joint venture and Gasunie Infrastruktur AG (Gasunie Group) and GDF SUEZ Holding Switzerland AG (ENGIE Group, formerly known as GDF SUEZ Group) each own 9%.

In November 2011 and October 2012, we put on stream the first and the second branches of the pipeline, respectively. We are considering opportunities to increase the pipeline capacity. See "—International projects in gas transportation – Nord Stream II."

Yamal-Europe. The Yamal-Europe export pipeline has an annual projected capacity of approximately 33 bcm. The Yamal-Europe pipeline passes through Belarus, Poland and Germany and connects the GTS in Russia with the JAGAL pipeline in Germany. The German section of the pipeline is owned by a subsidiary of W&G Beteiligungs-GmbH & Co. KG (formerly known as WINGAS GmbH & Co. KG), our joint venture with a subsidiary of Wintershall Holding. The Polish section is owned by EuRoPol GAZ, a joint venture in which we participate with PGNiG S.A. (a state-controlled Polish gas company) and Gaz-Trading. We own the Belorussian section of the pipeline.

Blue Stream. The Blue Stream pipeline, which has an annual projected capacity of approximately 16 bcm, supplies gas to Turkey, bypassing transit countries. Blue Stream Pipeline Company B.V., in which we hold a 50% interest, owns the Blue Stream pipeline. We, together with the Italian company Eni, own the offshore section of the pipeline, which runs under the Black Sea and is approximately 396 km long.

In October 2014, we agreed with the Ministry of Energy and Natural Resources of Turkey to consider an extension of the annual capacity of the Blue Stream pipeline to 19 bcm. Our decision to proceed with the project is subject to entering into a long-term, take-or-pay contract with our Turkish counterparty for additional volume of gas.

Natural gas transit through Ukraine and Belarus. A significant portion of the natural gas we export to Europe (except to certain European countries through the Nord Stream pipeline, Finland and in part to Turkey) is transported outside Russia through pipelines passing through the territory of Ukraine and Belarus, on which we are dependent for natural gas transit to Europe. At the same time, Ukraine and Belarus are dependent on us for natural gas supplies. We pay transit fees for the use of the pipelines through Ukraine and Belarus. The negotiations of these fees and access to these pipelines are important elements of our export business. Our subsidiary, Gazprom transgaz Belarus, which we have controlled since December 2011, transports natural gas through Belarus. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisitions, Dispositions and Changes in Control."

In connection with our price and debt settlement disputes with Ukraine and Belarus, in the past we briefly suspended our natural gas supplies to these countries. Such suspensions have occasionally resulted in unauthorized withdrawals of transit gas designated for our European customers.

In particular, as a result of our price dispute with Ukraine, we could not extend our gas supply contract with Ukrainian consumers for 2009. Without a contract between the parties, we suspended supplies to Ukrainian consumers while we continued to deliver gas to the Ukrainian gas transportation system for transit to European consumers. By January 7, 2009, despite the existence of an operating contract for the transit of natural gas through 2013, Ukraine had stopped supplying gas to Europe and directed all gas from the Ukrainian gas transportation system to Ukrainian consumers. We then completely stopped supplying gas to the Ukrainian gas transportation system. The dispute was settled with the participation of the Russian and Ukrainian governments and the European Union.

On January 18, 2009, Russian and Ukrainian prime ministers agreed on long-term transit and supply contracts in which the principle of separate transit and supply contracts were maintained and a European pricing formula was introduced into supply contracts. On January 19, 2009, Gazprom and Naftogaz entered into contracts for the sale and transit of natural gas through the territory of Ukraine for the period from 2009 to 2019. Starting in 2010, the transit fee charged by Ukraine has been calculated pursuant to a market formula set forth in the contracts. By January 21, 2009, gas supplies to European consumers through Ukraine had resumed. We also resumed supplies to Ukrainian consumers. Currently, gas transit through Ukraine is not disrupted. The current political and economic tensions between Russia and Ukraine have caused renewed concerns regarding the reliability of gas supplies to Europe through Ukraine. See "Risk Factors—Risks Relating to Our Business—We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas" and "—Distribution—The FSU."

In June 2010, following a dispute with Belarus, we suspended our supplies of natural gas to Belarus for a short period of time. During our dispute with Gazprom transgaz Belarus, as well as during the settlement of our previous disputes, our European customers received volumes of natural gas pursuant to the terms of our contracts. In March 2011, we signed a supplement to the contract with Gazprom transgaz Belarus adjusting the volumes of and prices for the supplies and transit of natural gas for 2011. See "—Distribution—The FSU."

In November 2011, the Russian Federation and the Republic of Belarus signed a series of intergovernmental agreements and Gazprom and Gazprom transgaz Belarus signed several contracts setting forth the terms for the supply and transit of gas in 2012-2014 and our acquisition of an additional 50% interest in Gazprom transgaz Belarus. In December 2014, we extended these contracts to the end of 2017.

Gazprom transgaz Belarus. We own a 100% interest in Gazprom transgaz Belarus. Currently we are implementing a series of measures in production, marketing and finance of Gazprom transgaz Belarus to enhance its efficiency. The total length of the pipelines operated by Gazprom transgaz Belarus is approximately 7,900 km, half of which is less than 20 years old. As of December 31, 2014, Gazprom transgaz Belarus operated 10 compressor stations, 227 gas distribution stations and 27 NGV-refueling compressor stations. Gazprom transgaz Belarus transports natural gas to consumers of Belarus, Europe and the Kaliningrad Region of Russia.

W&G Beteiligungs-GmbH & Co. KG. W&G Beteiligungs-GmbH & Co. KG (formerly known as WINGAS GmbH & Co. KG), a joint venture with Wintershall Holding, in which we currently own a 49.98% interest, owns a 100% interest in a gas transportation company GASCADE Gastransport GmbH (formerly known as WINGAS Transport GmbH), and gas transportation companies OPAL Gastransport GmbH & Co. KG (formerly known as OPAL NEL TRANSPORT GmbH) and NEL Gastransport GmbH (formerly known as NEL TRANSPORT GmbH), which respectively own gas pipelines OPAL and NEL that are on-shore extensions of the Nord Stream pipeline in Germany. The GASCADE gas transportation pipeline network, which is over 2,300 km long, connects our major export gas flows going through Belarus and Poland (the Yamal-Europe pipeline) as well as through Ukraine, Slovakia and the Czech Republic to Western Europe, in particular, to the Netherlands, Belgium, the United Kingdom, as well as covers the territory of Germany. W&G Beteiligungs-GmbH & Co. KG also controls a 100% interest in each WINGAS entity which is involved in gas trading and storage in Europe. In particular, WINGAS (through 100% subsidiary Astora GmbH & Co. KG) operates Rehden (Germany), the largest UGSF in Western Europe and has access to a portion of active capacity in the Haidach UGSF (Austria) and has been engaged in the construction of the Jemgum UGSF (Germany). See "—Gas storage—Gas storage in FSU, Europe and Other Countries." WINGAS is a European energy provider active in natural gas trading and distribution in Germany, Belgium, the Netherlands, the United Kingdom, Austria, the Czech Republic and several other European countries. In December 2013, we signed a master agreement with Wintershall Holding in relation to an asset swap, which, among other things, provides for an increase of our stake in WINGAS up to 100%. We intend to finalize the transaction by the end of 2015. W&G's gas transportation assets are expected to remain in common ownership of the parties. We expect to continue our cooperation with Wintershall Holding in the construction, operation and marketing of gas transportation facilities on a joint arrangement basis. See "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Ural Federal District)—Major fields in commercial operation—Urengoyskoye field."

United Kingdom Interconnector pipeline. We own a 10% interest in Interconnector (UK) Limited, the owner and operator of an offshore gas pipeline connecting Belgium and the United Kingdom. We currently rent the capacity in the Interconnector pipeline on a long-term basis in the annual amount of 2 bcm of natural gas from the United Kingdom to continental Europe and approximately 6 bcm of natural gas from continental Europe to the United Kingdom. Our subsidiary Gazprom Marketing & Trading Ltd. ("GM&T") uses the capacity of the Interconnector pipeline to sell gas in the U.K. market. See "—Distribution—Europe and Other Countries."

Central Asia. Pursuant to the strategic cooperation agreements with respect to purchases of natural gas in Central Asia, we have implemented joint projects involving the reconstruction and maintenance of the Central Asia-Center gas transportation system that connects Turkmenistan, Uzbekistan, Kazakhstan and Russia. As a result of various enhancements undertaken between 2005 and 2009, it has an annual capacity of 43 to 60 bcm. This pipeline transports natural gas we purchase in Central Asia.

Gazprom Kyrgyzstan. In July 2014, we completed the acquisition of a 100% interest in OOO KyrgyzgazProm, which was subsequently renamed OOO Gazprom Kyrgyzstan. See "—Distribution—Cooperation with FSU countries in gas marketing." OOO Gazprom Kyrgyzstan owns and operates over 660 km of gas trunk pipelines, approximately 2,800 km of gas distribution pipelines and 1,315 gas distribution units. Gas infrastructure in Kyrgyzstan is currently in poor condition. We have developed a General program for gas supplies and gasification of Kyrgyzstan through 2030 which provides for certain measures to reconstruct, upgrade, refurbish and expand the gas transportation system of Kyrgyzstan. In order to implement this program, between 2015 and 2017 we plan to allocate RR35 billion of investments expected to be included in our investment program.

Gazprom Armenia. In December 2013, Russia and Armenia signed an intergovernmental agreement regarding terms and conditions of the sale of shares of Gazprom Armenia (formerly known as ArmRosGazprom) and its prospective operations. In particular, the agreement provided for an increase of our interest in Gazprom Armenia to 100% in exchange for the release of Gazprom Armenia from its overdue payment obligations in relation to the supplies of Russian natural gas in the amount of U.S.$155 million. The sale of shares was completed in January 2014. Gazprom Armenia owns approximately 1,720 km pipelines, 74 gas distribution stations, one UGSF and eight NGV-refueling compressor stations in Armenia. Most of the Armenian gas transportation system is in poor condition. By the end of 2015 Gazprom Armenia intends to finalize the development of a General program for gas supplies and gasification of Armenia which would provide for the reconstruction, upgrade, refurbishment and expansion of the gas transportation system and UGSFs in Armenia.

Iran-Armenia pipeline. In March 2006, we entered into a 25-year agreement with the Armenian government. In 2009, pursuant to the agreement, Gazprom Armenia, our wholly-owned subsidiary, completed the construction and refurbishment of the approximately 197 km long second section of the Iran-Armenia pipeline. Gazprom Armenia owns this section of the pipeline. In 2009, the Armenian government, the owner of the approximately 40 km long first section of the pipeline, leased the first section of the pipeline to Gazprom Armenia. Currently, Gazprom Armenia transports gas through the pipeline that the Armenian state-owned company purchases from Iran. Gazprom Armenia uses this gas to produce electricity that it supplies to the Armenian state-owned company.

Gas transportation projects in Russia

The terms and timeline of one or more of the projects described in this section may be revised due to changes in demand for our products or sanctions programs. See “Risk Factors—Risks Relating to Our Business—Non-compliance with the U.S. and EU sanctions programs, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition.”

Gas transportation system from the Yamal Peninsula fields. We are constructing multiple parallel pipeline systems for gas transportation from the Yamal Peninsula to the central regions of Russia to transport gas from the Bovanenkovskoye field, which is expected to have a project production capacity of 115 bcm per year, with a potential increase up to 140 bcm per year. The system consists of large diameter pipes (1,420 mm) and operates at a pressure of 11.8 MPa, which is higher than that of the other parts of our system. The length of the pipeline system is about 2,600 km, including the 1,266 km gas transportation corridor from Bovanenkovo to Ukhta and the 1,371 km pipeline from Ukhta to Torzhok. The pipeline includes 17 compressor stations with an aggregate capacity of 1,913 MW. In 2012, we put into operation the first branch of the transportation system from Yamal. In 2014, we completed the first branch of the Bovanenkovo-Ukhta section and the Ukhta-Torzhok section with the projected annual capacity of 60 bcm and 45 bcm, respectively. Currently, we are engaged in construction of the second branch of the Bovanenkovo-Ukhta section, which we expect to put it into operation in 2016 and complete in 2018.

Power of Siberia pipeline. The planned pipeline from Yakutia to Blagoveschensk via Skovorodino is expected to deliver gas from the Yakutskiy and Irkutskiy gas production centers, including the Chayandinskoye and Kovyktinskoye fields, to gas consumers in Russia and the Asia-Pacific region. A section of the pipeline is planned to be brought onstream at the end of 2018 from the Chayandinskoye field through Skovorodino to Blagoveschensk with a total length of approximately 2,200 km. We also plan to construct a section from the Kovyktinskoye field to the Chayandinskoye field with a total length of approximately 850 km and put it onstream at later stages. We plan to gradually increase the Power of Siberia pipeline’s capacity to a projected annual capacity of 48 bcm, in line with the development schedules of the Chayandinskoye and Kovyktinskoye fields. We commenced construction in 2014. See “—Distribution—Europe and Other Countries—Asia.”

GTS extension to ensure supplies to central and southern regions of Russia and the Turkish Stream pipeline. This project envisages the construction of a pipeline system with a throughput of up to 65 bcm of natural gas per annum and with a total length of approximately 2,500 km, comprising 10 compressor stations with a total capacity of 1,516 MW.

In the first stage of the project, we intend to construct a pipeline from the Pisarevka compressor station to the Russkaya compressor station and a junction between the Kubanskaya and the Korenovskaya compressor stations, with an aggregate length of 880 km. The Russkaya compressor station with a capacity of 448MW is projected to be the base compressor station of the offshore part of the Turkish Stream pipeline.

In the second stage of the project, we plan to construct a pipeline from the Pochinki compressor station to the Russkaya compressor station alongside the existing gas transportation route from the Pochinki compressor station through Izobilnoye to the Severo-Stavropolskoye UGSF. The aggregate length of the second stage pipelines construction is 1,625 km.

In 2014, we put approximately 479 km of the linear part of the first stage into operation. We are currently engaged in construction of the remaining 401 km of the linear part and three compressor stations. We intend to synchronize the commissioning of the first and second stages of the project with the implementation of the Turkish Stream project.

Power of Siberia II pipeline. We are considering constructing an approximately 2,600 km long pipeline extending from our fields in Western Siberia to the western part of the Russian-Chinese border. We intend to put the pipeline onstream after 2020, provided that we enter into a gas supply contract with China in 2015. The pipeline is expected to have an annual projected throughput of 30 bcm of gas, which we anticipate achieving within six years after the pipeline has been put into operation. We expect that the projected throughput of the pipeline can be subsequently increased.

GTS extension to enable supplies to the Nord Stream II pipeline. We are considering extending the GTS in the Northwestern Russia to supply additional gas volume to Russian consumers and enable supplies to the Nord Stream II pipeline. We are conducting preinvestment studies for the project.

International projects in gas transportation

The terms and timeline of one or more of the projects described in this section may be revised due to changes in demand for our products or sanctions programs. See “Risk Factors—Risks Relating to Our Business—Non-compliance with the U.S. and EU sanctions programs, an expansion of these programs or our dealings with any parties subject to sanctions could adversely impact the Group's financial condition.”

Turkish Stream. The South Stream project was intended to ensure reliable gas supply to the European markets through the Black Sea by establishing a new south export route.

In June 2014, the European Commission requested that Bulgaria suspend the construction of the South Stream pipeline due to alleged non-compliance with European rules on energy competition public procurements. In December 2014, the implementation of the project in Bulgaria stopped due to:

a) the position assumed by the European Commission in relation to the project which delayed its implementation indefinitely;

b) inconsistencies between the provisions of the Third Gas Directive and the terms of bilateral intergovernmental agreements entered into by and between the Russian Federation and the countries having participated in implementing the South Stream pipeline project; and

c) the government of Bulgaria's decision to cancel all work on the offshore and onshore sections of the pipeline in Bulgaria, which caused a failure to meet deadlines both in respect of the Bulgarian section of the pipeline and in respect of the project as a whole.

In December 2014, we signed a memorandum of understanding with Botas Petroleum Pipeline Corporation regarding the construction of the Turkish Stream pipeline. The project is an alternative to the South Stream pipeline project, which was discontinued in December 2014. We expect that the four branch pipelines will have an annual projected throughput of 63 bcm of gas, 47 bcm of which are planned to be delivered to the border of Greece and Turkey with the rest of the gas to be supplied to the Turkish consumers.

An offshore section of the pipeline, approximately 942 km long, is expected to pass from the Russkaya compressor station on the Russian coast under the Black Sea and emerge at Kyiykey on the coast of Turkey. The 198 km long onshore section is expected to extend through Lyuleburgas in Turkey to Ipsala, located at the border between Turkey and Greece.

In December 2014, we acquired all shares of South Stream Transport B.V., the project company engaged in construction of the offshore section of the South Stream pipeline. We expect that South Stream Transport B.V. will act as the project company for implementing the offshore portion of the Turkish Stream pipeline project, and South Stream Transport B.V. currently is engaged in preparation work for the construction of the pipeline. We also intend to use the pipes acquired for the South Stream pipeline for construction of the Turkish Stream pipeline.

In April 2015, a draft of the intergovernmental agreement in respect of the pipeline prepared by the Ministry of Energy was submitted to our Turkish partners. Due to the current political conditions in Turkey, the negotiations on the draft of the intergovernmental agreement have been suspended and its execution is being delayed.

In July 2015, South Stream Transport B.V. gave notice of termination to Saipem S.p.A. in relation to a 2014 contract for construction of the first offshore branch of the South Stream pipeline. This termination occurred because the parties failed to reconcile technical and commercial issues related to the new Turkish Stream pipeline with their obligations with respect to the South Stream pipeline.

In July 2015, the Russian Federation and Greece signed a memorandum of cooperation regarding the construction and operation of the pipeline in Greece, as well as a roadmap for constructing the pipeline from Turkey through Greece to the border with Macedonia.

Nord Stream II. We signed memoranda of understanding with each of ENGIE, E.ON, OMV, Royal Dutch Shell and Wintershall Holding. These memoranda provide for cooperation in implementing a project to construct gas transportation facilities to supply Russian gas directly to European customers. The memoranda reflect the intentions of the parties to engage in construction of a two-branch offshore gas pipeline extending under the Baltic Sea from Russian to the German coast. The projected annual capacity of the pipeline is expected at 55 bcm of gas. We expect that its completion and subsequent operation will occur by the end of 2019.

In September 2015, we signed a shareholders agreement with Uniper Infrastructure B.V. (E.ON Group), Shell Exploration and Production (LXXI) B.V. (Shell Group), OMV Nord Stream II Holding AG (OMV Group), Wintershall Nederland B.V. (BASF/Wintershall Holding Group) and GDF SUEZ Holding Switzerland AG (ENGIE Group) to establish New European Pipeline AG for the implementation of the project. Pursuant to the agreement, we will hold a 51% interest, E.ON, Royal Dutch Shell, OMV, Wintershall Holding will each hold a 10% interest and ENGIE will hold a 9% interest in New European Pipeline AG.

It is envisaged that some volume of gas supplied through the offshore pipeline will be delivered to Baumgarten, which would require the development and refurbishment of the gas transportation network in certain European countries, including Germany and the Czech Republic.

Gas storage

Our gas storage segment generally renders gas storage services to our Distribution segment.

Financial highlights

The following table sets forth selected financial data with regard to our Gas storage segment as defined in the Group's Financial Statements.

	Gas storage				
	As of and for the six months ended June 30,		As of and for the year ended December 31,		
	2015	2014	2014	2013	2012
Assets, million RR	278,545	230,384	280,762	242,198	220,581
Share of Group's total assets	2%	2%	2%	2%	2%
Sales,[1] million RR	795	1,268	2,803	1,961	1,312
Share of Group's total sales	0%	0%	0%	0%	0%
Capital additions, million RR	6,729	2,451	15,530	23,524	18,247
Share of Group's total capital additions	2%	1%	1%	2%	1%

Note:

(1) Excluding inter-segment and intra-segment operations.

Gas storage in Russia

As of December 31, 2014, we operated a network of 26 UGSFs in Russia in order to help smooth seasonal fluctuations in the demand for gas. The total active capacity of UGSFs amounted to 71.1 bcm as of December 31, 2014. All of our UGSFs are located either in close proximity to our major consumers or at the main hubs of our transportation system, which provides us with flexibility in the redirection of gas flow if required. During peak heating periods, we supply approximately 20% of total deliveries of natural gas to Russian consumers from our gas storage network, and in periods of extreme cold this may reach 40%. Our subsidiary OOO Gazprom PKhG operates our UGSFs in Russia.

In 2014 and 2013, we injected into Russian UGSFs 35.1 bcm and 38.4 bcm of natural gas and withdrew 32.7 bcm and 32.7 bcm of natural gas, respectively.

Gas storage in FSU, Europe and Other Countries

In order to ensure reliable natural gas supplies and fulfill its contractual obligations, Gazprom uses UGSFs located in European countries: Austria (Haidach UGSF), the U.K. (Vitol's UGSFs), Germany (Rehden UGSF and Katharina UGSFs), the Netherlands (Bergermeer UGSF), Latvia (Incukalns UGSF), Serbia (Banatsky Dvor UGSF), Armenia (Abovyanskoye UGSF) and UGSFs in Belarus. We also participate in the construction of new UGSFs in Europe.

In 2014, we injected 4.6 bcm of natural gas into, and during the 2014-2015 heating season withdrew 2.5 bcm of gas from, UGSFs located in Europe. In 2014, we injected 2.9 bcm of natural gas into, and during the 2014-2015 heating season withdrew 2.5 bcm of gas from, UGSFs located in the FSU countries.

In the past, we stored our gas in Western Europe primarily pursuant to storage capacity lease agreements. We continue to lease capacities in the United Kingdom and occasionally in other European countries to procure reliable and flexible supplies of Russian gas to the markets where we do not own sufficient storage facilities.

United Kingdom. In accordance with a leasing agreement with Vitol effective until 2016, we have access to 227 mmcm of active capacity in UGSFs in the United Kingdom.

However, given the high lease payments and the lack of available storage capacity in the existing UGSFs, we decided to invest in the construction of our own storage capacities in Western European UGSFs. We also have access to certain storage capacities through our subsidiaries and joint ventures as set out below.

Rehden. WINGAS operates Rehden, the largest UGSF in Western Europe, with a storage capacity of 4.2 bcm, of which we have access to 0.5 bcm of active storage capacity and 10 mmcm of daily withdrawal capacity.

Abovyanskoye UGSF. Our wholly owned subsidiary, Gazprom Armenia, operates the 135 mmcm active storage capacity Abovyanskoye UGSF. We are working to increase the storage capacity of the Abovyanskoye UGSF to 220 mmcm by 2020.

Incukalns UGSF. We hold a 34% interest in AO Latvijas Gaze which operates the 2.3 bcm active storage capacity of the Incukalns UGSF, of which we have access to active storage capacity of 1.9 bcm. The Incukalns UGSF is capable of regulating gas supplies to Latvia, Estonia, Lithuania and northwestern Russia.

UGSFs in Belarus. Our subsidiary, Gazprom transgaz Belarus, operates the Osipovichskoye, Pribugskoye and Mozyrskoye UGSFs in Belarus, with an aggregate active storage capacity of 1.1 bcm. In order to help smooth seasonal fluctuations in demand for gas and avoid shortfalls in deliveries during peak heating periods, we plan to expand the UGSF system in Belarus to increase aggregate storage capacity to 1.6 bcm by 2020 and 2.6-3.0 bcm by 2030, and to increase aggregate peak daily withdrawal capacity to 43 mmcm by 2020 and 60 mmcm by 2030.

We are currently expanding our access to UGSFs in European countries, which serve as transit territories for the bulk of Russian exports, while continuing to ensure reliable gas supplies. The successful implementation of such projects allowed us to increase our natural gas storage capacities in Europe from 1.4 bcm to 5.7 bcm of active gas in the period from 2006 through 2014.

Haidach. In 2005, we established a joint venture with WINGAS, RAG AG, Centrex and Gazprom Germania GmbH, to construct and operate the Haidach UGSF in northwest Austria. In May 2011, the joint venture commenced the second stage of the UGSF and increased its capacity up to 2.8 bcm and daily withdrawal capacity up to 28 mmcm. We have access to 1.9 bcm of active capacity of the UGSF.

Katharina. In May 2009, we signed a consortium agreement with Verbundnetz Gas AG to jointly construct natural gas storage facilities in Germany and established a joint venture, Erdgasspeicher Peissen GmbH, to implement the construction of the Katharina UGSF in Germany. Within the framework of the joint venture, the active storage capacity is expected to reach approximately 650 mmcm, and daily withdrawal capacity is expected to be 26 mmcm upon completion of the project. The project is expected to reach the designed capacity in 2025. We have a 50% participation interest in the project pursuant to the agreement and German authorities recently affirmed our right to use up to 90% of the Katharina UGSF storage capacity on a long-term basis. The Katharina UGSF has been put into operation, and we currently have access to 220 mmcm of active capacity.

Etzel. We are engaged in the construction of the Etzel UGSF in Germany with the projected active capacity of 1.1 bcm. Our interest in the project is 33.3%. The UGSF with the current active capacity of approximately 0.7 bcm was brought on stream in 2013 and is expected to reach the designed capacity in 2018.

Banatsky Dvor. In February 2010, Gazprom Export, Gazprom Germania GmbH and Srbijagas established a joint venture for the construction and use of the UGSF Banatsky Dvor (Serbia). We hold a 51% participation interest in the project. The active storage capacity of the facility amounts to 450 mmcm and the daily withdrawal capacity is 5 mmcm. The joint venture put the UGSF into operation in October 2011. The UGSF improves the reliability of our gas supply to Hungary, Serbia, Bosnia and Herzegovina.

Bergermeer. In August 2009, we signed an agreement with the Bergermeer underground gas storage project consortium, consisting of Energie Beheer Nederland, Dyas B.V., Petro-Canada and TAQA Energy. Pursuant to the agreement we delivered 4.7 bcm of buffer gas for the Bergermeer UGSF in exchange for a long-term access to gas storage capacity of 1.9 bcm and a daily withdrawal capacity of 26.4 mmcm. Construction started in 2010. The facility commenced operations in late 2014 and is expected to reach its projected active storage capacity of 4.1 bcm in the 2015-2016 heating season. The UGSF is located in close proximity to the major European trading floors, TTF and the Zeebrugge Hub, and ensures the stable operation of the Nord Stream pipeline.

Jemgum. WINGAS has been engaged in the construction of the Jemgum UGSF in Germany with the projected active storage capacity at the first stage of approximately 820 mmcm which is expected to be fully commissioned in 2018. Over 200 mmcm of this capacity was put into operation in September 2013.

Damborice. In March 2013, we entered into an agreement with MND, the largest oil and gas producer in the Czech Republic, relating to the construction of the Damborice UGSF in the Czech Republic on the basis of a depleted field. Our interest in the project is 50%. The projected active storage capacity is expected to amount to approximately 456 mmcm with a daily throughput estimated at 7.6 mmcm. The construction started in 2014, the commissioning of the UGSF is planned to occur in 2016 and designed capacity is expected to be reached in 2018.

Tarsus. The Tarsus project envisages the construction of a UGSF in Turkey with an aggregate active storage capacity of 966 mmcm and a daily withdrawal capacity of 24.1 mmcm. The project is intended to ensure the stability of gas supplies to Turkey, Romania, Bulgaria, Greece and Macedonia through the existing pipelines and, potentially, through the Turkish Stream pipeline.

Other projects. We are also considering participating in joint UGSF related projects in Romania, Bulgaria, Hungary, Slovakia, France and other countries.

Refining

This section sets forth information with regard to our Refining segment as regards processing of oil, gas condensate and other hydrocarbons and sales of refined products. For additional information relating to sales of refined products, gas condensate and other hydrocarbons, see "—Distribution—Sales of liquid hydrocarbons and refined products."

Financial highlights

The following table sets forth selected financial data with regard to our Refining segment as defined in the Group's Financial Statements.

Our Refining segment operates in processing of oil, gas condensate and other hydrocarbons, and sells refined products to other segments and third parties.

	Refining				
	As of and for the six months ended June 30,		As of and for the year ended December 31,		
	2015	2014	2014	2013	2012
Assets, million RR	1,731,817	1,170,261	1,378,295	1,121,301	1,048,925
Share of Group's total assets	12%	9%	9%	9%	9%
Sales,[(1)] million RR	761,603	793,632	1,619,214	1,351,713	1,209,215
Share of Group's total sales	26%	27%	29%	25%	25%
Capital additions, million RR	46,775	40,718	135,158	113,254	134,163
Share of Group's total capital additions	10%	9%	11%	9%	11%

Note:

(1) Excluding inter-segment and intra-segment operations.

Our natural gas and gas condensate refining operations consist of the operations of our principal refining facilities owned by our wholly owned subsidiaries, primarily OOO Gazprom Pererabotka, OOO Gazprom dobycha Astrakhan, OOO Gazprom dobycha Orenburg and Vostokgazprom Group. Gazprom Neft processes most of our crude oil at the Omsk Refinery and the Moscow Refinery, refining facilities of Slavneft and refineries of NIS. Our subsidiary, OOO Sibmetahim, coordinates our methanol production. Our subsidiary Gazprom neftekhim Salavat owns our main petrochemical assets.

Processing of oil, natural gas and gas condensate

The following table sets out total hydrocarbon feedstock input we used at refining facilities for the periods indicated.

	For the six months ended June 30,		For the year ended December 31,		
	2015	2014	2014[(1)]	2013[(1)]	2012[(1)]
Natural gas, bcm	**14.4**	**14.8**	**30.5**	**31.5**	**32.4**
Unstable gas condensate and crude oil, million tons	**29.8**	**30.2**	**68.1**	**66.1**	**61.5**
including Gazprom neftekhim Salavat	3.4	4.3	8.3	7.4	4.2
including Gazprom Neft in Russia	19.8	20.1	39.7	38.8	39.2
including Gazprom Neft abroad	1.5	1.9	3.8	3.8	4.1

Note:

(1) The data does not include raw materials supplied by customers.

The decrease of unstable gas condensate and crude oil refining volumes in the six months ended June 30, 2015 as compared to the respective period of 2014 was primarily attributable to repairs performed at certain of our oil refining facilities in April and June 2015 and relatively favorable pricing conditions in the domestic crude oil market in the first half of 2015.

The increase in unstable gas condensate and crude oil processing volumes in 2013 compared to 2012 was driven by the increased production of gas condensate at the Zapolyarnoye and Urengoyskoye fields and consolidation of Gazprom Neftekhim Salavat starting from June 2012. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisitions, Dispositions and Changes in Control." A marginal decrease of oil refining volumes by Gazprom Neft was due to the planned repairs at Gazprom Neft's refineries.

Our gas refining facilities process natural gas for pipeline transportation and stabilize and refine gas condensate. As part of the refining process, these refining facilities engage in the removal of hazardous and corrosive substances from natural gas. They also produce a broad range of refined products based on extracted hydrocarbons.

The following table sets out information on our principal natural gas and gas condensate refineries, oil processing and petrochemical plants as of June 30, 2015.

Name	Company	Location	Year of establishment	Annual installed capacity of processing/ Product range production	Product range
			Gas and gas condensate processing plants		
Astrakhan GPP	OOO Gazprom dobycha Astrakhan	Astrakhan	1986	• 12.0 bcm of gas • 7.3 million tons of unstable gas condensate (stabilization)	Dry natural gas, stable condensate, liquefied gas, WFLH, motor gasoline, diesel fuel, heating oil, sulfur
Orenburg GPP	OOO Gazprom dobycha Orenburg	Orenburg	1974	• 37.5 bcm of gas • 6.3 million tons of gas condensate and crude oil (stabilization)	Dry natural gas, stable condensate, liquefied gas, WFLH, gas sulfur, odorants
Orenburg helium plant	OOO Gazprom dobycha Orenburg	Orenburg	1978	• 15.0 bcm of gas	Helium gaseous and liquefied, dry natural gas, liquefied gas, ethane, WFLH, PHF
Sosnogorsk GPP	OOO Gazprom pererabotka	Sosnogorsk, Komi republic	1946	• 3.0 bcm of gas, • 1.25 million tons of unstable condensate (stabilization)	Dry natural gas, stable gas condensate, liquefied gas, motor gasoline, technical carbon
Urengoy condensate preparation plant	OOO Gazprom pererabotka	Novy Urengoy	1985	• 12.2 million tons of unstable condensate (de-ethanization and stabilization)	De-ethanized gas condensate, stable gas condensate, liquefied gas, motor gasoline, diesel fuel, TS-1 engine jet fuel, gas condensate light distillate (GCLD)
Surgut condensate stabilization plant	OOO Gazprom pererabotka	Surgut	1985	• 8.05 million tons of unstable condensate (stabilization)	Stable gas condensate (oil), motor gasoline, diesel fuel, TS-1 engine jet fuel, liquefied gas, WFLH, PHF, GCLD
Novo-Ishimbaisky Refinery	Gazprom neftekhim Salavat	Salavat	1955	• 10.0 million tons of oil and unstable gas condensate	Motor gasoline, pentane-isopentane fraction, petrobenzene, petroleum toluene, petroleum naphtha, kerosene absorber, diesel fuel, furnace oil, feedstock for production of viscous construction bitumen, industrial sulfur, bitumen
Monomer processing plant	Gazprom neftekhim Salavat	Salavat	1991	• 165.7 thousand tons of polyethylene • 55.9 thousand tons of polystyrene • 200 thousand tons of styrene • 230 thousand tons of ethylbenzene • 300 thousand tons of ethylene • 144 thousand tons of propylene • 151.8 thousand tons of carbon oil • 183.8 thousand tons of alcohols • 21.9 thousand tons of hydrogen • 38.4 thousand tons of DOP plasticizer • 16.3 thousand tons of phthalic anhydride • 15.0 thousand tons of ortoxylene	Ethylene, propylene, carbon oil, pentane-isoprenecyclopentadyene fraction, butylene-butadiene fraction, heavy pyrolysis resin, styrene, polystyrene, low pressure polyethylene, high pressure polyethylene, butyl alcohol isobutyl alcohol, 2-ethylhexanol, DOP plasticizer
Gas chemical plant	Gazprom neftekhim Salavat	Meleuz	1964	• 461.4 thousand tons of ammonia • 481.8 thousand tons of carbamide	Ammonia, carbamide, ammonia spirit
Methanol production plant	OOO Sibmetahim	Tomsk	1983	• 750 thousand tons of methanol	Methanol, formalin, amino-formaldehyde resin

		Gazprom Neft			
Omsk Refinery	OAO Gapromneft-Omskyi NPZ	Omsk	1955	• 21.4 million tons of oil	Motor and stable natural gasoline, diesel fuel, jet fuel, heating oil, lubricants, aromatic hydrocarbons, hydrocarbon liquefied gases, oil bitumen, sulfur, coke
Moscow Refinery	Joint Stock Company Gazpromneft Moscow Refinery	Moscow	1938	• 12.15 million tons of oil	Motor and stable natural gasoline, diesel fuel, jet fuel, heating oil, marine fuels, oil asphalt, hydrocarbon liquefied gases, sulfur
Oils and lubricants producing plant in Bari	Gazpromneft Lubricants Italia S.p.A.	Bari (Italy)	1976	• 30 thousand tons of oils and 6 thousand tons of lubricants	Motor and technical oils, lubricants
Oil refinery in Panchevo and Novi Sad	NIS	Panchevo (Serbia) Novi Sad (Serbia)	1968	• 7.3 million tons of oil	Motor and stable natural gasoline, diesel fuel, jet fuel, heating oil, carbon oil, toluol, hydrocarbon liquefied gases, liquid bitumen, sulfur, propylene
Moscow Lube Plant	ZAO "Gazprom neft MZSM"	Fryazino	2007	• 40 thousand tons of oils and technical fluids	Motor, transmission and industrial oils
Omsk Lubricants Plant (O3CM)	OOO "Gazprom neft—Lubricants"	Omsk	2009	• 240 thousand tons of base oils	Motor and industrial oils
Bitumen Plant (Kazakhstan)	TOO "Bitumen Plant"	Shymkent (Kazakhstan)	2011	• 280 thousand tons of bitumen	Road bitumen, packed bitumen
Ryazan Petrochemical Experimental Plant	ZAO Ryazan Petrochemical Experimental Plant	Ryazan	2011 (bitumen production unit)	• 60 thousand tons of bitumen	Road bitumen
Moscow Polypropylene Plant	OOO NPP Neftekhimiya	Moscow	1995 (polypropylene complex launch date)	120 thousand tons of polypropylene	Polypropylene
Omsk Polypropylene Plant	OOO Polynom	Omsk	2013 (strat of production)	210 thousand tons of polypropylene	Polypropylene

In addition, the Group, as a joint venture partner in Slavneft, has access to capacities of OAO Slavneft-Yaroslavnefteorgsintez and OAO Mozyr Oil Refinery:

Name	Company	Location	Year of establishment	Annual capacity of processing/ Product range production	Product range
Yaroslavnefteorgsintez	OAO NGK Slavneft-YANOS	Yaroslavl	1961	• 15.0 million tons of oil	Motor and stable natural gasoline, diesel fuel, jet fuel, heating oil, lubricants, stove oil, liquefied hydrocarbon gases, oil asphalt, sulfur, sulfuric acid, paraffin and wax products
Mozyr Oil Refinery	OAO Mozyr Oil Refinery (as of December 31, 2014 OAO NGK Slavneft held a 42.58% interest)	Mozyr (Belarus)	1975	• 12.0 million tons of oil	Diesel fuel, furnace oil, industrial furnace oil, motor gasoline, LPG bitumen, butylene-butadiene fraction, vacuum gas oil, industrial sulfur, kerosene, catalytic gas oil, petrobenzene

Gazprom Neft processes its crude oil mainly at the Omsk Refinery, which we believe is one of the most technologically advanced refineries in Russia and has a leading position in the industry in terms of volumes and depth of crude oil processing. Gazprom Neft also processes crude oil at the Moscow Refinery, which it controls, and at Slavneft's refineries, in which it and Rosneft own equal stakes. Gazprom Neft has access to the processing capacity of Slavneft's refineries in proportion to its interest.

To strengthen the Group's position in a rapidly growing bitumen market, Gazprom Neft developed production of polymer-modified bitumen compounds. In December 2012, it acquired a bitumen plant in Kazakhstan with the production capacity of up to 280 thousand tons per year. The Omsk Refinery supplies feedstock to this bitumen production plant in Kazakhstan. In December 2013, Gazprom Neft acquired a 100% interest in the largest Russian producer of polymer-bitumen binding materials (polymer asphalt)—ZAO Ryazan Petrochemical Experimental Plant in Ryazan, with production capacity of up to 60 thousand tons per year. The Moscow Refinery supplies the plant with a feed for polymer asphalt production.

Our Serbian subsidiary, NIS, in which we hold a 56.15% interest, owns two refineries in Panchevo and Novi Sad with an aggregate annual capacity of 7.3 million tons of oil. In November 2012, Gazprom Neft put into operation new light hydrocracking and hydrotreating refining facilities in Panchevo increasing efficiency of oil refining of NIS and ensuring compliance with the Euro 5 gasoline and diesel fuel quality standards. We expect that the refinery in Panchevo will establish NIS as a leader in the Balkans.

In November 2013, Gazprom Neft signed with Petrovietnam a framework agreement setting out the terms of Gazprom Neft's proposed acquisition of a 49% interest in Binh Son Refining and Petrochemical, a 100% subsidiary of Petrovietnam. Binh Son Refining and Petrochemical owns the Dung Quat oil refinery with an annual refining capacity of 6.5 million tons. Dung Quat was commissioned in 2009 and is currently the only operating oil refinery in Vietnam. As part of the modernization program the refinery is expected to raise its capacity, refurbish its facilities to meet the Euro 5 motor fuel standard and change the feedstock profile to provide for potential refining of crude oil transported through the Eastern Siberia-Pacific Ocean pipeline which is currently under construction. If the transaction succeeds, Gazprom Neft's financial contribution to the modernization project will be proportional to its shareholding. The parties are currently in negotiations over the price of the stake.

The following table sets out the total production of our refining facilities for the periods indicated.

	For the six months ended June 30,		For the year ended December 31,		
	2015	2014	2014	2013	2012
Stable condensate and oil, thousand tons	2,999.0	2,599.7	6,410,8	6,035.3	4,675.3
Stripped dry gas, bcm	11.6	0.0	23.3	24.2	25.0
Liquefied hydrocarbon gases, thousand tons	1,687.3	1,668.7	3,432.6	3,276.4	3,097.3
Motor gasoline, thousand tons	6,176.0	6,105.0	12,067.9	12,125.2	11,706.9,
Diesel fuel, thousand tons	7,301.4	8,465.6	16,323.3	16,215.2	14,459.5
Jet fuel, thousand tons	1,553.0	1,560.2	3,161.9	2,852.0	2,813.7
Furnace fuel oil, thousand tons	4,032.6	5,030.6	9,361.2	9,132.0	10,123.8
Lubricants, thousand tons	193.0	166.9	374.3	396.2	380.3
Sulfur, thousand tons	2,417.4	2,462.5	4,747.8	4,936.9	5,311.4
Helium, thousand cubic meters	2,372.0	1,755.4	3,997.5	3,570.7	4,923.9
WFLH, thousand tons	831.5	767.8	1,534.7	1,587.6	998.4
Monomers, liquid and monomer-containing hydrocarbon fractions, thousand tons	133.4	138.5	262.2	242.6	97.8
Polymers and oroducts, thousand tons	87.7	89.3	162.1	133.2	61.3
Products of organic synthesis (butyl, plasticizer DOP), thousand tons	37.8	33.2	84.7	86.8	87.4
Mineral fertilizers (urea, ammonia, liquid technical), thousand tons	487.7	466.6	778.2	752.1	326.1

The increase of stable condensate and oil production in the six-month period ended June 30, 2015 compared to the respective period of 2014 was primarily due to the increase of the portion of natural gas with high condensate content in the total gas volumes in processing.

The decrease in diesel fuel production in the six month period ended June 30, 2015 compared to the respective period of 2014 was primarily due to repairs of the distillate hydro-treating unit in May and June 2015.

The decrease in furnace fuel oil production in the six month period ended June 30, 2015 compared to the respective period of 2014 was caused by a number of factors, including the decrease in oil refining and the increase in marine fuel production.

The increase in lubricants production in the six month period ended June 30, 2015 compared to the respective period of 2014 was due to the cyclical nature of the repairs we perform at our facilities which affected production in 2015 less than in 2014.

Projects in refining

We prioritize our investments in oil refining in accordance with modernization, facility upgrades and construction programs aimed at enhancing the environmental grade of our fuels, processing depth, production of light products, volume and variety of products. The modernization enabled us to comply with the requirements of technical regulations and allowed the transition to Euro 5 fuel production at all Gazprom Neft's refineries in Russia and to Euro 5 diesel fuel production at Yaroslavnefteorgsintez. It is expected that the modernization will allow Gazprom Neft to reach the refining volumes of 40 million tons per year within Russia, increase depth of refinery to 95% and yield of light fractions up to 77% by 2025.

In 2011, we adopted a comprehensive program of reconstruction and re-equipping of gas and liquid hydrocarbons processing assets for 2011-2015. Under the program in 2011 through 2013 we implemented investment projects for the reconstruction and expansion of production capacities of gas processing and gas producing subsidiaries (Astrakhan GPP, Orenburg GPP and Surgut condensate stabilization plant). The implementation of the program will enable us to expand our product range, increase the depth of refining and comply with the European product quality standards and current industrial and environmental safety requirements, as well as increase the rate of extraction of valuable gas components (ethane, propane, butane, helium) to use as feedstock to produce products with high added value. In particular, since February 2013, we started production of the Euro 5 gasoline at the Astrakhan GPP. In addition, in 2013, Gazprom neftekhim Salavat also started producing the Euro 5 gasoline and winter and Arctic diesel and virtually suspended production of high-sulphur regular diesel. We are currently developing a comprehensive program of reconstruction and re-equipping of gas and liquid hydrocarbons processing assets for 2016-2020.

The main objectives of the Group’s development in gas processing and gas chemistry include increasing the rate of extraction of valuable components of natural gas and associated petroleum gas and their effective use for further processing marketable products with high added value. We continue to work on expanding capabilities of the Urengoy condensate processing plant, construct new achimovsk deposit condensate and oil treatment and transportation units, increase capacity, upgrade and reconstruct the Surgut condensate processing plant and Astrakhan GPP, and implement the Novy Urengoy Chemical Complex project.

Urengoy condensate preparation plant. To process the projected volumes of liquid hydrocarbons to be extracted during natural gas production at gas/condensate fields in Western Siberia, we are implementing a capacity expansion and upgrade project at the Urengoy condensate preparation plant. We expect to increase the annual capacity to process the achimovsk deposit condensate at the Urengoy condensate preparation plant to 4.0 million tons by 2016 and to 8 million tons by the time of commissioning of the gas condensate stabilization unit at the achimovsk deposit of the Urengoiskoye field, which is currently planned for the end of 2017. As a result, the total annual processing capacity at the Urengoy condensate preparation plant is expected to reach 12.0 million tons and our total condensate processing capacity in the Nadym-Pur-Taz region is expected to reach 16.2 million tons per annum.

Novy Urengoy Chemical Complex. The Novy Urengoy Chemical Complex is expected to produce 400,000 tons per year of low density polyethylene in the course of processing 1.4 million tons of de-ethanized gas per year from the Urengoy Condensate Preparation Plant. Depending on the quality of raw materials, we also plan to produce 100 to 200 thousand tons of natural gas liquids per year and 500 to 800 mmcm of methane per year at the complex. Currently, we are performing installation works at the complex. We have installed turbine generators and ancillary systems for a gas turbine electric power plant and expect to commission the electric power plant in the fourth quarter of 2016. We intend to put the Ethylene railway station into operation in the fourth quarter of 2015.

Amurskiy GPP. In accordance with the Eastern Program we are seeking to create new processing facilities to develop natural resources of Eastern Siberia and the Far East. Natural gas from key fields of Eastern Siberia is characterized by high content of ethane, propane, methane hydrocarbon and helium. Therefore, their development requires simultaneously establishing gas processing and gas chemical centers. In particular, we plan to construct the Amurskiy GPP, located in the proximity of Svobodniy in the Amur Region, for processing of gas produced in the Yakutskiy and Irkutskiy gas production centers. The Amurskiy GPP is projected to comprise seven technological lines, each with an annual throughput capacity of 7 bcm, and is designed to process gas consistent with export standards, as well as to extract helium, liquefied hydrocarbon gas and ethane that are expected to be supplied to Amurskiy gas chemical complex. We plan to begin construction in 2016 and commission the plant in 2021.

In November 2013, we signed a memorandum of understanding with Sibur, which provides for the construction of a gas chemical complex to produce monomers for the subsequent production of polymers. The appropriate site for the future gas chemical complex has been selected, and it is expected that the first production unit of the gas chemical complex will be put into operation in 2023.

As the Amurskiy GPP is planned to be located on a “territory of rapid social-economic development” (“TRD”), we are working to obtain TRD status for the Amurskiy GPP project in accordance with Federal Law No.473-FZ “On territories of rapid social-economic development in the Russian Federation” dated December 29, 2014. Projects with TRD status are eligible for tax breaks and economic advantages.

In addition, amendments to the Russian Tax Code provide a tax break in respect of corporate property tax that applies to helium production and storage facilities located in the Republic of Sakha (Yakutia), the Irkutsk Region and the Amur Region.

Associated gas refining. The increased usage of associated gas is consistent with our national strategies of increasing our processing capabilities and decreasing our impact on the environment. From 2010 until 2014, Gazprom Neft increased its utilization rate from 55.3% to 80.5%. Gazprom Neft expects to increase the utilization rate of associated gas up to 95% by 2020.

In February 2015, our subsidiary, OOO Gazprom pererabotka, and our 50/50 joint venture with Lukoil, OOO Gas-Oil trading, entered into a processing agreement that provides for the processing of associated oil gas from the northern group of fields developed by Lukoil at the Sosnogorsky GPP. We are currently engaged in various preparation work to implement this project and expect to commence processing in the fourth quarter of 2015.

Karachaganak gas processing. In June 2007, KazRosGaz, our 50/50 joint venture with KazMunaiGaz, entered into a 15-year sale and purchase agreement with Karachaganak Petroleum Operating B.V. (“KPO”) to annually purchase up to 16 bcm of gas from the Karachaganak field in Kazakhstan. Pursuant to the agreement, KazRosGaz annually purchases over

8 bcm of gas from KPO for processing at our Orenburg GPP. In June 2015, the sale and purchase agreement was extended until 2038 with an annual supply volume of 9 bcm of gas. Gas deliveries from the Karachaganak field enable us to utilize the capacity of the Orenburg GPP and allow us to modernize the facility and increase its capacity.

Distribution

This section sets forth information relating to our Distribution segment which sells gas mostly to third parties in Russia and abroad, to our Transport segment for own needs and to our Electric and heat energy generation and sales segment as well.

Financial Highlights

The following table sets forth selected financial data with regard to our Distribution segment as defined in the Group's Financial Statements.

	Gas supplies				
	As of and for the six months ended June 30,		As of and for the year ended December 31,		
	2015	2014	2014	2013	2012
Assets, million RR	1,354,804	1,234,840	1,454,300	1,394,112	1,217,828
Share of Group's total assets	9%	9%	10%	11%	10%
Sales,[1] million RR	1,609,961	1,578,984	2,966,317	2,963,151	2,647,981
Share of Group's total sales	55%	55%	53%	56%	55%
Capital additions, million RR	3,333	7,637	23,709	36,085	47,166
Share of Group's total capital additions	1%	2%	2%	3%	4%

Note:

(1) Excluding inter-segment and intra-segment operations.

We believe that we are the world's largest exporter of natural gas. We export natural gas (as well as gas condensate, crude oil, oil products, liquefied associated gas and other refined products) mainly through our wholly owned subsidiary, Gazprom Export. Our subsidiary Gazprom Neft exports crude oil and refined products. We also sell these products domestically to end consumers, including sales of natural gas through Gazprom mezhregiongaz and its regional gas sales companies and sales of crude oil and oil refined products by Gazprom Neft.

The following table sets out our natural gas sales volumes by geographical market for the periods indicated.

	For the six months ended June 30,		For the year ended December 31,		
	2015[1]	2014[1]	2014[1]	2013[1]	2012[1]
Natural gas sales					
Russian Federation	120.0	125.4	232.4	243.3	265.3
FSU[2]	20.9	30.7	48.1	59.4	66.1
Europe and Other Countries[2]	80.4	86.0	159.4	174.3	151.0
Total	**221.3**	**242.1**	**439.9**	**477.0**	**482.4**

Notes:

(1) Net of trading activity without supplies of natural gas.

(2) Our sales to the FSU countries and to Europe and Other Countries include both export from Russia, and sales of gas purchased outside Russia.

In the six-month period ended June 30, 2015, our natural gas sales volumes in Russia declined by approximately 4% compared to the six-month period ended June 30, 2014, primarily due to the decrease of natural gas consumption in Russian industrial and power generation sectors. In addition, independent suppliers continue to increase their market share, thus, replacing our gas supplies in certain Russian regions. See "—Competition—Russia" and "Risk Factors—Risks Relating to our Bisuness—We encounter competition in our largest business, natural gas sales, from alternative fuel sources and other natural gas producers and suppliers and structural changes in our markets can intensify this competition."

In the six-month period ended June 30, 2015, our natural gas sales volumes in the FSU declined by approximately 32% compared to the six-month period ended June 30, 2014, primarily due to a reduction of supplies to Ukraine.

In the six-month period ended June 30, 2015, our natural gas sales volumes in Europe and Other Countries declined by approximately 7% as compared to the six-month period ended June 30, 2014, primarily due to the high base effect caused by our record high gas supplies to Europe in the first half of 2014, and a reduction of gas off-take by our European customers in the first half of 2015 in anticipation of lower prices for our gas in the second half of the year as a result of declining prices for oil and oil products.

In 2014, our natural gas sales volume in Russia declined by approximately 4% compared to 2013, primarily due to a reduction in demand caused by the modest industrial production growth and warm weather conditions.

In 2014, our natural gas sales volumes in the FSU decreased by approximately 19% compared to 2013, primarily as a result of reduced supplies to Ukraine.

In 2014, our natural gas sales volumes in Europe and Other Countries declined by approximately 9% compared to 2013, primarily due to warm weather conditions in 2014, reduced demand for gas in power generation and modest industrial production growth rates.

The natural gas market

Natural gas has been gaining an increasing share of the world energy market in recent years, in part because it is an effective and environmentally clean fuel. According to the BP Statistical Review of World Energy (June 2015) (the "BP Review"), global natural gas production increased by approximately 28% from 2004 through 2014.

According to CEDIGAZ's statistical survey (May 2015), 2014 was a mixed year for natural gas. For the second consecutive year, demand for natural gas increased at a slower rate relative to prior years in 2014, primarily as a result of increased competition between energy sources (especially coal), economic downturns (primarily in Europe, China and Russia), geopolitical turmoil and mild weather conditions, which negatively impacted the expansion of gas demand in Europe and Asia. The growth of natural gas market is also increasingly constrained by delays in the development of gas projects in emerging markets, generally due to unfavorable economic, regulatory and fiscal conditions, as well as geopolitical issues, internal conflicts and security problems (e.g., in Syria and Libya). Apart from weather-related temporary factors, 2014 emphasized the deceleration of demand due to intense competition with relatively inexpensive coal in both industrialized and emerging markets, in particular in Asia.

According to the BP Review, the world primary energy consumption—including oil, natural gas, coal, nuclear, hydro power and renewable resources increased by 0.9% in 2014 compared to 2013, with natural gas consumption rising by 0.4% compared to 2013. In 2014, natural gas consumption accounted for approximately 24% of primary energy consumption in Europe and approximately 49% in the FSU.

The following table sets out primary energy and natural gas consumption in our principal markets for the periods indicated as well as the percentage of natural gas consumed as a proportion of primary energy consumption in such markets for such years:

	2014	2009	2004
	(mtoe, except percentages)		
Europe(1)			
Primary energy consumption(2)	1,932	1,829	1,773
Gas consumption	459	448	391
Gas consumption as a percentage of primary energy consumption	24%	24%	22%
FSU (except Russia)(3)			
Primary energy consumption(2)	295	271	284
Gas consumption	146	125	136
Gas consumption as a percentage of primary energy consumption	49%	46%	48%
Russia			
Primary energy consumption(2)	650	648	682
Gas consumption	350	351	368
Gas consumption as a percentage of primary energy consumption	54%	54%	54%

Source: BP Statistical Review of World Energy (June 2015).

Notes:

(1) Defined for the purposes of this table to consist of Austria, Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Republic of Ireland, Italy, The Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Spain, Sweden, Switzerland, Turkey and the United Kingdom.

(2) Primary energy consumption comprises commercially traded fuels only, including renewables required for electricity production.

(3) Defined for the purposes of this table to consist of Azerbaijan, Belarus, Kazakhstan, Lithuania, Turkmenistan, Ukraine and Uzbekistan.

According to the BP Review, natural gas consumption in Europe (as defined in footnote (1) to the table above) represented 13% of worldwide natural gas consumption in 2014 as compared with 19% in 2004. In the period from 2004 through 2014, the proportion of natural gas in primary energy consumption in Europe rose from 22% to 24% and the consumption of natural gas decreased from 459 mtoe in 2004 to 391 mtoe in 2014.

Europe and Other Countries

We are currently the only supplier of Russian natural gas to Europe. According to our estimates, we supplied approximately 30.2% of the volume of natural gas consumed in Europe in 2014. Germany, Turkey, Italy, the United Kingdom, Poland and France were our largest export markets in Europe for that year. We are actively seeking to increase our European export efficiency and have entered into various joint ventures abroad, such as WIEH and WINGAS in Germany and WIEE in Switzerland. See "—Transportation—International projects in gas transportation" and "—Gas storage." These joint ventures allow us to capture a margin from sales of gas to industrial, energy and utility sectors as well as to households, in addition to receiving export proceeds from deliveries at the borders of the markets we serve. Since 2005, we have also participated in LNG trading transactions worldwide.

For the years ended December 31, 2014 and 2013, our gas sales to Europe and Other Countries (gross of gas price adjustment) accounted for approximately 36% and 37% of the volume of natural gas we sold and for 59% and 57% of our natural gas net sales for the periods indicated, respectively.

For the six months ended June 30, 2015 and 2014, our gas sales to Europe and Other Countries accounted for approximately 36% and 36% of the volume of natural gas we sold and for 58% and 56% of our natural gas net sales for the periods indicated, respectively.

The following table sets out our natural gas sales volumes to Europe and Other Countries for the periods indicated.

	For the six months ended June 30,		For the year ended December 31,		
Country	**2015(1),(2)**	**2014(1),(2)**	**2014(1),(2)**	**2013(1),(2)**	**2012(1),(2)**
		(bcm)		**(bcm)**	
Austria	1.9	2.4	4.2	5.2	5.4
Finland	1.5	1.7	3.1	3.5	3.7
France	4.5	4.8	7.6	8.6	8.2
Germany	22.0	18.7	40.3	41.0	34.0
Greece	0.6	1.0	1.7	2.6	2.5
Italy	12.0	14.2	21.7	25.3	15.1
Switzerland	0.2	0.1	0.3	0.4	0.3
The Netherlands	1.9	2.3	4.7	2.9	2.9
Denmark	0.3	0.1	0.4	0.3	0.3
Ireland	0.1	0.1	0.2	0.5	0.3
Turkey	13.0	14.1	27.3	26.7	27.0
United Kingdom	8.2	9.0	15.5	16.6	11.7
Bosnia and Herzegovina	0.1	0.1	0.2	0.2	0.3
Bulgaria	1.4	1.5	2.8	2.9	2.5
Croatia	0.2	0.3	0.6	0.2	0.0
Czech Republic	0.0	0.8	0.8	7.9	8.3
Hungary	2.5	3.0	5.4	6.0	5.3
Macedonia	0.1	0.1	0.1	0.0	0.1
Poland	4.4	5.1	9.1	12.9	13.1
Romania	0.1	0.4	0.5	1.4	2.5
Serbia	0.9	0.8	1.5	2.0	1.9
Slovakia	1.9	2.6	4.4	5.5	4.3
Slovenia	0.2	0.2	0.4	0.5	0.5
Total sales to Europe	**78.0**	**83.5**	**152.8**	**173.1**	**150.2**
Other(3)	2.4	2.5	6.6	1.2	0.8
Total sales to Europe and Other Countries(4)	**80.4**	**86.0**	**159.4**	**174.3**	**151.0**

Notes:

(1) Management estimates.

(2) Net of trading activity without supplies of natural gas.

(3) Includes LNG sales by the Gazprom Germania group.

(4) Totals may not sum due to rounding.

Europe

We export natural gas to Europe mostly pursuant to long-term contracts, which generally include the following terms:

- price-setting clauses based on prices for oil products and, to a certain extent, alternative pricing mechanisms, including gas trading floor quotations;
- price adjustment clauses pursuant to which the formulas for determining the price of natural gas under the contracts is generally reviewed once every two-three years if market conditions have changed significantly;
- "take-or-pay" provisions that provide that: (i) off-takers who have purchased less than the minimum contracted-for annual volume of natural gas at year's end are required to pay for some portion (but generally not all) of the shortfall; and (ii) such payment is credited to the off-taker if, in a subsequent year, the off-taker purchases more than the minimum contracted-for volume of natural gas.

We supply gas to Europe primarily on the basis of long-term export contracts, most of which extend for 20 years and beyond. Over recent years, we have extended a number of our export contracts, some of which are set to expire in 2042. We also entered into new agreements, including agreements for additional gas deliveries through the Nord Stream pipeline.

We are paid in U.S. dollars, euros and pounds sterling for the natural gas we sell to Europe and Other Countries. Currently, approximately 39% of our Europe and Other Countries net sales are denominated in euros.

Long-term supply contracts have historically been the basis for stability in the European natural gas market. By providing multi-year guarantees for natural gas supply and off-take, long-term contracts meet both suppliers' and consumers' strategic interests.

With a change in the balance between the demand and supply in the European gas market and given the fact that gas prices on European trading floors have occasionally fluctuated below the price levels set forth in our long-term contracts since 2010, some of our European customers have requested revisions of prices we charge under long-term contracts due to the oversupply of natural gas in Europe and the considerable gap between spot and long-term contractual prices. We have amended our export contracts with European customers in order to improve the competitive position of our natural gas in our customers' markets and to preserve, to the extent possible, the pricing principles and the structure of our long-term contracts, including a link of our prices to prices for certain oil products. The amendments that we have made to some of our long-term contracts included linking the prices for some volumes supplied under our long-term contracts to gas trading floor quotations. In 2011 through 2013, we developed alternative pricing mechanisms. In the period from 2010 through 2014, we revised the take-or-pay volumes stipulated in our long-term contracts and our long-term contract pricing with most of our European customers. While we have included trading floor quotations in some of our contracts, we generally consider this pricing mechanism to be less secure for the customers under our long-term contracts compared to prices linked to the prices for oil products due to the volatility and lack of predictability of trading floor quotations.

Over recent years we have amended our contracts with European customers in order to tailor the contractual terms to the changing market environment while enhancing the competitiveness of Russian gas in the European market. In 2012, we reduced the amount of our sales by RR102.7 billion due to the recognition of retroactive gas price adjustments relating to volumes of gas delivered in 2010 and 2011. Retroactive gas price adjustments were recognized in the Group's Financial Statements as an increase in sales in the amount of RR17.2 billion, RR0.9 billion and RR74.4 billion for the six month period ended June 30, 2015 and the years ended December 31, 2014 and 2013, respectively, reflecting a decrease in previously accrued liability. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Year ended December 31, 2014 versus Year ended December 31, 2013—Sales" and See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Year ended December 31, 2013 versus Year ended December 31, 2012—Sales."

We also supply gas directly to end consumers in Europe. In 2014, we supplied gas to end consumers in the United Kingdom, France, the Netherlands, Slovakia, Ireland and the Czech Republic. The total volume of our gas sales to end consumers amounted to 4.2 bcm and 3.9 bcm in 2014 and 2013, respectively. Our associated and joint companies are also engaged in direct supplies to end consumers in Austria, Bulgaria, Hungary, Germany, Italy, Romania, Serbia, Turkey, Croatia and Finland.

As a result of tightened emission control measures being imposed in the Baltic and North Seas and heightened Euro-6 standards relating to motor vehicles, we believe that demand for gas engine and bunker fuel in Europe will be substantial. As of June 30, 2015, our subsidiaries, Gazprom Germania GmbH and Vemex, owned 41 NGV-refueling compressor stations and one LNG refueling station in Germany, the Czech Republic and Poland. In 2014 and 2013, we sold 6.4 mmcm and 3.3 mmcm through these stations, respectively. Since 2012, we have been working with the potential purchasers of LNG for bunkering marine and river vessels and development of the bunkering infrastructure in the North and Baltic Seas, in particular LNG storage facilities.

Our subsidiary, OOO Gazpromneft Marine Bunker, is our sole distributor of LNG to end consumers in the Russian bunkering market.

In July 2015, we signed a framework agreement with Gasunie on cooperation in the area of small scale LNG. The framework envisages the cooperation in the small scale LNG market in Europe, with a focus on joint projects for the construction of LNG receiving terminals, LNG filling stations and other infrastructure facilities.

European gas markets are undergoing significant restructuring. In particular, the Gas Directives have sought to deregulate and liberalize the EU gas market by introducing greater competition into the market, reducing gas prices for the end-user and proposing vertical disintegration of gas producers and suppliers from operators of gas transportation networks. See "—Competition—Europe." The European Commission continues an antitrust investigation into our operations in the EU. There can be no assurances that the outcome of this investigation will be favorable to us. As of the date of this Base Prospectus, it is not possible to assess the potential negative impact of the investigation on our operations in Europe, including on the prices we charge to our European customers, or on our financial position as a whole. See "—Litigation and Investigations" for further details.

In accordance with our development strategy, we expand our trading operations in the international energy markets. We conduct our trading operations in the deregulated natural gas markets through our subsidiary GM&T. Since its establishment in 1999, GM&T has been engaged in spot and short-term trade of natural gas, retail operations, operations in power, crude oil and oil product markets and greenhouse gases emission quotas trading. Currently, GM&T operates through its subsidiaries in the United Kingdom, Belgium, France, Germany, the Netherlands, Ireland and other countries. In 2006, Gazprom Marketing & Trading USA was established to operate in the United States. In 2009, GM&TS, which became an important link between offices in the United States and the United Kingdom, started trading operations in Asia and allowed us to conduct day-and-night operations in the foreign exchange and crude oil markets.

Asia

China. In May 2014, we signed a contract with CNPC for the supply of 38 bcm of pipeline gas from Russia to China annually via the eastern route for 30 years with an option to extend. The contract became effective in 2015. The contract pricing terms are linked to oil product prices. The commencement of supplies under the contract is linked to the construction schedules of the production and transportation capacities and is expected to occur between 2019 and 2021. We expect to gradually increase delivery volumes in the early years of supplies.

The eastern route envisages the delivery of gas via the Power of Siberia pipeline. We are currently implementing projects to create gas production, transmission and processing capacities to supply gas to China, including the development of the Chayandinskoye field and the construction of each of the Power of Siberia pipeline and gas processing plant in the Amur Region. See "—Reserves and Production—Exploration, Development and Production regions—Eastern Siberia and the Far East (Siberian and Far East Federal Districts)," "—Transport—Gas Transportation projects in Russia" and "—Refining—Projects in Refining—Amurskiy GPP."

We are also negotiating with CNPC possible gas supplies via a western route that is projected to go through the western section of the border between Russia and China. See "—Transport—Gas transportation projects in Russia—Power of Siberia II pipeline." In May 2015, we signed heads of agreement with CNPC for gas supply to China via the western route, which provides, among other things, for the volume of supplies, term of contract (30 bcm annually over 30 years), delivery point and other key terms of the future gas supply agreement. We continue to negotiate other contractual terms.

In May 2015, we signed with CNPC a strategic partnership agreement, which determines priority areas for cooperation, including gas supplies to China via eastern and western routes. In addition, in September 2015, we signed with CNPC a memorandum of understanding regarding a project to supply pipeline gas from the Russian Far East to China. According to the memorandum of understanding, the parties will conduct an assessment and determine key technical and commercial characteristics of the project.

Vietnam. In November 2013, we entered into an agreement with Petrovietnam, which provides for the establishment of a joint venture, PVGAZPROM, which is expected to engage in the production of gas engine fuel. Currently, PV Gas, a subsidiary of Petrovietnam, holds a 29% interest in PVGAZPROM while OOO Gazprom gazomotornoe toplivo and Gazprom International, subsidiaries of Gazprom, each hold a 35.5% interest in PVGAZPROM. Natural gas from the Nam Con Son gas basin and associated petroleum gas from the Cuu Long basin transmitted to the Nam Con Son Terminal and Dinh Co. processing plants near the city of Vung Tau are expected to be liquefied at PVGAZPROM's facilities and subsequently transported to Ho Chi Minh City. After its regasification, natural gas will be used in the public transportation system of Ho Chi Minh City and will be supplied to NGV refill stations in other regions of the country.

LNG

One of our gas business priorities has been the implementation of our strategic plan for the production, maritime transportation and marketing of LNG. Currently, we supply LNG to countries in Asia, Europe, Middle East and South America.

Our associated company Sakhalin Energy, in which we hold a 50% plus one share interest, operates the Sakhalin II project, produces and sells LNG from Sakhalin to the consumers of the Asia-Pacific region. Pursuant to a sale and purchase contract with Sakhalin Energy extending through 2028, we purchase approximately 1 million tons of LNG from Sakhalin Energy annually. This contract accounts for the major portion of our current LNG trading portfolio which also includes purchases of LNG from third parties to raise our LNG trading volumes in the short and medium term.

The table below sets forth the volumes of our LNG sales for the periods indicated.

	For the six months ended June 30,		**For the year ended December 31,**		
	2015	**2014**	**2014**	**2013**	**2012**
	(million tons)				
LNG Sales	1.5	1.3	3.4	1.5	1.4

A significant increase in our LNG sales volumes in 2014 as compared to 2013 was due to our increased purchases of LNG from third parties and the corresponding expansion of our trading activity.

A 15% increase in our LNG sales volumes in the six month period ended June 30, 2015 as compared to the respective period of 2014 was mainly due to our increased purchases of LNG from Sakhalin Energy and Nigeria.

To expand our LNG portfolio, our subsidiary, GM&T, signed memoranda of understanding with four Indian companies for the annual supply of 10 million tons of LNG to India within 25 years. In October 2012, Gazprom Marketing & Trading Singapore (GM&TS) and GAIL, a leading gas transportation and distribution company in India, entered into an LNG sale and purchase agreement providing for annual supplies of LNG of 2.5 million tons within 20 years. We continue to negotiate terms of supply agreements pursuant to existing memoranda of understanding.

In 2014, our subsidiary, GGLNG, won a bidding process to supply LNG from a project in Nigeria, which increased the Group's LNG portfolio of 0.4 million tons a year in 2015 and 2016.

In addition, in 2014, we entered into medium-term contracts to supply LNG out of our trading portfolio to TEPCO (0.4 million tons a year over the period of 2015-2018) and to RWE (0.4 million tons a year in 2015 and 2016).

In January 2015, our subsidiary, GM&T Singapore, entered into a sale and purchase agreement with Yamal Trade to purchase LNG from the Yamal LNG project. The agreement provides that we annually purchase 2.9 million tons of LNG from the project at a delivery point in Europe over 20 years at plateau level. LNG is expected to be supplied to the Asia-Pacific region, primarily to India. Pricing under the agreement involves a pricing formula with a link to prices of oil products. The shareholders of Yamal LNG, the parent company of Yamal Trade, are Novatek, Total and CNPC holding 60%, 20% and 20% interests in the company, respectively.

The second stage of the development of our LNG business envisages a considerable increase of our LNG trading portfolio primarily through implementation of our own gas liquefaction projects.

Third LNG production line at the Sakhalin LNG plant. In 2013, we finalized the pre-FEED stage of the project for construction of a third LNG production line at the Sakhalin LNG plant with an annual projected capacity of up to 5.4 million tons. The project also envisages construction of additional LNG storage and shipping facilities and increase of transportation capacities from the onshore gas processing complex in the northern part of the island to the Sakhalin LNG plant. In February 2014, we signed a memorandum with Royal Dutch Shell that provides for the development of the FEED and project design documentation for the third production line of the Sakhalin LNG plant. The memorandum sets forth the anticipated deadlines for engineering work and implementation of the project and determines further steps towards making the investment decision. The third production line of the Sakhalin LNG plant is expected to use gas from the Sakhalin III project. We are currently performing work at the FEED stage.

Baltic LNG Plant. We have completed the feasibility study and are preparing for the design stage of the project to construct the Baltic LNG Plant in the Ust-Luga port in the Leningrad Region, with a projected annual capacity of 10 million tons of LNG with a potential expansion up to 15 million tons of LNG. The Baltic LNG Plant is expected to receive gas from the UGSS. We expect to commission the Baltic LNG Plant in 2020. Target markets include countries in the Atlantic region, including European countries to which we do not supply pipeline gas (e.g., Spain and Portugal), the Middle East, South America and India, as well as the bunker fuel market. We intend to use project finance to finance the development of the project.

Vladivostok-LNG. We are considering construction of an LNG plant in the Vladivostok area, with a projected annual capacity of 10 million tons of LNG and a potential expansion up to 15 million tons of LNG. The target markets for LNG supplies from the plant may become countries in the Asia-Pacific region.

Regasification terminal in the Kaliningrad Region. We have completed the pre-investment feasibility study relating to the construction of an LNG regasification terminal in the Kaliningrad Region to diversify our transportation routes to the Kaliningrad Region, with a projected capacity of at least 2.7 bcm per annum. Consistent with the Action Plan designed to ensure reliable gas supplies to the Kaliningrad Region, we expect to commission the terminal in late 2017. In 2015, we placed an order with Hyundai Heavy Industries (South Korea) for the construction of a floating regasification unit.

In order to enhance our LNG trading portfolio, we also consider entering LNG projects outside Russia from time to time.

Russia

For the six months ended June 30, 2015 and 2014 our natural gas sales to Russia accounted for approximately 54% and 52% of the volume of natural gas we sold and for 26% and 28% of our natural gas net sales for the periods indicated. For the years ended December 31, 2014 and 2013 our natural gas sales to Russia accounted for approximately 53% and 51% of the volume of natural gas we sold and for 27% and 27% of our natural gas net sales for the periods indicated, respectively.

Domestic market conditions.

In accordance with the current legislation in Russia, natural gas is sold to customers at regulated and non-regulated prices. We are the dominant supplier of gas at regulated prices. There are also other regional gas companies operating in the regulated segment outside the UGSS. The regulated wholesale prices for gas that are currently in effect are set below those which are economically viable.

The electricity sector is the main consumer of natural gas in Russia. In 2014, our natural gas supplied to electricity generation companies' accounted for approximately 24% of the volume of our domestic natural gas supplies (excluding sales to our energy generating subsidiaries). Natural gas is also heavily used in the metallurgical, agro-chemical, construction and other sectors, as well as in households (housing and utility services). Regulated prices are differentiated by consumer groups (household and industrial consumers), as well as by price bands based on the relative distance from the gas production region to the consumer. The regulated wholesale prices for households are 20-22% lower than those for industrial consumers. The regulated wholesale gas prices, currently in effect, are differentiated by 60 price bands based on the distance the gas travels from production fields to consumers.

The following table presents the growth rates of weighted average wholesale regulated natural gas prices for industrial and household consumers.

	2014	**2013**	**2012**
Average price increase for households (average for the year, as compared with the previous year)	10.1%	15.3%	10.4%
Average price increase for industrial consumers [1] (average for the year, as compared with the previous year)	8.0%	14.9%	7.6%

Notes:

(1) Exclusive of new and additional gas volumes supplied pursuant to Resolution No. 333 (as defined below).

The following table presents the weighted average wholesale regulated natural gas price for industrial and household consumers for the periods indicated.

	2014	**2013**	**2012**
Weighted annual average for industrial consumers and households (RR per mcm)[1]	3,657.6	3,393.0	2,961.3
Weighted annual average for industrial consumers (RR per mcm)[2]	3,852.4	3,565.7	3,103.7
Weighted annual average for households (RR per mcm)[2]	3,083.0	2,801.4	2,428.9

Notes:

(1) Calculated as the combined weighted average prices to industrial and household consumers for the year indicated. Weighting is based on actual volumes delivered to each price band for household and industrial consumers for 2014, 2013 and 2012 (exclusive of gas volumes supplied pursuant to Resolution No. 333).

(2) Weighting is based on actual volumes delivered to each price band for each group of consumers separately, industrial consumers and households for 2014, 2013 and 2012, respectively (exclusive of gas volumes supplied pursuant to Resolution No. 333).

In order to promote market principles in the domestic gas market, the Government issued Resolution No. 333 dated May 28, 2007 "On improvement of gas prices regulation" ("Resolution No. 333"). Pursuant to Resolution No. 333, for the period from July 1, 2007 through January 1, 2011, we were allowed to sell natural gas to specific categories of customers at prices negotiated with our counterparties from a defined price range. Since January 1, 2011, the price range has been determined pursuant to Resolution No. 1205 "On Improving State Regulation of Gas Prices" dated December 31, 2010. These principles also applied to the new end use gas consumers and consumers purchasing natural gas volumes in excess of those stipulated in gas supply contracts for 2007. In the years ended December 31, 2014, 2013 and 2012, gas sales to these categories of customers amounted to 29.4 bcm, 32.1 bcm and 31.9 bcm, with an average negotiated price which was 4%, 3% and 4% higher than the respective wholesale regulated price, respectively. For the six months ended June 30, 2015 and 2014 our sales to these categories of consumers amounted to 14.5 bcm and 15.1 bcm of gas, respectively. The contractually agreed average mark-up compared to the regulated prices was 4% and 4%, respectively.

Since July 2015, the FAS has been responsible for setting wholesale gas prices in Russia. The Forecast sets forth the principles of the increase of regulated wholesale gas prices. The table below sets forth the expected regulated wholesale gas prices growth rates for the period from 2015 through 2018. See "Risk Factors—Risks Relating to Our Business—We are required to supply natural gas to customers in Russia at prices that are regulated by the Government and are below those which may be economically viable to us."

	2018	**2017**	**2016**	**2015**
		(Expected annual increase from previous year, %)		
Average regulated wholesale prices for all categories of Russian consumers (excluding households)	6.6	7.3	7.5	3.5
Average regulated wholesale prices for household consumers	7.6	8.3	8.0	5.8-5.9

In order to mitigate the risks associated with the regulated pricing for gas, we continue to engage with Russian federal state authorities to enhance the price setting mechanisms, including by way of adopting justified pricing principles that would ensure sustainable terms of domestic gas supplies.

Amendments to Government Resolution No. 1021 dated December 29, 2000 "On state regulation of gas prices and transportation service tariffs in the Russian Federation" ("Government Resolution No. 1021") are currently being considered by the Government. The amendments contemplate a revised mechanism of determination of minimal wholesale gas price level for various categories of consumers.

Government Resolution No. 323 dated April 16, 2012, as amended, which was issued for the purpose of development of the market pricing principles, permitted us and our affiliates to sell on commodity exchanges and in trading systems up to 17.5 bcm of gas starting from 2013. The regulated wholesale prices do not apply to the volumes sold in accordance with these Resolutions, but the volumes of gas we are permitted to sell in accordance with these Resolutions cannot exceed the volumes of gas sold by independent producers in trading systems. Gas trading was launched at the Saint-Petersburg International Mercantile Exchange in October 2014. In 2014 and in the first half of 2015, approximately 0.5 bcm and 2.0 bcm of gas were sold on the exchange, respectively, of which our sales volumes amounted to 0.4 bcm and 0.9 bcm of gas, respectively.

Domestic sales

We sell our products domestically mainly through our wholly owned subsidiary Gazprom mezhregiongaz, which sells gas to regional gas sales companies in Russia. Regional gas sales companies contract directly with and collect payments from the end customers, including households.

Our acquisitions of controlling interests in various gas distribution companies have enabled us to capture the transportation tariffs that are payable to them in respect of the transportation services they provide. The gas distribution companies own and operate low- and medium-pressure pipelines that transport gas to end consumers. Regional gas sales companies receive a fixed price for supply and distribution services. Our gas distribution assets are consolidated primarily in our subsidiary Gazprom gazoraspredeleniye. As of December 31, 2014, companies controlled by Gazprom gazoraspredeleniye operated approximately 734 kilometers of gas distribution pipelines (which, according to our estimates, accounted for approximately 83% of the total gas distribution pipelines in Russia) facilitating supply of approximately 232.7 bcm of gas in transit and gas supplies to end-users in 2014.

We sign both one year and long-term gas supply contracts with our Russian customers. In accordance with Government Resolution No. 816 dated October 17, 2009, our contracts require customers to make full payment (excluding any advance deposits) for the natural gas they received as follows: 35% of the payment shall be made on or before the eighteenth day of the month of delivery, 50% of the payment shall be made by the end of the month of delivery and the final payment shall be made by the twenty fifth day of the month immediately following the month of delivery.

We also sell gas through our network of NGV-refueling compressor stations and are currently seeking to expand our NGV-refueling compressor station network. We expect to finalize construction of 42 NGV-refueling compressor stations in 20 Russian regions by the end of 2016. To further increase our sales of compressed gas, we also conduct works aimed at installation of NGV-refueling compressor units at existing and planned for construction gasoline stations of third parties. To enhance the efficiency of implementing our strategy in the gas engine fuel market, we have established a subsidiary, OOO Gazprom gazomotornoe toplivo, which is expected to continue to expand our client base by engaging agricultural, river, railway, motor and public transportation, housing and public utilities companies, specialized equipment. We have also developed a program for the transition of the Group's motor vehicles to gas fuel from 2015 through 2017. In 2013, we signed memoranda of understanding with major Russian and foreign construction machinery and automobile producers and railroad transportation companies concerning potential cooperation in using gas as a vehicle fuel and expansion of gas-powered equipment utilization.

As of June 30, 2015, we owned a network consisting of 212 NGV-refueling compressor stations in Russia. In the six-month periods ended June 30, 2015 and 2014, and in the years ended December 31, 2014, and 2013, we sold 203 mmcm, 196 mmcm, 404.8 mmcm and 377.0 mmcm of compressed natural gas through our NGV-refueling compressor stations in Russia, respectively.

Payments for gas deliveries in Russia

Gross accounts receivable for natural gas supplied to Russian customers (before impairment provision) amounted to RR260,896 million, RR279,472 million and RR247,486 million as of June 30, 2015 and December 31, 2014 and 2013, respectively (including Russian VAT). As of June 30, 2015, approximately 69% of our aggregate accounts receivable for natural gas from Russian customers were overdue.

The FSU

In the six months ended June 30, 2015 and 2014 our gas sales to the FSU countries accounted for approximately 9% and 13% of the volume of gas we sold and for 14% and 17% of our gas net sales revenues during the same periods, respectively. In the years ended December 31, 2014 and 2013 our gas sales to the FSU countries accounted for approximately 11% and 12% of the volume of gas we sold and for 14% and 14% of our gas net sales revenues during the same periods, respectively. We supply a significant proportion of the volume of natural gas consumed in the FSU countries. Ukraine and Belarus are the largest consumers of the volumes of natural gas we supply to the FSU.

The following table sets out our natural gas sales volumes to the FSU countries for the periods indicated.

Country	For the six months ended June 30, 2015[1],[2]	2014[1],[2]	For the year ended December 31, 2014[1],[2]	2013[1],[2]	2012[1],[2]
			(bcm)		
Armenia	1.0	0.9	1.8	1.7	1.7
Belarus	9.7	10.1	19.6	19.8	19.7
Estonia	0.2	0.2	0.4	0.7	0.6
Georgia	0.1	0.1	0.3	0.2	0.2
Kazakhstan	2.2	2.3	5.1	4.7	3.7
Kyrgyzstan	0.1	-	-	-	-
Latvia	0.4	0.4	1.0	1.1	1.1
Lithuania	1.2	1.4	2.5	2.7	3.1
Moldova	1.5	1.4	2.8	2.4	3.1
Ukraine	4.5	13.9	14.5	25.8	32.9
Uzbekistan	-	0.0	-	0.3	0.0
Total[3]	**20.9**	**30.7**	**48.1**	**59.4**	**66.1**

Notes:

(1) Management estimates.

(2) Net of trading activity without supplies of natural gas.

(3) Totals may not sum due to rounding.

Sales to the FSU countries are primarily made directly by Gazprom, though we also make sales through Gazprom Export and its subsidiaries. Currently, on average, the annual contract prices for the natural gas we supply to the FSU countries are higher than the Russian domestic prices but lower than our prices in Europe.

We have reached equal profitability (taking into account transportation costs and difference in customs duties charged on our supplies to customers in the FSU and Europe and Other Countries) to sales to Europe and Other Countries with respect to our sales in Latvia, Lithuania, Estonia, Ukraine and Moldova. However, on average, our current contract prices for the natural gas we supply to Armenia, Kazakhstan, Kyrgyzstan and Belarus are still below the level that would provide equal profitability to sales to Europe and Other Countries.

In January 2009, Gazprom and Naftogaz entered into the 2009 Contract pursuant to which we agreed to provide natural gas supply to Ukraine in the amount of 40.0 bcm in 2009 and 52.0 bcm per year thereafter. The contract price for gas is calculated quarterly using a formula that takes into account changes in price indexes on fuel and gas oil. Since 2012, Naftogaz has failed to off-take the contracted for volumes of gas and accumulated substantial overdue debt for our gas supplies. See "—Debt settlement." In May 2014, given the substantial overdue debt of Naftogaz and in accordance with the terms of the 2009 Contract, we notified Naftogaz that our gas supplies must be paid for in advance. As Naftogaz failed to make any advance payments, we didn't supply gas to Naftogaz from June 16, 2014 to November 30, 2014. In October 2014 and April 2015, we signed supplemental agreements with Naftogaz pursuant to which we supplied gas to Naftogaz at a reduced price in the fourth quarter of 2014 and in the first quarter of 2015. The supplemental agreements provide that Naftogaz must make advance payments for the gas supplies. The reduction in price provided in the supplemental agreements was offset by a lower export duty set by the Government. Since July 1, 2015, we have not supplied gas to Ukraine because Naftogaz has not made any advance payments. Arbitration over the 2009 Contract price and Naftogaz's debt owed to us for gas supplies in 2013 and 2014 is currently pending. See "Gazprom—Litigation and Investigations."

In December 2014, we extended our existing contracts for gas supply to Belarus and gas transit through its territory to the end of 2017.

In December 2014, we extended our existing contracts for supply and transit of gas with AO "Moldovagas" to the end of 2015.

In December 2013, we signed a contract to supply up to 2.5 bcm of gas annually to Armenian customers through our subsidiary Gazprom Armenia in the period from 2014 through 2018. The pricing formula in the contract is linked to the pricing mechanism for natural gas in Russia.

We also sell gas through NGV-refueling compressor stations in the FSU countries. As of June 30, 2015, our subsidiaries Gazprom transgaz Belarus and Gazprom Armenia owned 27 and 8 NGV-refueling compressor stations in operation in Belarus and Armenia, respectively.

Debt settlement. The failure of a number of FSU customers to pay us for supplies of natural gas has resulted in substantial debts to us. The following table sets out accounts receivable due from customers in the FSU countries for sales of natural gas (before deduction for bad debt provisions) as of the dates indicated.

	As of June 30,	As of December 31,		
	2015	2014	2013	2012
		(million RR)		
Ukraine	138,454	132,969	148,839	125,766
Belarus	8,857	8,772	10,200	10,249
Moldova	288,500	274,355	142,552	117,902
Other	17,401	19,165	9,227	8,949
Total	**453,212**	**435,261**	**310,818**	**262,866**

As of June 30, 2015, 95% of our aggregate accounts receivable for natural gas from FSU customers presented in the table above were overdue, which mostly related to natural gas sales in Moldova and Ukraine. To date, our efforts to obtain repayment of the debt and assure full payments for current gas deliveries to the Transdnestria Region of Moldova, which is under separate administration, have been unsuccessful. Since the beginning of 2009, Transdnestria has not made any cash payments for the gas delivered to customers in the region. We are limited in our ability to decrease gas deliveries to the Transdnestria Region because doing so may adversely affect our deliveries to Balkan countries.

In 2012, 2013 and 2014, Naftogaz failed to off-take the contracted for volumes of gas as provided by the 2009 Contract. Pursuant to the “take-or-pay” clause set forth in the 2009 Contract we issued invoices to Naftogaz for U.S.$7.09 billion, U.S.$11.39 billion and U.S.$8.2 billion for the failure to purchase corresponding volumes of gas in 2012, 2013 and 2014, respectively. The invoiced amounts were calculated at the factual annual weighted average price in the respective year. Naftogaz has neither accepted nor paid the invoices. In addition, Naftogaz’s overdue debt for the supplied gas has been building up since 2013 and currently amounts to approximately U.S.$2.4 billion for gas supplied in the period from 2013 to 2015. Arbitration over the 2009 Contract price and Naftogaz’s debt owed to us for gas supplies in 2013 and 2014 is currently pending. See “Gazprom—Litigation and Investigations.” Our gas transit to Europe is currently unaffected by these developments. See “Risk Factors—Risks Relating to Our Business—We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas.”

In the past, we were engaged in disputes with Gazprom transgaz Belarus (formerly known as Beltransgaz, which was owned by the government of Belarus) regarding pricing terms and payment for gas supplies. In 2010, we suspended our supply of natural gas to Belarus until our Belorussian customers settled their indebtedness for our gas supplies. See “—Transport—Existing routes of gas export and participation in foreign gas distribution networks—Natural gas transit through Ukraine and Belarus.” Currently, Belarus complies with all of its payment obligations.

Cooperation with FSU countries in gas marketing

As part of our strategy to maintain our natural gas export sales while production from our mature fields declines, we have signed medium- and long-term agreements to purchase natural gas from Central Asia. A significant element of our policy in Central Asia is the development of the gas, oil and energy infrastructure in the region to ensure effective industrial cooperation, established during the time of the USSR. In this respect, we began to assess and implement a number of joint investment projects in production, processing and transportation of hydrocarbons in the Central-Asian region. See “—Joint Ventures and Alliances—Central Asia.”

In December 2012, we signed a contract with NKhK Uzbekneftegaz for the purchase of Uzbek gas in the amount of 7.5 bcm per annum and an agreement for gas transportation through the territory of Uzbekistan in 2013 through 2015.

Our amended and restated long-term contract with GK Turkmengaz signed in December 2009 provides for our annual purchase of up to 30 bcm of Turkmen natural gas.

We also purchase natural gas in Kazakhstan through our joint venture KazRosGaz. We process purchased gas at our Orenburg GPP and sell it in Kazakhstan and in other countries. See “—Refining—Projects in refining—Karachaganak gas processing.”

In December 2012, we signed an agreement with AK Uztransgaz which expires in 2015 and provides for the transportation of natural gas from Turkmenistan through Uzbekistan. We have also signed an agreement with AO Intergas Central Asia which expires in 2016 and provides for the transportation of natural gas from Turkmenistan and Uzbekistan through Kazakhstan. The agreements are an important part of our strategy to increase the reliability of gas supplies from the region.

The pricing mechanisms we use in our contracts with Turkmenistan are similar to the pricing mechanisms set forth in our contracts with European customers.

In June 2009, we signed an agreement with the State Oil Company of Azerbaijan (“SOCAR”) regarding the basic terms of our gas purchases from Azerbaijan. The agreement provides for our annual purchases of not less than 0.5 bcm gas for the period from 2010 to 2015, with an option to increase the volume of gas purchased. In January 2012, we signed a supplement to the agreement providing for an amount of purchases in excess of 3 bcm starting in 2013. The purchase price of Azerbaijan gas is determined under a formula tied to the price of oil products. SOCAR has suspended all gas supplies to Russia since August 2014.

In July 2013, the government of Kyrgyzstan entered into an intergovernmental agreement with the Russian Government which among other things provides for a formation of OOO KyrgyzgazProm ("KyrgyzgazProm"), a wholly owned subsidiary of OAO Kyrgyzgas ("Kyrgyzgas"), and the transfer to KyrgyzgazProm of all assets and liabilities of Kyrgyzgas existing as of the date of the agreement. KyrgyzgazProm owns over 700 km of trunk gas pipelines, approximately 2,300 km of gas distribution pipelines and 266 gas distribution facilities. The agreement provides that we would acquire 100% of KyrgyzgazProm for one U.S. dollar while assuming obligations to invest at least RR20.0 billion in the development and modernization of the Kyrgyz gas distribution facilities over a 5 year period, to comply with the tariff policy set forth by the Kyrgyz state authorities and to ensure reliable gas supplies to customers in Kyrgyzstan. Pursuant to the agreement, we expect to be granted an exclusive right to import gas to Kyrgyzstan and a priority right of exploration and development of hydrocarbon resources in Kyrgyzstan. The agreement also provides guarantees of protection of our investments against expropriation and nationalization. In July 2014, we completed the acquisition of a 100% interest in KyrgyzgazProm, which was subsequently renamed to OOO Gazprom Kyrgyzstan.

The following table sets out the volumes of gas we purchased from the FSU countries for the periods indicated.

	For the six months ended June 30,		For the year ended December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
Turkmenistan	1.8	5.4	11.0	11.2	10.9
Kazakhstan	5.9	5.3	10,9	11.9	11.6
Uzbekistan	0.9	3.4	3.6	9.4	11.4
Azerbaijan	-	0.1	0.2	1.4	1.6
Total	**8.6**	**14.2**	**25.7**	**33.8**	**35.5**

Sales of liquid hydrocarbons and refined products

This section sets forth information relating to our Production of crude oil and gas condensate segment and Refining segment as they relate to sales of liquid hydrocarbons and refined products, each as defined in the Group's Financial Statements. For information relating to exploration and production of oil and gas condensate, see "Reserves and Production," for information relating to processing of oil, gas condensate and other hydrocarbons, see "Refining."

Our sale of liquid hydrocarbons and refined products in Russia is principally conducted by Gazprom and Gazprom Neft. Our export operations are conducted primarily by Gazprom Export and Gazprom Neft.

The following table sets out sales volumes of crude oil and gas condensate for the periods indicated.

	For the six months ended June 30,		For the year ended December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
			(million tons)		
Russia[(1)]	2.7	2.5	4.7	2.6	3.5
Europe and Other Countries	3.8	3.8	9.8	9.2	14.8
FSU countries	1.1	0.6	1.2	4.2	2.5
Total	**7.5**	**6.9**	**15.7**	**16.0**	**20.8**

Note:

(1) The volumes of crude oil and gas condensate sold to indicated markets do not include intra-group sales. The total volume of crude oil and gas condensate sold by the Group is included, both own production and purchased from third parties.

As we implement our own oil refining and export programs, our crude oil sales in Russia (excluding supplies under swap contracts) have been generally insignificant, whereas practically all of our gas condensate is supplied to the domestic market. However, in 2014 our sales volumes of oil in the Russian market increased by approximately 80%, primarily due to the relocation of certain crude oil sales volumes by Gazprom Neft. In particular, our sales volumes of liquid hydrocarbons to the FSU countries declined in 2014 as compared to 2013 due to the termination of oil sales to Kazakhstan by Gazprom Neft. The volumes made available were partially sold in the domestic market or processed at our refineries in Russia and partially exported as crude oil to Europe and Other Countries. The increase in sales of liquid hydrocarbon in the domestic market to Europe and Other Countries was also due to the growth of oil production in Russia.

In the six months ended June 30, 2015, our sales of crude oil and gas condensate increased as compared to the six months ended June 30, 2014 primarily due to the start of sales in Uzbekistan by Gazprom Neft and increase of Gazprom Neft's trading operations in the domestic market.

The primary export markets for our crude oil are countries in Northwestern, Southern and Central Europe, where we mainly supply Urals crude oil. We also supply crude oil to the FSU countries including Belarus (to the Mozyr Oil Refinery) and Uzbekistan. The prices for our supplies are based on formulas tied to price of Urals crude oil. The average price of Urals crude oil decreased by 10% to U.S.$96.94 per barrel in 2014 compared to 2013. In the six months ended June 30, 2015, the average price of Urals decreased by 47% to U.S.$57.26 as compared to the six months ended June 30, 2014.

In the six months ended June 30, 2015, our net sales of oil and stable gas condensate increased by 25% compared to the same period in 2014 and amounted to RR130,652 million.

The following table sets out sales volumes of refined and petrochemical products (excluding helium) for the periods indicated.

	For the six months ended June 30,		**For the year ended December 31,**		
	2015	**2014**	**2014**	**2013**	**2012**
			(million tons)		
Russia[(1)]	20.3	20.5	41.5	38.4	36.1
Europe and Other Countries	11.0	13.7	29.9	25.2	22.6
FSU countries	1.9	2.1	4.0	4.7	5.2
Total	**33.2**	**36.4**	**75.4**	**68.3**	**63.9**

Note:

(1) The volumes of refined and petrochemical products sold to the consumers of the corresponding sales markets are presented net of intercompany sales. The data includes sales volumes of refined products produced by the Group and purchased from third parties.

We sell helium primarily in Russia. In 2014 and 2013, our sales of gaseous helium amounted to 2.9 million cm and 3.0 million cm, respectively. In the six months ended June 30, 2015 and 2014, our sales of gaseous helium amounted to 1.4 million cm and 1.5 million cm, respectively. In addition, we sold 1.1 million liters and 0.8 million liters of liquid helium in 2014 and 2013, respectively. In the six months ended June 30, 2015 and 2014 our sales of liquid helium amounted to 1.3 million liters and 0.2 million liters, respectively.

In 2014, our sales volumes of refined and petrochemical products rose compared to 2013, primarily due to the increased sales of gasoline, jet fuel, liquefied hydrocarbon gases and fuel oil.

In the six month period ended June 30, 2015 as compared to the respective period of 2014, our sales volumes of refined and petrochemical products decreased mainly due to the decreased export sales of refined products purchased from third parties by Gazprom Neft.

Gazprom Neft's average export sales prices for refined products increased by approximately 5.9% in 2014 as compared to 2013 while its average domestic sales prices increased by approximately 6.6%.

Distribution Networks

Gazprom Neft operates one of the most extensive distribution networks in Russia. Gazprom Neft also owns the retail network in the FSU, Europe and Other Countries, including Serbia, Romania, Bulgaria, Bosnia and Herzegovina.

As of June 30, 2015, our subsidiary, Gazprom Neft, operated a network of 1,832 gasoline stations, including 671 gasoline stations outside Russia. In 2014 and 2013, Gazprom Neft sold approximately 9.9 million tons and 9.2 million tons of oil products through its gasoline station network, respectively. In the six-month periods ended June 30, 2015 and 2014, Gazprom Neft sold approximately 4.8 million tons and 4.6 million tons of oil products through its gasoline station network, respectively.

In Russia, we also sell liquid hydrocarbons pursuant to long-term contracts and spot deliveries to consumers at market prices. The prices for liquefied associated gases for domestic needs are regulated by the Government.

Electric and heat energy generation and sales

Our Electric and heat energy generation and sales segment sells electric and heat energy to third parties.

Financial Highlights

The following table sets forth selected financial data with regard to our Electric and heat energy generation and sales segment as defined in the Group's Financial Statements.

Electric and heat energy generation and sales

	As of and for the six months ended June 30,		As of and for the year ended December 31,		
	2015	2014	2014	2013	2012
Assets, million RR	790,169	815,008	799,914	798,781	592,251
Share of Group's total assets	5%	6%	5%	6%	5%
Sales,(1) million RR	217,728	218,683	426,951	375,589	343,509
Share of Group's total sales	7%	8%	8%	7%	7%
Capital additions, million RR	25,477	27,652	82,019	77,191	54,851
Share of Group's total capital additions	6%	6%	7%	6%	4%

Note:

(1) Excluding inter-segment and intra-segment operations.

The following table sets out electric power and heat generated by the Group for the periods indicated.

	For the six months ended June 30,		For the year ended December 31,		
	2015	2014	2014	2013	2012
			(billion kWh)		
Electric power generated					
Russia	74.5	76.2	154.6	161.4	166.9
Europe and Other Countries	—	—	—	—	—
FSU countries	0.3	0.3	0.8	1.1	1.3
Total	**74.8**	**76.5**	**155.4**	**162.5**	**168.2**
			(million Gcal)		
Heat generated					
Russia	64.2	67.1	125.2	112.5	101.1
Europe and Other Countries	—	—	—	—	—
FSU countries	—	—	—	—	1.4
Total	**64.2**	**67.1**	**125.2**	**112.5**	**102.5**

Decrease in electricity generation in 2014 as compared to 2013 is mainly explained by decrease in demand and the reduction in power generation at the less profitable portion of our capacities. The increase in heat generation has been driven by consolidation of MIPC since September 2013.

In the six months ended June 30, 2015, our electric power generation decreased as compared to the six months ended June 30, 2014, primarily as a result of warm weather conditions in the first quarter of 2015 and the reduction in power generation at the less profitable portion of our capacities, which were to a certain extent supplanted by newly commissioned capacities or our competitors.

Russia

In the course of the power industry reform in Russia and as a result of subsequent acquisitions, we acquired substantial power generation assets in Russia, including controlling interests in Mosenergo, OGK-2, OGK-6 (subsequently merged into OGK-2) and TGK-1, which are mostly consolidated in and managed by OOO "Gazprom energoholding" ("Gazprom Energoholding"). In September 2013, we also acquired a controlling interest in MIPC. In addition, Gazprom Energoholding holds interests in other companies in the Russian electricity sector that are not our core assets.

We are a leader in the Russian power and heat generation market with the largest generation assets. In 2014, we generated approximately 15% of electric power produced in Russia.

The following table sets out electric power and heat generating capacity of the major Russian generation companies controlled by the Group as of June 30, 2015.

Electric power generating capacity, GW	
Mosenergo	12.9
OGK-2	18.0
TGK-1	7.1
MIPC	0.2
OOO Novo-Salavatskaya TPP	0.5
Heat generating capacity, thousand Gcal/h	
Mosenergo	44.4
OGK-2	4.3
TGK-1	14.2
MIPC	6.1
OOO Novo-Salavatskaya TPP	1.6

The electric power generated by the Group's Russian generating companies is sold on the domestic wholesale electric power market and part of it is exported. To maintain the required level of supplies under regulated contracts during emergency repairs and equipment shutdown periods, the Group's generating companies purchase additional electric power and heat energy for resale.

In 2010, we finalized the approval process with the power market regulators in relation to our generating companies' commitments regarding the scope and schedules for new generating facilities being constructed under installed capacity supply contracts. The launch in 2011 of the long-term capacity market and the market liberalization initiative ensure returns for new power-generating units that are commissioned pursuant to commitments under installed capacity supply contracts.

Pursuant to our capacity supply contracts, we are obligated to supply certain capacity during specific periods through 2018. We implement investment projects in power generation primarily in order to meet our obligations under capacity supply contracts. Our capacity supply contracts require us to commission 9.4 GW of new capacities in the period from 2007 through 2018. We commissioned approximately 6.3 GW in the period from 2007 through 2014. We intend to put on stream over 3 GW of new capacities in the period from 2015 through 2018.

In September 2013, we acquired for RR99,866 million (including VAT) an 89.98% interest in MIPC and heating assets that MIPC currently leases from the government of Moscow. We expect to achieve synergies through the combining MIPC's capacities with the assets of Mosenergo.

FSU and Europe and Other Countries

Gazprom Armenia, our wholly owned subsidiary, currently owns and operates Razdan-5, with an installed capacity of 467 MW. Razdan-5 is the fifth energy unit of the Razdan thermal power plant, a major thermal power plant in Armenia. In January 2012, Razdan-5 started supplying electricity domestically. In 2014 and 2013, Gazprom Armenia generated 0.9 billion kWh and 1.1 billion kWh of electricity, respectively.

We carry out electric power trade operations at European trading platforms and supply electric power to end consumers. In 2014 and 2013, the total volume of such trading operations amounted to 339 billion kWh and 240 billion kWh and the supplies to end consumers in United Kingdom, Germany and the Netherlands amounted to 2.9 billion kWh and 2.3 billion kWh, respectively.

In accordance with our strategy, we intend to develop our electric energy business in European countries. We are considering different projects for obtaining and/or constructing gas-fired power stations in Europe.

NIS is considering participation in a number of projects for the construction of gas-fired power plants in Serbia, including in Novi-Sad and Panchevo. In June 2015, our subsidiaries, OOO Tsentrenergokholding and NIS j.s.c. Novi Sad, signed a shareholders' agreement to establish Serbskaya Generaciya LLC Novi Sad. This entity is expected to engage in the construction of an electric power plant in Panchevo, with an installed capacity of 200MW. We expect to commission the plant in 2018.

All other segments

Because of the broad geographic range of our core business, the remoteness of our fields and the relatively undeveloped infrastructure in the regions in which we produce natural gas, we operate our own communication business as well as various other activities, such as food processing and procurement and transportation (including road transport and aviation), to support our operations in the exploration, production, and transportation of our gas. We also have interests in various companies that conduct other activities supporting our main business.

Financial highlights

The following table sets forth selected financial data with regard to our All other segments segment which combines operating segments that are not separately disclosed in the Group's Financial Statements.

	All other segments				
	As of and for the six months ended June 30,		As of and for the year ended December 31,		
	2015	2014	2014	2013	2012
Assets, million RR………………	632,946	679,528	661,507	669,682	587,508
Share of Group's total assets.……	4%	5%	4%	5%	5%
Sales,[1] million RR……..…………	122,288	103,157	209,632	234,037	233,487
Share of Group's total sales……...	4%	4%	4%	4%	5%
Capital additions, million RR….….	20,200	12,857	48,177	102,285	61,086
Share of Group's total capital additions	5%	3%	4%	8%	5%

Note:

(1) Excluding inter-segment and intra-segment operations

Insurance

Exploration, production, refining and transportation of natural gas, gas condensate and crude oil carry numerous operational risks.

The Group maintains insurance coverage to cover the substantial operations of the Group and to minimize the volume of financial resources directed to the mitigation of consequences resulting from natural and technogenic accidents and other undesired events.

The Group maintains insurance policies covering the following: (i) fixed assets, including pipelines, compressor and gas distribution stations, gas processing plants, wells and field equipment against "all risks" with a per incident coverage limit of U.S.$58.0 million (U.S.$75.0 million with respect to gas processing plants); (ii) business interruption risks as a result of property damage to gas processing plants with a per incident coverage limit of U.S.$27.0 million; (iii) full value insurance of offshore drilling units and ships; (iv) full value insurance of builder's risks with respect to new construction, reconstruction and modernization projects; (v) full value insurance of material and technical resources used for the construction, reconstruction and modernization of major production facilities during a transportation period; (vi) environmental liability, life, health and third party property liability insurance with a per incident and aggregate coverage limit of U.S.$500.0 million (including a U.S.$250.0 million of per incident and aggregate coverage limit for environmental risks); and (vii) liability insurance for members of Gazprom's Management Board and Board of Directors with respect to potential unintentional erroneous actions while carrying out management activity, with a total indemnity cover of U.S.$100.0 million.

In accordance with legislation relating to the maintenance of obligatory liability insurance, the Group also maintains insurance policies covering: (i) mandatory liability insurance of owners of dangerous objects resulting from incidents on production facilities of the Group, (ii) civil liabilities of automobile owners and (iii) compulsory liability insurance of carriers resulting from damage to life, health and property of passengers.

In addition, the employees of the Group and their family members are insured under our voluntary medical insurance programs and our accident and illness insurance programs. Our management is insured under long term life insurance programs.

Gazprom Neft maintains insurance policies covering: (i) the production fixed assets of its production companies with a coverage limit of €50.0 million per incident including coverage limit of €18.0 million against risk of terrorism and "risks of machinery and equipment breakage" of €3.6 million; (ii) the production fixed assets of refining companies with a per incident coverage limit up to €965 million (depending on the company, this may also be combined with coverage limits for an interruption of operation and/or business risks) including coverage limit of €36 million against risk of terrorism; (iii) business risks (revenue losses and necessary fixed costs caused by an interruption of operation) combined with property damage with a per incident coverage limit of up to €965 million for oil processing subsidiaries; (iv) export products, such as oil, refined and petrochemical products, with insurance coverage of up to U.S.$100.0 million for each shipment; (v) risks relating to construction, reconstruction and modernization of fixed assets (with a value of more than RR600 million for production companies and RR1.5 billion for refining companies); (vi) fueling vehicle liability with a coverage limit of up to U.S.$500.0 million per incident; (vii) certain risks required by applicable law to be insured against, including liabilities of enterprises exploiting dangerous production facilities and civil liabilities of automobile owners; (viii) medical insurance for employees and partial accident insurance; (ix) liability insurance for members of Gazprom Neft's Board of Directors with a total indemnity cover of U.S.$50.0 million per incident; (x) third-party liability insurance for ship owners with a coverage limit of U.S.$3.0 billion; and (xi) hull insurance for land and maritime transport; (xii) voluntary third-party environmental liability insurance with an extension of coverage in accordance with applicable law with a per incident coverage limit of €500 million.

Pursuant to the requirements of Federal Law "On Purchase of Goods, Works and Services by Certain Legal Entities" No. 223-FZ dated July 18, 2011 (the "Procurement Law"), we are required to select the insurers following an open competitive tendering process. We purchase our insurance policies mainly from Sogaz Insurance, one of the leaders in the Russian insurance market. Gazprom Neft also obtains insurance through JSC Rosgosstrakh. The Group's risks are reinsured on the international and domestic insurance markets with insurance and reinsurance companies with high ratings of reliability.

Competition

The oil and gas industry is currently subject to several important influences that impact the industry's competitive landscape. These include the following:

Consolidation. In the past few years, the strategic and competitive landscapes of the oil and gas markets have been transformed by mergers and acquisitions, driven mainly by aspirations for greater profits and intensified competition to capture the growing potential of new, attractive business opportunities.

Technological advances. Technological innovations in the oil and gas industry have improved the efficiency in exploring and developing hydrocarbon resources. Active and effective application of advanced technology has helped to improve geological exploration success rates, to increase field life and recovery rates from existing fields and to reduce full project cycle costs. In general, there is comparable access to technology across the industry, and to achieve our strategic and financial goals, we seek to compete by applying available technology to complex projects.

Environmental and social concerns. Oil and gas companies worldwide are also facing increasing demands to conduct their operations in a manner consistent with environmental protection and social goals. Investors, customers and governments are more actively following companies' performance with respect to environmental responsibility, human rights and the development of alternative and renewable fuel resources. As a result, we expect competition to intensify in the markets we serve.

Increased competition in our core markets. The excess supply of natural gas in the European market in recent years increased competition and drove spot prices for natural gas down. This caused an unprecedented gap between the spot price and the prices determined under our long-term contracts. In order to prevent a significant deviation of our prices of gas from those offered by our competitors, our long-term contracts have underwent a step-by-step adaptation since 2010, including the introduction of a limited spot component in pricing and revision of our customers' obligations under the take-or-pay provisions. However, the fundamental provisions of the contracts defining the balance of interests between the buyer and the seller remained unchanged.

Europe

The table below shows the proportion of European natural gas consumption attributable to different sources of natural gas supply to Europe in 2014:

Country	**% of European natural gas consumption in 2014**
External sources	
Russia (the Group)	29
Net LNG imports	10
Algeria (pipeline)	4
Other (pipeline)	4
Internal sources – EU35 production	
Norway	23
Other production in EU35	30

Source: CEDIGAZ's statistical survey "2014 Natural Gas Year in Review: First Estimates" (May 2015).

The volumes of natural gas contracted by European customers have exceeded demand in Europe in the past several years, and, according to experts' forecasts, this trend will continue for several years. As a result, we expect our natural gas export volumes to Europe to be close to the minimum amounts defined in our export contracts over this period. Weather conditions and prices charged by our competitors are the most important factors determining actual sales. However, over the long term, we expect production in European countries (except Norway) to continue to decline due to the depletion of explored natural gas reserves in the region. Therefore, we expect imports from Russia, Algeria and other countries outside of Europe, together with Norway's production, to increase in importance in proportion to consumption. In addition, in connection with a potential loosening of the sanctions regime against Iran, we can not exclude future competition to our pipeline gas supplies to Europe from Iranian gas.

European gas markets have been undergoing significant restructuring in the recent years. In particular, the Gas Directives have sought to deregulate and liberalize the EU gas market by introducing greater competition into the market and proposing vertical disintegration of gas producers and suppliers from operators of gas transportation networks. See "—Litigation and Investigations." Although we believe that the majority of natural gas imported into Europe is likely to continue to be supplied under long-term export contracts, in response to the changes in the European market, we have been increasingly involved in short-term gas transactions, including those on trading boards. In addition, we have entered into a number of marketing joint ventures, including joint ventures in Austria, Finland, Germany, Hungary and Italy.

Russia

In Russia, we face competition from other crude oil and natural gas suppliers, in particular from Russian independent suppliers. The independent suppliers (the largest of which include Novatek, Rosneft and Lukoil together accounting for almost all gas supplies of the independent suppliers through the GTS) have historically been, and continue to be, our competitors. Wholesale gas prices we realize in Russia are regulated by the Government. This limits our opportunities to compete with independent suppliers that sell their gas at unregulated prices allowing them to offer their customers more flexible pricing terms. In addition, our gas tends to be replaced by gas supplied by the independent suppliers in the regions where the independent suppliers produce gas and adjacent regions. For instance, independent suppliers dominate in the gas market of the Khanty-Mansi Autonomous Area, the Perm Territory and the Novosibirsk Region. In addition, the independent suppliers exclusively supply gas to certain regions including the Chelyabinsk Region, Sverdlovsk Region and Kostroma Region. However, independent suppliers do not supply gas to a number of regions in the Central and

Southern Federal Districts of Russia due to their remoteness from their production sites.

Independent suppliers increased their combined share in the Russian gas production from 27% in 2013 to 31% in 2014, and their share may continue to increase as well as their share of sales to consumers in Russia.

Research and Development

We have pursued a policy of investing in research and development in a number of scientific and technical areas. In June 2011, the Board of Directors adopted a program for innovation development of Gazprom for a 10 year period, which sets out priorities in carrying out innovation activities through 2020. The program's primary aim is to continually increase our technological level in order to maintain our technological leadership in the global energy sector. In general, our research and development focuses on:

- forecasting and development planning;
- maintaining high levels of hydrocarbon resources;
- insuring ongoing hydrocarbon production;
- insuring security of supplies to customers;
- increasing competitiveness of our products and services in the Russian and international markets;
- insuring safety of our operations; and
- improving our investment and public appeal.

For the year ended December 31, 2014, our innovative research and development costs amounted to RR10.8 billion (compared to RR6.8 billion for the year ended December 31, 2013).

Health, Safety and Environment

The Group's businesses primarily involve the intensive use of natural resources. Therefore, our operations in Russia and abroad are subject to environmental, sanitation-and-epidemiological and industrial safety laws and regulations. These laws govern, among other things, regulations on the composition of emissions into the atmosphere, wastewater discharges and discharges to the sea, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination, pollution of the geological environment, conservation of biodiversity and human health and industrial safety. We believe that our business is in compliance with the requirements of Russian and international laws and regulations.

Because we are a global energy company, environmental, health and safety risks are inherent in our operations. See "Risk Factors—Risks Relating to Our Business—As an energy company we may incur material costs to comply with, or as a result of, environmental, health and safety laws and regulations" and "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Environmental requirements." In May 2015, Gazprom's Management Committee approved a new version of Gazprom's Environmental Policy which reflects major trends in environmental protection, including our commitment to ensure environmental safety while developing hydrocarbon fields on the continental shelf and in the Artic zone of the Russian Federation, and sets forth our obligations to reduce greenhouse gas emissions. We have developed and continue to improve a system for environmental monitoring and control in the regions where our facilities are deployed, including the sea shelf. We are implementing our systems of environmental management in our subsidiaries in accordance with the ISO 14001:2004 standard. Our core natural gas, gas condensate and crude oil production, transportation, storage, processing and refining, and our principle power generating subsidiaries have adopted the ISO 14001:2004. In October 2014, an independent certifying entity, Det Norske Veritas GL, confirmed that Gazprom's system of environmental management complied with the ISO 14001:2004 standard. Our operations have not caused any serious accident or malfunction that has resulted in a material financial impact on the company.

Russian environmental legislation establishes mandatory payments for the negative impact on the environment and requires full compensation of damage caused to the environment. According to these requirements, we make statutory payments to state budgets of various levels. We insure our industrial and ecological risks. We finance scientific research and innovative projects seeking to develop new environmental protection technologies and improve power utilization efficiency at industrial sites. Further, we incur operating costs related to various environmental protection measures and the installation, maintenance and upkeep of relevant property, plant and equipment. The sanctions we paid for the violation of the environmental requirements in 2014 and 2013 amounted to RR17.7 million and RR7.8 million.

The table below shows environmental costs of the Group for the periods indicated:

	For year ended December 31,		
	2014	2013	2012
		(RR million)	
Current operational expenditures and costs of environmental protection services	27,451.4	28,350.0	22,204.2
Expenditures on refurbishment of fixed assets related to environmental protection	4,204.9	3,106.5	2,444.6
Payment for environmental pollution	1,746.9	2,952.5	1,563.1
Capital expenditures related to environmental protection and rational use of natural resources	15,578.3	24,947.9	12,885.8
Total	**48,981.5**	**59,356.9**	**39,097.7**

The decrease in environmental investments in 2014 as compared to 2013 is due to the completion of environmental measures provided by the Programme for the Construction of Olympic Facilities and Development of Sochi as a Mountain Resort. In 2014, we paid RR1,746.9 million to state budgets of various levels for the negative impact on the environment. The 41% decrease as compared to 2013 was primarily due to Gazprom Neft's increased utilization of associated petroleum gas.

Inspections of field development facilities in the Russian Federation, including the Group's facilities, GTS facilities, refining and energy generating companies carried out recently by the state environmental authorities have not identified any significant environmental violations with respect to Gazprom.

We have made provisions in the Group's Financial Statements for such environmental liabilities where it was probable that an obligation exists and the amount could be reasonably estimated. Such provisions have been made in accordance with what we believe is a reasonable and prudent policy that takes into account payments made in prior years, among other factors. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. We periodically evaluate our obligations under environmental regulations. As such obligations are determined, they are recognized immediately. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation cannot be reliably estimated, but could be material. In the current enforcement climate under existing environmental legislation, we believe that we have no significant liabilities for environmental damage, other than amounts that have been accrued in the Group's Financial Statements.

We are aligning our existing comprehensive system of labor and industrial safety to ensure that it complies with the requirements of the OHSAS18001 standard and preparing our core subsidiaries for certification. Gazprom and our core subsidiaries engaged in natural gas, gas condensate, crude oil production, processing and refining, transportation and storage, as well as certain of our power generating companies, have successfully completed the certification process and obtained compliance certificates. The purpose of implementing the OHSAS18001 standard is to ensure labor and industrial safety, preserve the health of our employees, maintain reliability of operations at our industrial sites and reduce the amount of industrial injuries and accidents. In 2014 and 2013, we had, sadly, 18 and 6 fatalities, respectively.

Litigation and Investigations

We are from time to time the subject of legal proceedings and other investigations in the ordinary course of our business. Except as disclosed below, neither Gazprom nor any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Gazprom is aware) during the twelve months preceding the date of this Base Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Group.

International Litigation and Investigations

In 2008, Moncrief Oil International, Inc. ("Moncrief") filed a lawsuit against Gazprom and other defendants in the District Court of Tarrant County in Texas, U.S.A. alleging that defendants (i) tortiously interfered with an existing business agreement between Moncrief and Occidental Petroleum Corporation, (ii) misappropriated Moncrief's confidential trade secrets related to the re-gasification of liquid natural gas, and (iii) were involved in an unlawful conspiracy to commit the foregoing acts. On February 2, 2015, the District Court of Tarrant County in Texas, U.S.A. dismissed with prejudice the case against Gazprom, Gazprom Export, Gazprom Marketing and Trading, USA, and other defendants.

Within the framework of Council Regulation (EC) No 1/2003 of December 16, 2002 on the implementation of the rules on competition set forth in Articles 101 and 102 of the Treaty of Rome, in September 2011, the EU conducted inspections at the premises of our affiliates in central and eastern Europe, in particular, GAZPROM Germania GmbH (Germany), EuroPolGas S.A. (Poland), VEMEX s.r.o. (the Czech Republic), GWH Gashandel GmbH (Austria), Overgas Inc. AD (Bulgaria), Panrusgas Co. (Hungary), Latvijas Gaze JSC (Latvia), Eesti Gaas AS (Estonia), Lietuvos Dujos (Lithuania). In late August 2012, the European Commission moved to a formal antitrust investigation into our operations in the EU. We have been notified by the European Commission that the investigation relates to alleged violations of antimonopoly laws of several European countries, in particular, allegations of segmenting the European gas market, imposing unfair prices on customers and obstructing competition. Moreover, we have always supported competition in the gas market and have sought to comply with all international laws and regulations in countries where we operate. Terms and conditions of our contractual relationships with customers are determined by international legal obligations, commercial interests and the relevant market conditions. We have always been open to dialogue with the relevant authorities of any EU member state, as well as, the European Commission. In 2013 and 2014, representatives of the European Commission conducted negotiations with representatives of the Russian Federation and Gazprom to discuss potential resolution of the issues relating to the antitrust investigation and agreed to continue consultations. On April 22, 2015, the European Commission published a press release on its official website that referred to a statement of objections made by the European Commission in the course of its investigation. In particular, the European Commission alleged that in violation of the EU antimonopoly laws we have been:

a) imposing territorial restrictions in our gas supply contracts with wholesale off-takers and certain industrial customers in eight European countries (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia).

b) pursuing an unfair pricing policy in five EU member states (Bulgaria, Estonia, Latvia, Lithuania and Poland) by charging prices to wholesalers that are significantly higher compared to our costs or to benchmark prices.

c) leveraging our dominant market position by making gas supplies to Bulgaria and Poland conditional on obtaining unrelated commitments from wholesalers concerning gas transport infrastructure.

The European Commission has extended the period to present our responses to the statement of objections until the end of September 2015. In September 2015, we submitted to the European Commission our proposals as to the amicable resolution of the matter.We believe that the allegations of the European Commission have no merit. In addition, the publication of the statement of objections by the European Commission does not imply any recognition of an antitrust offense or an accusation of the same. As of the date of this Base Prospectus, it is impossible to assess the potential negative impact of the investigation on our operations in Europe or on our financial position as a whole. Furthermore, in accordance with Russian law, our actions taken in response to certain requirements or requests of foreign governments (including their regulatory and controlling bodies), international organizations and unions of foreign states are subject to the prior approval of the Russian Ministry of Energy of the Russian Federation. Therefore, our ability to address such requirements or requests may be limited. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Foreign Investments" and "Risk Factors—Risks Relating to Our Business—The Government has exercised, and can be expected to continue to exercise, a strong influence over our operations."

International Arbitration Disputes

In August 2010, Gazprom Export initiated arbitration proceedings before the ICC International Court of Arbitration in Paris (the seat of the arbitration is Vienna, Austria) against RWE Transgas (subsequently renamed RWE Supply & Trading, CZ, a.s. ("RWEST") for the failure by RWEST to fulfill its "take-or-pay" obligations. In October 2012, the arbitral tribunal upheld the validity of a portion of the gas supply contract between Gazprom Export and RWEST allowing a Czech arm of RWEST to reduce its "take-or-pay" obligations by the volume of gas that the Group intends to supply to the Czech Republic directly. In addition, the arbitral tribunal invalidated a clause in the gas supply contract providing for Gazprom Export's right to increase the "take-or-pay" obligations of RWEST by the volume of gas that RWEST exports from the Czech Republic to the markets where we operate. In January 2013, Gazprom Export filed a petition to the Commercial Court of Vienna to set aside the arbitral award as contrary to public policy, particularly the antimonopoly laws of Austria and the European Union. In June 2013, the Commercial Court of Vienna denied Gazprom Export's petition to set aside the arbitral award. In August 2013, we submitted an appeal to the Supreme Land Court of Vienna which in November 2013 dismissed Gazprom Export's appeal. In January 2014, Gazprom Export filed an appeal with the Supreme Court of Austria which was denied in February 2015. Gazprom Export has suspended gas supplies to RWE. We are in negotiations with RWE to terminate a supplement to the gas supply contract that includes the portion that was upheld by the arbitral tribunal upon mutual agreement of the parties.

In August 2011, we submitted a request for arbitration to the ICC Arbitration in Stockholm against the Ministry of Energy of Lithuania, acting on behalf of Lithuania. We believe that a claim brought by the Ministry of Energy of Lithuania in spring 2011 in the Vilnius District Court violated the shareholders' agreement in respect of AO Lietuvos Dujos ("Lietuvos Dujos"), and that the Vilnius District Court did not have jurisdiction to resolve disputes between the shareholders. The claim before the Vilnius District Court sought to investigate operations of Lietuvos Dujos, a joint venture of Gazprom, E.ON Ruhrgas and the Government of Lithuania, and to remove three members of the governing body from their posts, two of which represented Gazprom as shareholder. We sought to stay the proceedings in the Vilnius District Court and to recover damages. In July 2012, the arbitral tribunal upheld most of our claims and declared that initiation and prosecution of the proceedings in the Vilnius District Court by the Ministry of Energy of Lithuania against Lietuvos Dujos and its senior management was partially in breach of the arbitration clause contained in the shareholders' agreement. The arbitral tribunal found that the shareholders' agreement governs the procedure for the negotiation of agreements to be entered into between Lietuvos Dujos and Gazprom, and that the Ministry of Energy of Lithuania cannot resort to state courts to order Lietuvos Dujos to renegotiate the terms that it previously agreed upon with Gazprom regarding the purchase and transit of natural gas. The arbitral tribunal ordered the Ministry of Energy of Lithuania to withdraw its key requests brought before the Vilnius District Court. Because the Ministry of Energy of Lithuania has not voluntarily complied with the award, we filed an application for recognition and enforcement of the arbitral award with the Court of Appeal of the Republic of Lithuania in August 2012. In December 2012, the Court of Appeal denied recognition and enforcement of the arbitral award. In January 2013, we filed a cassation appeal from the decision of the Court of Appeal with the Supreme Court of the Republic of Lithuania. In October 2013, the Supreme Court of the Republic of Lithuania ruled to submit a reference for a preliminary ruling to the European Court of Justice with regard to the compliance of the arbitral award with European Union law and stayed proceedings in the case until the European Court of Justice has reached its decision. On May 13, 2015, the European Court of Justice ruled in our favor. In September 2015, the Supreme Court of Lithuania held hearings in the case regarding recognition and enforcement of the arbitral award. The ruling is expected to be rendered in October 2015.

In October 2012, the Ministry of Energy of Lithuania submitted a request for arbitration to the ICC Arbitration in Stockholm against us alleging a breach of the shareholders' agreement in respect of Lietuvos Dujos on our part and demanding recovery of damages in an amount of 5 billion Lithuanian Litas. The claimant alleges that this sum represents the difference between the monetary value of our actual gas supplies to Lietuvos Dujos since 2005 and the value of gas supplies calculated at the allegedly fair market price. The hearings took place in July 2015. The parties are required to make further submissions based on the evidence presented during the hearings, including witness and expert statements.

In October 2011, within the framework of the Third Gas Directive, the government of Lithuania adopted a resolution approving a plan of separation of operations and control over the undertakings that do not comply with the law of the Republic of Lithuania "On Natural Gas." The law provides for the separation of such operations into several companies by operating segment by October 31, 2014. In March 2012, we initiated an UNCITRAL arbitration against the government of Lithuania to protect our investments in Lithuania. In June 2014, we sold all of our shares in Lietuvos Dujos and Amber Grid at market price, making the arbitration proceedings inexpedient. On March 31, 2015, the arbitration tribunal rendered its final arbitration award to terminate the proceedings.

In April 2014, Gazprom Export received a notice of arbitration initiated by E.ON Global Commodities SE in an *ad hoc* arbitration (with the seat of arbitration in Stockholm, Sweden). E.ON Global Commodities SE requested revision of contract prices under our gas supply contracts. The hearings are scheduled for February and April 2016.

In May 2014, Gazprom Export received a request for arbitration initiated by AXPO Trading AG, Switzerland in an ICC arbitration (with the seat of arbitration in Lugano, Switzerland). AXPO Trading AG requested revision of contract prices under our gas supply contract. The parties settled the dispute through negotiations and AXPO Trading AG withdrew its claim in October 2014.

In June 2014, Gazprom submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce (SCC) against Naftogaz to recover the U.S.$4.5 billion debt for gas supplies incurred as a result of improper performance by Naftogaz of its obligations under the 2009 Contract and a failure to pay for the ongoing supplies of gas. On July 1, 2014, Naftogaz filed its response to the request of arbitration. On July 21, 2014, this case was consolidated with the case described in the next paragraph.

In June 2014, Naftogaz submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce (SCC) against Gazprom seeking a retroactive revision of the price under the 2009 Contract, compensation of all amounts it alleges it overpaid since May 20, 2011, which according to the claimant amounts to between U.S.$11.3 billion and U.S.$11.7 billion, and cancellation of the contractual prohibition on reexport of natural gas. Gazprom is contesting all of these claims. Gazprom filed its response to the request of arbitration on July 1, 2014. On July 21, 2014, this case was consolidated with the case described in the previous paragraph. On January 31, 2015, Naftogaz filed the statement of claim. On June 12, 2015 Gazprom filed its statement of defense and a counterclaim increasing the amount of claim to approximately U.S.$29.2 billion, which includes the debt owed by Naftogaz for gas supplies in the periods from November to December 2013 and from May to June 2014, obligations under the "*take-or-pay*" provisions for 2012-2014 and late payment charges and penalties. The hearings are scheduled for February-March 2016, and the ruling is expected to be rendered by June 2016.

In October 2014, Naftogaz brought an action against Gazprom to the Arbitration Institute of the Stockholm Chamber of Commerce (SCC) challenging the 2009 contract for transit of gas through Ukraine. Naftogaz seeks to cancel or replace allegedly ineffective provisions of the contract. Naftogaz claims that the transit terms should comply with the Third Energy Package and Ukrainian law and that the current transit tariff setting mechanism be aligned to European regulations. Naftogaz further seeks an assignment of its rights and obligations under the contract to Ukrtransgaz, the current operator of the Ukrainian gas pipeline system. In addition, Naftogaz seeks compensation from Gazprom for an alleged shortfall in gas transit through Ukraine. On November 2014, Gazprom filed its response to the request for arbitration. On December 11, 2014 the panel of arbitrators was formed. On April 30, 2015 Naftogaz submitted its petition of claim significantly increasing the amount of claim varying from U.S.$11 billion to U.S.$16 billion. The hearings are scheduled for late September 2016, and a ruling is expected to be rendered by January 2017.

In December 2014, Gazprom Export received an action from DONG Naturgas A/S (Danmark) with a request for arbitration to review prices under the contract on gas supply into Denmark. If the arbitration tribunal decides to bifurcate the proceedings between admissibility and merits, the hearings with respect to admissability are scheduled for June 2016. Otherwise, the hearings are scheduled for October-November 2016.

In February 2015, Gazprom brought an action in the International Commercial Arbitration Court at the Chamber of Commerce and Industry of the Russian Federation (the "ICAC") against AOOT Moldovagaz (Moldova) seeking recovery of debt for gas supplies in 2012 in the amount of approximately U.S.$831 million. The hearings before the ICAC were held in July 2015. The arbitration award is expected in October-November 2015.

In May 2015, AO PGNiG (Poland) sent Gazprom Export a notice of arbitration against Gazprom and Gazprom Export seeking to revise prices for gas supplies to Poland under the contract dated September 25, 1996. On June 17, 2015, Gazprom and Gazprom Export appointed its arbitrator. In September 2015, the parties appointed the chairman of the arbitration panel.

In June 2015, Gazprom Export initiated an arbitration proceeding against GK Turkmengaz in the Arbitration Institute of the Stockholm Chamber of Commerce (SCC). Gazprom Export is seeking revision of the price for natural gas supplied by GK Turkmengaz. GK Turkmengaz submitted its response and appointed its arbitrator on July 22, 2015. The parties are currently in negotiations relating to the appointmernt of the chairman of the arbitration panel.

In June 2015, Gazprom Export received a notice of arbitration initiated by Gasum Oy in an *ad hoc* arbitration (with the seat of arbitration in Stockholm, Sweden). Gasum Oy requested to revise contract prices under our gas supply contracts, change the pricing formula, decrease the minimum off-take volume under the "take-or-pay" provision or, alternatively, lower annual contractual volumes to the level equal to the gas volume which can be in circulation in the Finnish market at a price to be determined by the arbitration tribunal. On July 16, 2015 Gazprom appointed its arbitrator. In August 2015, the parties appointed the chairman of the arbitration tribunal. In August 2015, Gasum Oy filed its statement of claim, to which Gazprom Export is expected to respond in October 2015. The hearings are scheduled for the week of November 30, 2015.

Domestic Litigation and Investigations

In 2012 and 2013, in accordance with the Government Orders No.1819-r dated November 30, 2009 and No. 2016-r dated November 13, 2010, we acquired interests in 74 companies operating in the gas industry, the majority of which are gas distribution companies, from Rosneftegaz for approximately RR26.1 billion. In 2013 and 2014, minority shareholders of various acquired companies brought actions against Gazprom in the Moscow Arbitration Court alleging that Gazprom had failed to make a mandatory offer to minority shareholders of the acquired companies as required for a shareholder acquiring more than 30% of shares of a company under paragraph 1 of Article 84.2 of Joint Stock Companies Law. We believe that we were not required to make a mandatory offer to minority shareholders of the acquired companies as a result of the changes in Russian law. In the ensuing proceedings, some of which are still pending, the courts in various instances have ultimately ruled in our favor. In addition, we are involved in proceedings, in which we contest the CBR's instructions to submit a mandatory offer to the minority shareholders of the acquired companies and related administrative fines levied against us as a result of non-compliance with the such instructions. The existing court practice in similar cases is inconsistent.

In 2014 and 2015, as a result of a series of inspections, the Russian Federal Tax Service made an assessment of approximately RR12 billion in respect of the MET obligations, including penalties and fines, allegedly not paid by our subsidiary, ZAO "Purgaz," for the period from November 2012 through April 2015. We are contesting this assessment. In September 2015, however, in its two judgments the Moscow Arbitration Court upheld the assessment made for the period from February 2014 through May 2014. We intend to appeal the judgment of the Moscow Arbitration Court.

Employees

For the years ended December 31, 2014 and 2013, we had a weighted average of approximately 450,000 and 429,000 employees, respectively.

We have a trade union, the Gazprom Inter-Regional Trade Union Organization, to which more than 275,000 of our employees belonged as of December 31, 2014. We have never experienced any strikes, work stoppages, labor disputes or actions that have affected the operation of our business and we consider our relationship with our employees to be good. In November 2012, we signed a collective bargaining agreement for the period from 2013 to 2015. The collective bargaining agreement applies to the employees of Gazprom and its fully-owned subsidiaries engaged in natural gas production, transportation, processing, storage and marketing, as well as the employees of the Gazprom Inter-Regional Trade Union Organization and the trade unions of our subsidiaries. The key objective of the collective bargaining agreement is balancing the interests of employers and employees in the form of a social partnership and, to the extent possible, providing additional guarantees, benefits, healthcare plans and compensation to employees. We have developed and operate a unified labor protection and industrial safety management system. The union monitors our compliance with the terms of the collective bargaining agreement.

We sponsor a benefit plan which covers the majority of our employees and is accounted for as a defined benefit plan in the Group's Financial Statements. The benefits provided by the plan include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and certain benefits that we provide to our employees upon and after their retirement date. The amount of benefits depends on the period of the employees' service (years of service), salary level in latest years preceding retirement, certain predetermined fixed amounts set depending on the category of employee or a combination of these factors.

We apply material incentive plans to motivate our employees, in particular, payment of year-end bonuses, bonuses for carrying out work being of particular importance to Gazprom, as well as bonuses for field discovery, for putting production facilities and completed facilities into operation, for supply of gas for export, and for introducing new technology, and other bonuses in accordance with internal company regulations.

To encourage our managers to contribute to our success and increased capital efficiency, we also use additional motivation systems. The annual bonus system takes into account the achievement of corporate and individual key performance indicators in a respective reporting period. We have also introduced a management equity participation plan to incentivize key management to increase Gazprom's shareholder value.

MANAGEMENT OF GAZPROM

Members of Gazprom's Board of Directors are elected annually at Gazprom's General Meeting of Shareholders. The current members of Gazprom's Board of Directors are as follows:

Name	Position	Year of Birth
V. Zubkov	Chairman of Gazprom's Board of Directors and Russian Special Presidential Representative for Cooperation with Gas Exporting Countries Forum	1941
A. Miller	Deputy Chairman of Gazprom's Board of Directors and Chairman of Gazprom's Management Committee	1962
A. Akimov	Chairman of the Management Board of Gazprombank (Joint Stock Company)	1953
F. Gazizullin	Former Minister for Property Relations of the Russian Federation	1946
T. Kulibaev	Chairman of Association of Legal Entities Kazakhstan Association of Oil, Gas and Energy Sector Organizations ("KAZENERGY"), Chairman of the Presidium of the Association of Legal Entities National Economic Chamber of Kazakhstan (Atameken Union), Chairman of the Presidium of the National Chamber of Entrepreneurs of the Republic of Kazakhstan.	1966
V. Markelov	Deputy Chairman of Gazprom's Management Committee, Editor in Chief of the Gas Industry magazine.	1963
V. Martynov	Rector of the Gubkin Russian State University of Oil and Gas (a federal budget-funded educational institution of higher professional education)	1953
V. Mau	Rector of the Russian Presidential Academy of National Economy and Public Administration (Federal State Budget-Funded Educational Institution of Higher Professional Education)	1959
V. Musin	Head of the Civil Procedure Department of the Faculty of Law of the St. Petersburg State University (a federal budget-funded educational institution of higher professional education)	1939
A. Novak	Minister for Energy of the Russian Federation	1971
M. Sereda	Deputy Chairman of Gazprom's Management Committee and Head of Administration of Gazprom's Management Committee	1970

The current members of Gazprom's Management Committee are as follows:

Name	Position	Year of Birth	Term expires
A. Miller	Chairman of Gazprom's Management Committee	1962	May 2016
V. Golubev	Deputy Chairman of Gazprom's Management Committee	1952	April 2018
S. Khomyakov	Deputy Chairman of Gazprom's Management Committee; Director General of Gazprom's Corporate Security Service	1953	March 2017
A. Kozlov	Deputy Chairman of Gazprom's Management Committee	1952	March 2020
A. Kruglov	Deputy Chairman of Gazprom's Management Committee	1969	June 2017
V. Markelov	Deputy Chairman of Gazprom's Management Committee	1963	January 2017
A. Medvedev	Deputy Chairman of Gazprom's Management Committee	1955	September 2017
E. Vasilieva	Deputy Chairwoman of Gazprom's Management Committee and Chief Accountant	1959	November 2016
O. Aksyutin	Head of Department 123	1967	November 2018
V. Cherepanov	Head of Department 307	1966	March 2020
N. Dubik	Head of Department 104	1971	June 2018
I. Fyodorov	Director General of Gazprom komplektatsiya	1965	January 2017
D. Lyugai	Member of Gazprom's Management Committee; Director general of Gazprom VNIIGAZ	1962	January 2018
V. Markov	Head of Department 613	1955	January 2017
E. Mikhailova	Head of Department 105	1977	January 2017
S. Prozorov	Head of Department 333	1958	November 2019
K. Seleznev	Head of Department 614; Director General of OOO Gazprom mezhregiongaz	1974	September 2017

The business address for Gazprom's Board of Directors and Management Committee is 16 Nametkina Street, 117997 Moscow, Russian Federation.

Director Biographies

V. Zubkov.

Viktor Alexeevich Zubkov has been the Chairman of Gazprom's Board of Directors since June 27, 2008. Mr. Zubkov was appointed Special Representative of the President of the Russian Federation on Cooperation with Gas Exporting Countries Forum in June 2012. He previously served as the First Deputy Prime Minister of the Russian Federation (May 2008-May 2012). From 2008 until 2011, Mr. Zubkov served as the Chairman of the Supervisory Board of OAO "Rosselhozbank." From 2008 until 2012, Mr. Zubkov served as a member of the Supervisory Board of GK "Vnesheconombank." From 2009 until 2011, he served as the Chairman of the Board of Directors of OAO Rosagroleasing. From 2012 until 2014, Mr. Zubkov served as a member, Director General and the Chairman of the Management Committee of OOO Gazprom gazomotornoe toplivo. From 2014, Mr. Zubkov has been Deputy Chairman of the Board of Directors of OOO Gazprom gazomotornoe toplivo.

A. Miller.

Alexei Borisovich Miller has been Deputy Chairman of Gazprom's Board of Directors since June 2002 and Chairman of Gazprom's Management Committee since May 2001. He was appointed to his position as Chairman of Gazprom's Management Committee by the Government, Gazprom's controlling shareholder. Mr. Miller is also a member of the supervisory and administrative bodies of GPB, Sogaz, Gazprom Neft, Gazprom Media Holding, Gazfund, Shtokman Development AG, Gazprom Neft International S.A. and Joint-stock company "Russian Racecourses." In 2008 and 2009, Mr. Miller served as a member of the Board of Directors of Gazprom EP International B.V. In 2012 and 2013, he served as a member of the Board of Directors of South Stream Transport Services AG and OAO Rosgeologiya. From 2012 until 2015, Mr. Miller served as a member of the Board of Directors of South Stream Transport B.V. and a member of the Supervisory Board of South Stream Transport B.V. In 2013, Mr. Miller became a member of the Supervisory Board of a non-commercial partnership Global Energy and the Chairman of the Management Committee of "New Technologies in Gas Industry" Association of Equipment Manufacturers.

A. Akimov.

Andrey Igorevich Akimov has been a member of Gazprom's Board of Directors since June 2011. Since 2002, Mr. Akimov has served as the Chairman of the Management Board and Deputy Chairman of the Board of Directors of GPB. He is also a member of the Board of Directors of Novatek, a member of the Board of the Association of Russian Banks. Mr. Akimov previously served as a member of the Board of Directors of OOO Congress-Center "Konstantinovsky." (until 2015), a member of the Board of Directors of Carbon Trade & Finance SICAR S.A. (until 2012) and a member of the Supervisory Board of Gazprom Germania GmbH (until 2015). Since 2008, Mr. Akimov has served as a member of the Supervisory Board of Gazprom EP International B.V. From 2009 until 2013, he was the Chairman of the Board of Directors of Gazprombank (Switzerland) Ltd. Since 2011, he has been a member and the Chairman of the Board of Directors of OAO Rosneftegaz. From 2011 until 2013, he served as the Chairman of the Supervisory Board of State enterprise Rossiyskiye avtomobilnye dorogi. Since 2012, Mr. Akimov has been Deputy Chairman of the Board of Directors of OOO Gazprom gazomotornoe toplivo. Since 2013, he has been the Chairman of the Board of Directors of GPB International S.A. Since 2014, he has been a member of the Board of Directors of OJSC Oil Company Rosneft and a member of the Supervisory Board of OOO Professional hockey club "CSKA."

F. Gazizullin. Farit Rafikovich Gazizullin has been a member of Gazprom's Board of Directors since June 1998. Mr. Gazizullin previously served as Minister for Property Relations of the Russian Federation until 2004.

T. Kulibaev. Timur Askarovich Kulibaev has been a member of Gazprom's Board of Directors since June 2011. From 2007 until 2013, he served as an Extraordinary Advisor to the President of the Republic of Kazakhstan. Since 2007, he has been the Chairman of the Association of Legal Entities the KAZENERGY Kazakh Association of Oil, Gas and Energy Companies. Since 2010, he has been the Chairman of the Presidium of Association "National Economic Chamber of Kazakhstan – Atameken Union." Since 2013, Mr. Kulibaev has served the Chairman of the Presidium of National Chamber of Entrepreneurs of the Republic of Kazakhstan. "Atameken" From 2012 he has been a vice-president and a member of the Executive Committee of the International Boxing Association (AIBA). From 2008 until 2011 he served as the Chairman of the Board of Directors of AO Kazakhstan Electricity Grid Operating Company (KEGOC). From 2009 until 2011 he served as the Chairman of the Board of Directors of AO Samruk-Energo. From 2009 until 2011 he was the Chairman of the Board of Directors of JSC "National Company "Kazakhstan Temir Zholy." From 2008 until 2011, he was a deputy chairman of the management committee of AO Joint Stock Company Sovereign Wealth Fund Samruk-Kazyna and served as the Chairman of the Management Committee and a member of the Board of Directors in 2011. From 2008 until 2012, he was the chairman of the Board of Directors of JSC "National Nuclear Company Kazatomprom." From 2009 until 2012, he served as the Chairman of the Board of Directors of AO "National Company KazMunaiGas."

V. Markelov.

Vitaliy Anatolievich Markelov has been a member of Gazprom's Board of Directors and a Deputy Chairman of Gazprom's Management Committee since 2012. From 2012 he has been a member of the Board of Directors of JSC "USC." From 2012 he serves as a member and the Chairman of the Board of Directors of Joint Stock Company "Gazprom Space Systems." He was the Director General of OOO Gazprom transgas Tomsk (2007-2011) and OOO Gazprom invest Vostok (2011). From 2009 until 2012, he was the general director and a member of the Board of Directors of PJSC "Daltransgaz." From 2011 until 2012, he served as a member of the Board of Directors of OAO "Kamchatgazprom." Since 2012, Mr. Markelov has been a member and the Chairman of the Board of Directors of OOO Gazprom gazomotornoe toplivo. Since 2013, he has been a member of the Management Committee, Vice-president and Deputy President – Chairman of the Management Committee of "New Technologies in Gas Industry" Association of Equipment Manufacturers and a member of the Supervisory Board of Wintershall AG. From 2014 until 2015, Mr. Markelov served as the Chairman of the Board of Directors of South Stream Transport B.V. Since 2014, Mr. Markelov has served as the Chairman of the Board of Directors of OcOO Gazprom Kyrgyzstan

V. Martynov. Victor Georgievich Martynov has been a member of Gazprom's Board of Directors since 2013. Since 2008, Mr. Martynov has been rector of the Gubkin Russian State Oil and Gas University (a federal budget-funded educational institution of higher professional education). Since 2013, he has been a member of the Board of Directors of JSC "Zarubezhneft."

V. Mau. Vladimir Alexandrovich Mau has been a member of Gazprom's Board of Directors since June 2011. From 2002 until 2010, Mr. Mau served as rector of the Academy of National Economy under the Government of Russian Federation. Since 2010, Mr. Mau has served as rector of the Russian Presidential Academy of National Economy and Public Administration (a federal state budget funded institution of higher professional education). From 2008 until 2011, he was a member of the Board of Regents of Economic Reform, Development and Cooperation Fund. Since 2008, he has served on the Supervisory Board of Sberbank. He was a member of the Board of Directors of Financial Corporation Otkritie (2008-2011) and OAO Publishing house Prosvescheniye (2010-2011). From 2008 until 2013, Mr. Mau served as a member of the Board of Regents of the Moscow School of Management Skolkovo. From 2010 until 2013, he was a member of the managing board of the Economic Policy Foundation and a member of the Board of Directors of the E.T. Gaydar Institute of Economic Policy Foundation. Since 2010, he has been a member of the board of trustees of the Egor Gaydar Heritage Foundation. Since 2009, Mr. Mau has been the Chairman of the Board of Regents of Bureau of Economic Analysis. From 2011 until 2012, he served as the Chairman of the Board of the Center of Strategic Developments Foundation. In 2013, he became a member of the Board of Directors of TRANSKAPITALBANK. Since 2015, Mr. Mau has served as a member of the Board of Directors of PAO Severstal.

V. Musin. Valery Abramovich Musin has been a member of Gazprom's Board of Directors since June 2009. Since 1989, Mr. Musin has served as the Head of the Civil Procedure Department, Faculty of Law at St. Petersburg State University (a federal budget-funded educational institution of higher professional education). Mr. Musin is also a senior partner in the Russian-British law firm "Musin, Ibragimov and Partners."

A. Novak. Alexander Valentinovich Novak has been a member of Gazprom's Board of Directors since June 2015. From 2012, Mr. Novak has served as Minister of Energy of the Russian Federation. From 2012, Mr. Novak has served as a member of the Supervisory Board of the State corporation of the nuclear energy "Rosatom." From 2015, Mr. Novak has served as a member of the Board of Directors of JSC "Transneft" and as a member of the Board of Directors of Rosneft. From 2015, Mr. Novak has served as Chairman of the Board of Directors of PJSC "ROSSETI." Mr. Novak served as Deputy Finance Minister of the Russian Federation (until 2012), as member of the Board of Directors of JSC "Rosspirtprom" (until 2012), as member of the Board of Directors of PJSC "UAC" (until 2012). From 2011 until 2013, Mr. Novak served as member of the Supervisory Board of the State Company Russian Highways (Avtodor).

M. Sereda. Mikhail Leonidovich Sereda has been a member of Gazprom's Board of Directors since 2002. Mr. Sereda has served as Head of the Administration of Gazprom's Management Committee and Deputy Chairman of Gazprom's Management Committee - Head of the Administration of Gazprom's Management Committee since 2004, although he is not a member of Gazprom's Management Committee. Mr. Sereda is also a member of the supervisory and administrative bodies of WIEH, WINGAS, Gazprom UK Ltd., GPB, Vostokgazprom, OAO Tsentrenergogaz, OAO Tomskgazprom, OAO Gazpromtrubinvest, OAO Gazprom Kosmicheskiye Sistemy (formerly OAO Gazkom), OAO Gazprom tsentrremont, Gazprom Marketing and Trading Ltd., Gazprom Marketing and Trading Singapore Ltd., Gazprom Global LNG Ltd., GAZPROM Germania GmbH and GAZPROM Schweiz AG and he is a member of the executive body of ZAO Panrusgaz. Since 2013, he has been a member of the Board of Directors of Gazprom Neft. From 2010 until 2014, Mr. Sereda served as member and Chairman of the Board of Directors of OAO Tsentrgaz. Mr. Sereda previously served as a member and the Chairman of the Board of Directors of OOO Gazprom telekom (formerly ZAO Gaztelekom) until 2013 and a member and the Chairman of the Board of Directors of OOO Temryukmortrans ("Temryukmortrans") until 2014. From 2007 until 2009, he was a member of the Board of Directors of OAO Krasnodargazstroy. From 2007 until 2009, he was the Chairman and a member of the Board of Directors of OAO Volgogradneftemash. From 2007 until 2009, he was a member of the Board of Directors of GWH Gas und Warenhandels GmbH. From 2007 until 2009, he was the deputy Chairman and a member of the Board of Directors of OAO Stroytransgaz. Since 2012 until 2013, Mr. Sereda served as a member of the Board of Directors of OAO Gazprom neftekhim Salavat. Management Committee Biographies.

A. Miller. See "—Director Biographies."

V. Golubev. Valeri Alexandrovich Golubev has been Deputy Chairman of Gazprom's Management Committee since late 2006. Mr. Golubev has been a member of Gazprom's Management Committee since June 2003. Mr. Golubev is a member of the supervisory and administrative bodies of, OAO Volgogradneftemash, KazRosGaz, NP Russian Gas Community, AO Moldovagaz, OOO International Gas Transportation Consortium, Mosenergo, Gazprom Armenia (formerly known as ArmRosGazprom) and Gazprom Neft. From 2009, he has been a Co-Chairman of the Production Sharing Supervisory Board, a member of the Board of Directors of Sakhalin Energy and a member of the Board of Directors of OOO Gazprom investproekt (formerly OOO Russkiye Energeticheskiye Proekty). Since 2010, Mr. Golubev has been a member and the Chairman of the Board of Directors of OAO Gazprom-Yuzhnaya Osetia. Since 2012, he has been a member of the Supervisory Board of Gazprom Neft Finance B.V.He previously served as the Chairman of the Board of Directors of OOO Gazpromtrans and a member of the Management Committee of Kaunas Heating and Electrical Station until 2013. Mr. Golubev previously served as member and Chairman of ZAO Gazprom Zarubegneftegaz (formerly ZAO Zarubegneftegaz), member of Management Committee of OAO Lietuvos Dujos and member and Chairman of the Board of Directors of OAO Tsentrgaz. From 2007 until 2012, he was a member and the Chairman of the Supervisory Board of OAO Beltransgaz. From 2007 until 2009, Mr. Golubev served as the Chairman of the Board of Directors of OAO YuzhNIIgyprogas. He was a member of the Board of Directors of Severneftegazprom (2007-2009), OAO Sibur Holding (2007-2011). In 2012, he was the Chairman of the Board of Directors of Gas-Oil LLC. In 2014, Mr. Golubev was the Chairman of the Board of Directors of AS Vorguteenus Valdus and of OcOO Gazprom Kyrgyzstan.

S. Khomyakov. Sergey Fedorovich Khomyakov has been Deputy Chairman and a member of Gazprom's Management Committee since 2007, and Director General of Gazprom's Corporate Security Service since 2008. He is also a member of the Board of Directors of Gazprom Kosmicheskiye Sistemy (formerly OAO Gazkom). Since 2009, Mr. Khomyakov has been a member of the Board of Directors of OOO Gazprom investproekt (formerly OOO Russkiye Energeticheskiye Proekty). From 2007 until 2009, he served as the Chairman of the Board of Directors of DOAO Gazproektengineering. In 2008 and 2009, he was the Chairman of the Supervisory Board of the Gazpromipoteka Fund, a non-commercial organization.

A. Kozlov. Aleksander Nikolaevich Kozlov has been Deputy Chairman of Gazprom's Management Committee and a member of Gazprom's Management Committee since March 2005. Since 2009, Mr. Kozlov has been the Chairman of the Board of Directors of AO Druzhba (formerly OAO Druzhba). Since 2012, he has been a member and the Deputy Chairman of the Board of Directors of OOO Lazurnaya. Mr. Kozlov was the Chairman of the Supervisory Board of Gazpromipoteka Fund, a non-commercial organization from 2009 to 2011.

A. Kruglov. Andrei Vyacheslavovich Kruglov has been Deputy Chairman of Gazprom's Management Committee since 2004. From 2003 until 2014, Mr. Kruglov was Head of Gazprom's Finance and Economic Department and Head of the Department of OAO Gazprom. From January until June 2015, he was Head of Department 816 of Gazprom. Mr. Kruglov is also a member of the supervisory and administrative bodies of GPB, Vostokgazprom, OAO Tomskgazprom, OAO Belgazprombank, Gazprom Neft and Sogaz. Since 2009, he has been a member of the supervisory and administrative bodies of Gazprom Germania GmbH, Gazprom EP International B.V., OOO Gazprom investproekt (formerly OOO Russkiye Energeticheskiye Proekty). Since 2010, Mr. Kruglov has served as a member of the supervisory and administrative bodies of AO Overgaz Inc. and Gazprom Neft Finance B.V. Mr. Kruglov served as a member and Chairman of the Board of Directors of OOO Gazprom Tsentrremont and as a member of the Board of Directors of Gazprom Marketing and Trading Ltd. until 2015. From 2007 until 2010, he was a member of the Board of Directors of ZAO Gazenergoprombank. From 2007 until 2010, he was the Chairman of the Board of Directors of DOAO Tsentrenergogaz OAO Gazprom. In 2009 he served as a member of the Board of Directors of ZAO Gerosgas.

V. Markelov. See "—Director Biographies."

A. Medvedev. Alexander Ivanovich Medvedev has been a member of Gazprom's Management Committee since 2002 and Deputy Chairman of Gazprom's Management Committee since 2005. He served as the Director General of Gazprom Export (formerly Gazexport) from 2002 to 2014. Mr. Medvedev is a member of the supervisory and administrative bodies of WIEH, WINGAS, AO GazKop, VTB Bank (Austria) (formerly Donau Bank), AO Prometheus Gaz, AO Overgaz Inc., Severneftegazprom, KazRosGaz, Blue Stream Pipeline Company B.V., AO Gaztranzit (formely ZAO Gaztranzit), AO EuRoPol GAZ, ZAO Khokkeiny klub SKA (formerly ZAO SKA St. Petersburg), Shtokman Development AG, Gazprom EP International B.V., OOO KHL, Sakhalin Energy, Erdgasspeicher Peissen GmbH and WIGA Betailigungs GmbH & Co. KG. He is also a member of the executive bodies of ZAO Panrusgaz and AO YugoRosGaz. Mr. Medvedev was member of the Board of Directors and Chairman of the Board of Directors of ZAO Gazprom Zarubezhneftegaz (formerly ZAO Zarubezhneftegaz) until 2014. Mr. Medvedev was Chairman of the Consultancy Border and Chairman of the Supervisory Board of Gazprom Germania GmbH until 2015. He served as Chairman of the Board of Directors of GM&T until 2015. He was President, first Deputy Chairman of the Board of Directors and Chairman of the Management Committee – President of OOO KHL until 2014. Mr. Medvedev was the Chairman of the Managing Committee and the Chairman of the Board of Founders of ANO "KHL" until 2015. Since 2010, he has been a member of the Board of Directors of South Stream Greece S.A. From 2011, he has served as the Chairman of the Managing Committee of NP "MHL." From 2012 until 2014, he served as a member of the Board of Directors of South Stream Austria GmbH. From 2012 until 2015, Mr. Medvedev has been a member of the Board of Directors of South Stream Transport B.V. and a member of the Supervisory Board of South Stream Transport B.V. From 2012 until 2015, he has served as a member of the executive committee of a non-governmental educational organization for supplemental professional education “KHL Corporate Institute.” In 2012 and 2013 Mr. Medvedev was a member of the Board of Directors of South Stream Transport Services AG. From 2009 until 2012, he served as the Chairman of the Supervisory Board of CEA Centrex Energy and Gas GmbH (formerly CEA Centrex Energy and Gas AG). He previously served as a member of the Board of Directors of Gazprom UK until 2012. Mr. Medvedev was an executive director and a member of the Board of Directors of South Stream Bulgaria AD in 2010-2011. From 2007 until 2009, he was a member of the Board of Directors of GWH Gas und Warenhandels GmbH. From 2007 until 2011, he served as the President of the Supervisory Board of AO Fragas. He was the Chairman of the Board of Directors of OAO ARCTICGAZ (2009-2010), OAO Neftegaztechnologiya (2009-2010) and ZAO Urengoil Inc. (2009-2010). From 2007 until 2010, he served as the Chairman of the Board of Directors and deputy Chairman of the Board of Directors of ZAO Gerosgaz. From 2007 until 2009, he was a member of the Board of Directors and deputy Chairman of the Board of Directors of AKB Sovfintrade (from November 1, 2008 known as AB GPB Ipoteka (OAO)). In 2009 and 2010 he was a member and the Chairman of the Board of Directors of SeverEnergia. From 2009 until 2012, he was the Chairman of the Board of Directors of South Stream Serbia AG. From 2010 until 2012, he was a member of the Board of Directors of South Stream Hungary Zrt. Since 2012, he has been a member of the Board of W&G Beteiligungs-GmbH & Co. KG and the Chairman of the Board of Directors of OOO Hockey House. Since 2013, Mr. Medvedev has been a member of Supervisory Board of Moravia Gas Storage a.s. Since 2014, Mr. Medvedev has been a member of Supervisory Board and a Chairman of Supervisory Board of Gazprom Austria GmbH.

E. Vasilieva. Elena Alexandrovna Vasilieva has been Deputy Chairman of Gazprom’s Management Committee, Gazprom’s Chief Accountant and a member of Gazprom’s Management Committee since September 2001. Ms. Vasilieva is also a member of the supervisory and administrative bodies of GPB, OOO Lazurnaya and Vostokgazprom. From 2009 until 2013, she was a member of the Board of Directors of OOO Gazprom investproekt (formerly OOO Russkiye Energeticheskiye Proekty). From 2008 until 2013, Ms. Vasilieva was a member of the governing bodies of ZAO Yamalgazinvest and Gazprom U.K. Limited.

O. Aksyutin. Oleg Evgenievich Aksyutin has been a member of Gazprom’s Management Committee since 2008. From 2008 until 2014 he was the Head of Gazprom’s Gas Transportation, Underground Storage and Utilization Department. From January until July 2015, he was Head of Department 308 of Gazprom. He has been Head of Department 123 of Gazprom since August 2015. He has been a member of the Supervisory Board of Gazprom transgaz Belarus and PGS Banatski Dvor d.o.o. since 2012. Since 2012 until 2013, Mr. Aksyutin was a member of the Board of Directors of OOO Gazprom gazomotornoe toplivo. Since 2013, Mr. Aksyutin has been chief executive director of South Stream Transport B.V. and a member of the Management Committee of “New Technologies in Gas Industry” Association of Equipment Manufacturers. Since 2014, he has been a member of the Board of Directors of Gazprom Armenia (formerly known as ArmRosGazprom) and OcOO Gazprom Kyrgyzstan.

V. Cherepanov. Vsevolod Vladimirovich Cherepanov has been a member of Gazprom’s Management Committee since 2010. He was Head of Gazprom’s Gas, Gas Condensate and Oil Production Department from 2010 until 2014. He has been Head of Department of 307 of Gazprom since 2015. He is also a member of the supervisory and administrative bodies of ZAO Achimgaz (from 2010), TsentrCaspNeftegaz (from 2010), Shtokman Development AG (from 2010), Gazprom EP International B.V. (from 2010), Gazprom Neft (from 2011), Gazpromviet (from 2011), Severneftegazprom (from 2010), Sakhalin Energy (from 2012), Wintershall AG (from 2010) and OOO Gazprom Neft-Sakhalin (from 2012). From 2010 until 2014, he served as member of the Board of Directors of ZAO Gazprom Zarubegneftegaz. Previously, Mr. Cherepanov was a senior geologist (2008-2010) of OOO Gazprom dobycha Nadym (formerly OOO Nadymgazprom). From 2010 until 2012, he was the Chairman of the Board of Directors of ZAO Gazprom Neft Orenburg. In 2013 and 2014, he was a member of the Board of Directors of OOO Gazprom Geologorazvedka. Since 2013, Mr. Cherepanov has been a member of the Management Committee of “New Technologies in Gas Industry” Association of Equipment Manufacturers.

N. Dubik. Nikolai Nikolaevich Dubik has been a member of Gazprom’s Management Committee since June 25, 2008. He was the Head of Gazprom’s Legal Department from 2008 through 2014 and has been Head of Department 104 of Gazprom since 2015. Mr. Dubik is also a member of the supervisory and administrative bodies of AO Moldovagaz, Gazprom Neft, AO EvRoPol Gaz, OOO Lazurnaya, OAO Gazprom Media Holding and Shtokman Development AG. Since 2009, he has been a member of Supervisory Board of Gazprom transgaz Belarus. Since 2010, Mr. Dubik has been a member of Supervisory Board of Gazprom Neft International S.A. He was a member of the Board of Directors of Gazprom Neft Orenburg (formerly ZAO Stimul) (2007-2012), OOO Gazprommedservice (2008-2011). From 2007 until 2009, he was executive director of Gazprom Finance B.V. From 2009 until 2014, Mr. Dubik was a member of the Board of Directors of OAO Sogaz. He has been executive director of ROSUKRENERGO AG until 2014. Since 2012, Mr. Dubik has been a member of the Board of Directors of OOO Gazprom Neft-Sakhalin. Since 2012 until 2013, Mr. Dubik was a member of the Board of Directors of OOO Gazprom gazomotornoe toplivo. In 2013, he served as a member of the Board of Directors of Nortgaz. In 2013, Mr. Dubik became a member of the Board of Latvijas Gaze. Since 2014, he has been a member of the Board of Directors of Gazprom Armenia (formerly known as ArmRosGazprom) and OcOO Gazprom Kyrgyzstan. Since 2015, he has been a member of the supervisory and administrative bodies of GM&T, GAZPROM Germania GmbH and Gazprom Schweiz AG

I. Fyodorov. Igor Yuryevich Fyodorov has been Director General of OOO Gazprom komplektatsiya (formerly OOO Gazkomplektimpex) since late 2006 and a member of Gazprom’s Management Committee since January 2007. Since 2013, he has been a member of the Management Committee of “New Technologies in Gas Industry” Association of

Equipment Manufacturers.

D. Lyugai. Dmitry Vladimirovich Lyugai became a Member of Gazprom's Management Committee in February 2013. Since 2015, he has been Director General of Gazprom VNIIGAZ. From 2012 until 2014, he was the Head of Gazprom's Prospective Development Department. From January until July 2015, he was Head of Department 123 of Gazprom. In 2013, he was a member of the Board of Directors of OOO Gazprom Geologorazvedka. Mr. Lyugai was Deputy Director General for Science at Gazprom VNIIGAZ from 2008 through 2012.

V. Markov. Vladimir Konstantinovich Markov has been a member of Gazprom's Management Committee since 2012. He was Head of the Department of Relations with Regional Authorities of the Russian Federation from 2012 through 2014. He has been Head of Department 613 of Gazprom since 2015. Since 2009, he has been a member of the Supervisory Board of NP RGO. Since 2012, he has been a member of the Board of Directors of OAO "Insurance company "SOGAZ—Med." From 2007 until 2011, he was a deputy of the State Duma of the Russian Federation and a member of the energy committee. In 2011, Mr. Markov was a deputy Head of the Department of Relations with Regional Authorities of the Russian Federation in PJSC Gazprom. From 2012 to 2014 he was a member of the Board of Directors of PJSC Gazprom gazoraspredeleniye. Since 2012, Mr. Markov has been a member of the Board of Directors of OOO Gazprom gazomotornoe toplivo. In 2012 and 2013, Mr. Markov was a member of the Board of Directors of ZAO Yamalgazinvest.

E. Mikhailova. Elena Vladimirovna Mikhailova has been a member of Gazprom's Management Committee since 2012. She was Head of Gazprom's Asset Management and Corporate Relations Department from 2012 through 2014. She has been Head of Department 105 of Gazprom since 2015. She has been a member of the Board of Directors of AO Gazprom Gazenergoset (from 2007), OOO Gazprom investproekt (from 2012), Gazprom Neft (from 2012), Mosenergo (from 2012), Severneftegazprom (from 2012) and ZAO Leader (from 2012). She was the Chairman of the Board of Directors of OAO Neftyanoy Dom (2009-2014). Since 2008 until 2013, Ms. Mikhailova served as a member of the Board of Directors of Gazprom neftekhim Salavat. From 2009 until 2014, she served as a member of the Board of Directors of JSB "Sobinbank." Since 2011, she has been a deputy of the director general in charge of corporate and property relations in OOO Gazprom mezhregiongaz. From 2008 until 2012, she served as the Chairman of the Board of Directors of ZAO Gazprom mezhregiongaz Kazan. She was the Chairman of the Board of Directors of OOO Gazprom mezhregiongaz Vologda (2007-2010), ZAO Gazprom mezhregiongaz Astrakhan (2007-2010), OOO Astrakhanregiongas (2007-2010), ZAO Gazprom mezhregiongaz Saint Petersburg (2007-2010), OOO Petersburgregiongas (2007-2010), OOO Gazprom mezhregiongaz Pskov (2007-2010), OOO Gazprom mezhregiongaz Samara (2007-2010), OAO Regiongasholding (2007-2012). She was a member of the Board of Directors of Gazenergoprombank (2007-2010), OAO Astrakhanoblgas (2007-2011), OAO "Kalmgas" (2007-2011) and OAO Gazprom gazoraspredeleniye (2007-2014) and Nortgaz (2012-2013). Since 2012, Ms. Mikhailova has been a member of the Board of Directors of OOO Gazprom gazomotornoe toplivo. Since 2013, she has been a member of the Board of Latvijas Gaze.

S. Prozorov. Sergey Frolovich Prozorov has been a member of the Management Committee of Gazprom since 2014. He was Head of Gazprom's Construction Department in 2014. He has been Head of Department 333 of Gazprom since 2015. From 2007 until 2014, he served as First Deputy Head of the Investment and Construction Department of Gazprom. Mr. Prozorov is a member of the supervisory and administrative bodies of DOAO Spetzavtotrans of Gazprom, AO Giprospetznaz, OsOO Gazprom Kyrgyzstan, Gazprom transgas Belarus. He was a member of the supervisory and administrative bodies of PJSC Daltransgaz (until 2015), OOO Gazpromtrans (until 2013), JSC Gazpromtrubinvest, (until 2011), OOO Temrukmortrans (until 2014), OOO Gazprom telecom (until 2013), AO PeterGas B.V. (until 2010) and JSC Kamchatgazprom (until 2015).

K. Seleznev. Kirill Gennadievich Seleznev has been a member of Gazprom's Management Committee since 2002. He was Head of Gazprom's Gas and Liquid Hydrocarbons Processing and Marketing Department in 2002-2014. He has been Head of Department 614 of Gazprom since 2015. Since 2003, he has served as Director General of Gazprom mezhregiongaz. Mr. Seleznev is also a member of the supervisory and administrative bodies of Latvijas Gaze, KazRosGaz, Vostokgazprom, Gazprom Neft, OAO Tomskgazprom, ZAO Zenit Football Club, Russian Gas Community and a non-commercial partnership, Mosenergo, OAO TGK-1. He has been a member of the Board of Directors of OAO AB Rossiya (from 2011) and GPB (from 2010). Since 2011, Mr. Seleznev has been a member of the Supervisory Board of Gazprom Neft Finance B.V. He previously served as a member and the Chairman of the Management Committee of Kaunas Heating and Electrical Station until 2013. He previously served as a member of the Board of Directors of Novatek and OAO Inter Rao UES until 2014. Mr. Seleznev previously was a member and the Chairman of the Board Directors of OAO Gazprom neftekhim Salavat until 2013. He was a member of the Board of Directors of OAO Gazprom gazoraspredeleniye (2003-2014). He was the Chairman of the Board of Directors of ZAO Gazenergoprombank (2007-2010). He was a member of the Board of Directors of OAO Sibur Holding (2007-2011) and OAO RAO Energeticheskiye Systemy Vostoka (2009-2010). From 2007 until 2009, he was the Chairman of the Board of Directors of OAO SIBUR—mineralnye udobreniya. From 2013 until 2015, he was Chairman of the Board of Directors of MIPC. He previously served as member of the Management Committee of OAO Lietuvos Dujos until 2014. Since 2012 until 2013, Mr. Seleznev was a member of the Board of Directors of OOO Gazprom gazomotornoe toplivo. Since 2013, he has been a member of the Supervisory Board of OAO Russian Regional Development Bank. From 2008 until 2013, he was a member and the Chairman of the Board of Directors of Nortgaz.

Description of Gazprom's Management

In accordance with the Joint Stock Companies Law and Gazprom's Charter, Gazprom's operations are governed by Gazprom's General Meeting of Shareholders, Board of Directors, Management Committee and the Chairman of the Management Committee. The General Meeting of Shareholders is Gazprom's highest governing body and, among other things, elects Gazprom's Board of Directors. Gazprom's Board of Directors is responsible for formulating the strategy and the executive bodies (the Management Committee and the Chairman of the Management Committee) are responsible for implementing the strategy and managing Gazprom on a day-to-day basis. All of the governing bodies act in accordance with the laws of the Russian Federation, Gazprom's Charter and the regulations of these governing bodies which were approved by the General Meeting of Shareholders of Gazprom.

General Meeting of Shareholders

The General Meeting of Shareholders takes place annually, usually in June. The following decisions, among others, can be taken only by the General Meeting of Shareholders: amendments to the Charter, Gazprom's reorganization or liquidation, the election of the members of Gazprom's Board of Directors and Internal Audit Commission, the determination of the quantity, category and nominal price of authorized shares as well as rights arising out of the ownership of shares, increases in the charter capital (when such decision is reserved for the General Meeting of Shareholders by the Charter in accordance with provisions of the Joint Stock Companies Law), reduction of the charter capital, approval of the annual report and annual accounts, approval of large transactions and transactions that involve interested parties (where such decision is within the authority of the General Meeting of Shareholders in accordance with the Joint Stock Companies Law), as well as making other decisions in accordance with the terms of the Joint Stock Companies Law and the Charter.

Board of Directors

Gazprom's Board of Directors is responsible for the general management of Gazprom's activities. The General Meeting of Shareholders determines the number of members of Gazprom's Board of Directors, which cannot be less than nine. Currently, there are 11 members of Gazprom's Board of Directors. A total of eight members of Gazprom's current Board of Directors were nominated by the Government, including the Chairman of the Management Committee. Six of them were nominated as representatives of the Russian Federation and two of them as independent directors. The remaining members of Gazprom's Board of Directors consist of one member of the Management Committee, one member of Gazprom's management and one other director.

The powers of Gazprom's Board of Directors include determining the priorities of Gazprom's operations, approving annual budgets, calling General Meetings of Shareholders and determining the agenda for such meetings, determining the record date for Gazprom's General Meetings of Shareholders, increasing Gazprom's charter capital (except where such increase is within the authority of the General Meeting of Shareholders), issuing bonds or other securities in accordance with the Joint Stock Companies Law, appointing Gazprom's executive bodies (such as the Management Committee and the Chairman of the Management Committee), deciding on early termination of the powers of these bodies, approving candidates nominated by the Chairman of the Management Committee for the position of Deputy Chairman of the Management Committee, determining the remuneration of the Chairman and members of the Management Committee, recommending the size of dividends for approval by the General Meeting of Shareholders, using the reserve and other funds, creating branch and representative offices, specifying the means of effecting transactions, adopting decisions on major transactions and certain "interested party" transactions (except for those major or "interested party" transactions for which approval is within the competence of the General Meeting of Shareholders), establishing the terms of cooperation with subsidiaries and organizations of which Gazprom holds stock and equity participations, and other matters.

In 2002, Gazprom's Board of Directors adopted a resolution whereby all transactions, involving: (i) interests or participations that Gazprom or its subsidiaries hold in other companies (as amended in 2014, this is applicable to transactions exceeding 15% of Gazprom's or its subsidiary's total assets as of the date of latest available financial statements); (ii) loans or other borrowings including guarantees by Gazprom having a value greater than 0.3% of Gazprom's balance sheet assets determined under Russian accounting principles; and (iii) purchases or disposals of Gazprom's fixed assets having a value greater than 0.3% of its balance sheet assets determined under Russian accounting principles, require approval by Gazprom's Board of Directors. Similar documents were adopted by all of Gazprom's significant joint-stock subsidiaries with respect to their activities.

Members of Gazprom's Board of Directors are elected by the General Meeting of Shareholders by a system of cumulative voting for a term lasting until the next annual General Meeting of Shareholders and may be re-elected an unlimited number of times. The General Meeting of Shareholders may also terminate the authority of all members of Gazprom's Board of Directors before the expiration of their terms. Members of the Management Committee may not comprise more than one-quarter of Gazprom's Board of Directors. The Chairman of Gazprom's Board of Directors is elected from and by the members of Gazprom's Board of Directors by a majority vote and may be re-elected at any time by a special resolution requiring at least a two-thirds majority. The Chairman of the Management Committee cannot simultaneously serve as the Chairman of Gazprom's Board of Directors.

Audit Committee

The Audit Committee under the Gazprom Board of Directors is primarily focused on assessing the nominations for Gazprom's auditor, the auditor's report, and the effectiveness of Gazprom's internal control procedures, as well as the evaluation of proposals on their improvement. The Audit Committee members are elected pursuant to the guidelines in relation to the formation and functioning of the Audit Committee that have been adopted by the Gazprom Board of Directors. The powers of the Audit Committee expire concurrently with the termination of the powers of the Board of Directors that has appointed the relevant Audit Committee. Currently, Valery Musin is the Chairman of the Audit Committee, and Farit Gazizullin and Mikhail Sereda are the other members of the Audit Committee.

Management Committee

The Management Committee and the Chairman of the Management Committee are Gazprom's executive bodies. The Chairman and other members of the Management Committee are each appointed by Gazprom's Board of Directors for a term of five years. Gazprom's Board of Directors has the right to terminate the authority of any member of the Management Committee as well as the Chairman of the Management Committee.

The authority of the Management Committee includes (i) developing forward-looking plans and principal programs for approval by Gazprom's Board of Directors, including Gazprom's annual budget and investment programs, and preparing reports on the implementation of those programs; (ii) organizing gas flow management and management of the GTS; (iii) organizing control over the development of Gazprom's current and prospective plans and programs; (iv) approving the rules governing the organization and reliability of Gazprom's bookkeeping accounts and the timely preparation of the annual report and other financial reports; and (v) presenting information about Gazprom's activities for the use of shareholders, creditors, and the media.

The Management Committee meets, in general, at least twice every month in accordance with a schedule that is approved by the Chairman of the Management Committee.

Chairman of the Management Committee

The Chairman of the Management Committee has authority to act in Gazprom's name without power of attorney, presents Gazprom's interests, approves staff, issues orders and decrees, gives instructions to be carried out by all of Gazprom's employees and issues internal documents with respect to the current activities, with the exception of internal documents which are within the authority of Gazprom's other management bodies

Additional Information about Gazprom's Directors and Management Committee Members

Directors' and officers' compensation

Key management personnel (the members of the Board of Directors and Management Committee of Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of Group companies, amounted to approximately RR4,393 million, RR2,992 million and RR2,130 million for the years ended December 31, 2014, 2013 and 2012, respectively. Such amounts include personal income tax, insurance contributions into extra-budgetary funds and payments for certain healthcare services. The members of the Board of Directors, who are Government officials, do not receive remuneration from the Group. Compensation of the members of the Board of Directors (other than remuneration for serving as directors of a company of the Group) is determined by the terms of the employment contracts.

Share ownership by directors and Management Committee members

Members of the Board of Directors who simultaneously hold managing positions, members of the Managing Committee and other managers of Gazprom are entitled to purchase Gazprom's shares pursuant to the Management Share Capital Participation Program.

As of September 25, 2015, the aggregate direct ownership of Gazprom's shares by the members of Gazprom's Management Committee and Board of Directors was 0.011121%.

Conflicts of Interest

Gazprom is not aware of any potential conflicts of interest between any duties of the members of its Board of Directors or Management Committee owed to it and their own private interests and/or other duties.

SHAREHOLDING STRUCTURE OF GAZPROM

Gazprom's charter capital amounts to RR118,367,564,500, consisting of 23,673,512,900 Shares with a nominal value of RR5 per Share.

The Russian Federation currently controls over 50% of our Shares. As our controlling shareholder, the Russian Federation has a strong influence over the major decisions made at our shareholder meetings and, as the nominating party for a majority of the members of Gazprom's Board of Directors, is able to determine our strategy, make policy decisions in relation to the main areas of our business (including investments, borrowings, risk management and asset allocation), and supervise the implementation of such decisions. Minority shareholders of Gazprom enjoy protections provided under the applicable corporate laws of the Russian Federation to which Gazprom and the Russian Federation, as its controlling shareholder, strictly adhere. For a summary of these protections, see "Description of Share Capital and Certain Requirements of Russian Legislation." We are also a "natural monopoly" in the transportation of natural gas under Federal Law No. 147 FZ, dated August 17, 1995 (the "Natural Monopoly Law"), which means that the tariffs we charge for gas transportation through our trunk pipelines are subject to regulation by the Government.

Gazprom's Shares are admitted to trading at, and listed on the Level I quotation lists of, the Moscow Exchange and the Saint Petersburg Exchange, the leading Russian stock exchanges.

In April 2006, Gazprom converted the then Regulation S ADS facility to an unrestricted GDS facility, which provides for the deposit of Gazprom Shares for issuance of GDSs and surrender of GDSs for delivery of Shares. The Bank of New York Mellon acts as the Depositary and at present, the GDSs to which this Base Prospectus relates are freely tradable on the over-the-counter stock market in the United States, the regulated market of the London Stock Exchange under the symbol OGZD and on the following other European exchanges: the Berlin-Bremen Stock Exchange and the Frankfurt Stock Exchange. Further, Gazprom has previously sold Rule 144A ADSs in the United States to qualified institutional buyers. On February 12, 2014, Gazprom's GDSs were admitted to trading on the Moscow Exchange. Under the permit received by Gazprom from the FSFM (recently replaced by the CBR as the Russian securities market regulator) in accordance with the Russian securities regulations, the maximum volume of the Shares that may be circulated outside Russia in the form of GDSs or otherwise may not exceed 35% of Gazprom's charter capital (see "General Information"). In June 2014, up to 4,000,000,000 unrestricted ADSs representing 8,000,000,000 of our shares were admitted to listing and quotation on the Singapore Exchange Securities Trading Limited.

The following table sets forth information regarding the beneficial ownership of Gazprom Shares as of September 25, 2015:

Shareholders	**(%)**
Federal Agency For State Property Management [1]	38.37
OAO Rosneftegaz [1]	10.97
OAO Rosgazifikatsiya [1]	0.89
GDS holders (through The Bank of New York Mellon)	28.18
Other entities[2]	21.59
Total	**100.00**

Notes:

(1) Entities controlled by the Russian Federation. The effective interest of the Russian Federation is approximately 50.01% which is achieved through its holding of a 100% interest in OAO Rosneftegaz which, in turn, holds a 74.55% interest in OAO Rosgazifikatsiya. The shareholding of OAO Rosgazifikatsiya is presented as of May 7, 2015, the record date for the purpose of Gazprom's annual shareholders' meeting.

(2) Includes 3.1% of Gazprom shares owned by Gazprom subsidiaries.

CERTAIN TRANSACTIONS

Interested Party Transactions under Russian Law

The Joint Stock Companies Law sets forth certain requirements with respect to transactions involving interested parties. An interested party is any of the following: (i) a member of the board of directors, (ii) a person performing functions of the sole executive body (e.g., the Chairman of the Management Committee), (iii) a member of the collective executive body (e.g., the Management Committee), (iv) a shareholder who owns, together with any of its affiliates, at least 20% of the company's voting shares, or (v) any person who has the right to issue mandatory instructions to the company, so long as any of the abovementioned persons and/or their spouse, parents, children, adoptive parents or children, brothers or sisters or their affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- owns, individually or collectively, at least 20% of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- holds offices in any of the company's management bodies (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- in other cases, provided by the charter of the company.

The Joint Stock Companies Law requires that an interested party transaction must be approved by a majority vote of the disinterested independent directors or by a shareholders meeting.

For companies with more than 1,000 shareholders, an interested party transaction must be approved by a majority vote of the disinterested independent directors of the company. For purposes of this rule, an "independent director" is a member of the board of directors who is not, and within the year preceding the decision to approve the transaction was not:

- a member of any executive body of the company; or
- a member of any management body of the company's management organization; or
- a person whose spouse, parents, children, adoptive parents or children, brothers or sisters held positions on management bodies of the company or the managing company or were sole manager of such company; or
- an affiliate of the company, except for being its director.

An interested party transaction must be approved by a decision of the majority of disinterested shareholders holding voting shares, if:

- all members of the board of directors are interested parties, and/or none of them is an independent director; or
- the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- the value of such a transaction, or series of related transactions, is two percent or more of the balance sheet value of the company's assets as of the last reporting date; or
- the transaction, or series of related transactions, involves the issuance by subscription or disposal of, ordinary shares in an amount exceeding two percent of the earlier issued existing ordinary shares or securities convertible into such shares; or
- the transaction, or series of related transactions, involves the issuance by subscription of securities convertible into shares, which may be converted into ordinary shares, in an amount exceeding two percent of the earlier issued existing ordinary shares or ordinary shares into which the above-mentioned convertible securities may be converted.

Approval of an interested party transaction by a majority of disinterested shareholders may not be required if such transaction is substantially similar to transactions entered into by a company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction. This exemption is effective only within a period from the date when such party became an interested party with respect to the transaction and until the next annual general shareholders' meeting.

The approval of interested party transactions of a joint stock company is not required if:

- the company has only one shareholder that simultaneously performs the functions of the sole executive body of a company;

- all shareholders are interested in such transactions;

- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares and other securities convertible into such shares, or the transactions arise out of public placement of notes that are not convertible into shares;

- the company is purchasing or buying out its issued shares or notes;

- the company is undergoing reorganization in the form of a merger or accession; or

- the company is required by federal legislation to enter into the transactions, and settlements under such transactions are made pursuant to fixed tariffs and prices established by the Government or competent federal state authorities authorized by the Government; or

- the transactions are consummated pursuant to paragraph 5 of Article 32 of Federal Law No. 35-FZ "On Electric Power Sector" dated March 26, 2003, as amended.

Any interested party transaction must be approved prior to its execution. An interested party transaction entered into in breach of the aforementioned rules may be invalidated by a court pursuant to an action of a company or any of its shareholders. However, pursuant to the Joint Stock Companies Law, a court shall dismiss the claim seeking to invalidate an interested party transaction entered into in breach of the abovementioned requirements in the following instances:

- the vote of the disinterested shareholder who brought a claim contesting the validity of an interested party transaction that was subject to approval of the general shareholders' meeting could not have affected the outcome of the voting;

- it is not proved that execution of the interested party transaction in question caused or could cause losses to, or have other adverse effect on, the company or the shareholder challenging the interested party transaction;

- evidence of a subsequent approval of the challenged interested party transaction pursuant to the Joint Stock Companies Law is provided by the time of the hearing of the claim by a court; or

- it has been proven before the court that the counterparty to the interested party transaction in question did not know and could not have known that the transaction is entered into in violation of the respective requirements of the Joint Stock Companies Law.

Currently, Gazprom enters into many interested party transactions approved by the Board of Directors or a general meeting of shareholders, as provided for by the Joint Stock Companies Law.

Related Party Transactions Under IFRS

For the purposes of our consolidated financial statements and consolidated interim condensed financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures." The nature of the related party relationships for those related parties with whom the Group had significant balances outstanding or entered into significant transactions as of or for the six months ended June 30, 2015 and years ended December 31, 2014, 2013 and 2012 are described below.

For further information about our significant transactions and balances with related parties, please see Note 22 to our Unaudited consolidated interim condensed financial information and Note 36 to our consolidated financial statements for the year ended December 31, 2014.

Government

The Government has an interest of over 50% in Gazprom and is the ultimate controlling party of the Group. In the normal course of business the Group enters into transactions with other entities under the Government's control. Prices of natural gas sales and electricity tariffs in Russia are regulated by the FAS. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation. In the six months ended June 30, 2015 and 2014, transactions with the Government and entities under the Government's control resulted in income of approximately RR179 billion and RR180 billion, respectively, and expenses of RR665 billion and RR600 billion, respectively. In the years ended December 31, 2014 and 2013, transactions with the Government and entities under the Government's control resulted in revenues of approximately RR338 billion and RR316 billion, respectively, and expenses of RR1,092 billion and RR1,053 billion, respectively. These expenses include current tax on profits, compulsory insurance contributions into extra-budgetary funds, other taxes, accrued interests, and expenses relating to oil transportation.

Associated undertakings and joint ventures

The Group's transactions with associated undertakings and joint ventures occur in the ordinary course of business and include the sale and purchase of gas, gas condensate, crude oil and refined products, as well as gas transportation services and refining. Such companies include, but are not limited to WIEH, W&G Beteiligungs-GmbH & Co. KG and subsidiaries, Slavneft and subsidiaries, ZAO Panrusgaz, AO Gazum, KazRosGaz and WIEE. For the six months ended June 30, 2015 and 2014 and years ended December 31, 2014 and 2013, these transactions resulted in revenues of approximately RR273 billion, RR234 billion, RR486 billion and RR471 billion, respectively, and expenses of approximately RR226 billion, RR178 billion, RR359 billion and RR296 billion, respectively.

In addition, in the six months ended June 30, 2015 and 2014 and years ended December 31, 2014 and 2013 total revenues from operations with ZAO Gazprom YRGM Trading and ZAO Gazprom YRGM Development amounted to RR31 billion, RR30 billion, RR60 billion and RR57 billion, respectively, while the expenses were RR54 billion, RR54 billion, RR101 billion and RR100 billion, respectively.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of Group companies, amounted to approximately RR4,393 million and RR2,992 million for the years ended December 31, 2014 and 2013, respectively. Such amounts include personal income tax, compulsory insurance contributions into extra-budgetary funds and payments for certain healthcare services.

FACILITY AGREEMENT

The following is the text of the Amended and Restated Facility Agreement entered into between Gazprom and the Issuer, as amended on October 28, 2014. In the context of each Series of Notes and the corresponding Loan, this Amended and Restated Facility Agreement should be read in conjunction with, and is qualified in its entirety by, the relevant Loan Supplement for such Series and Loan.

This Amended and Restated Facility Agreement is made on 7 December 2005 **between:**

(1) **OPEN JOINT STOCK COMPANY GAZPROM**, a company established under the laws of the Russian Federation whose registered office is at 16 Nametkina Street, 117884 Moscow, Russian Federation ("**Gazprom**"); and

(2) **GAZ CAPITAL S.A.**, a société anonyme established under the laws of Luxembourg whose registered office is at 2, Boulevard Konrad Adenauer L-1115 Luxembourg, registered with the Register of Commerce and Companies, Luxembourg under registered number B-95071 (the "**Lender**").

Whereas:

(A) Pursuant to a Facility Agreement dated 22 September 2003, (the "**Original Facility Agreement**"), the Lender, at the request of Gazprom, agreed to make available to Gazprom a loan facility in the maximum amount of the Programme Limit (as defined below) on the terms and subject to the conditions of the Original Facility Agreement, as amended and supplemented in relation to each Loan by a loan supplement dated the Closing Date substantially in the form set out in the Schedule thereto (each, a "**Loan Supplement**").

(B) It was intended that, concurrently with the extension of any Loan under the Original Facility Agreement, the Lender would issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such Loan.

(C) It has been agreed in the Principal Trust Deed (as defined below) that if following the assignment by the Lender of its rights and obligations under any Loan Agreement, the Trustee or any person receiving payments under the direction of the Trustee in accordance with Clause 2.8 of the Principal Trust Deed is no longer a resident of a state with which the Russian Federation has a double taxation treaty providing for a zero withholding tax rate on income in the form of interest, then the Trustee shall use its best endeavours (using its powers under the Principal Trust Deed) to select a new trustee or co-trustee, appoint an agent or nominee, delegate any of its functions or take such other measures that it deems advisable or necessary so that payments obtain the benefit of a zero withholding tax rate on payments in the form of interest.

(D) The parties hereto wish to amend and restate the Original Facility Agreement as set out below.

Now it is hereby agreed as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated:

"**Account**" means an account in the name of the Lender with the Principal Paying Agent as specified in the relevant Loan Supplement.

"**Administrative Services and Domiciliation Agreement**" means the administrative services and domiciliation agreement between the Lender and Deutsche Bank Luxembourg S.A. as amended and restated on 8 June 2005.

"**Affiliates**" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"**Agency Agreement**" means the amended and restated paying agency agreement relating to the Programme dated 7 December 2005 between the Lender, Gazprom, the Trustee and the agents named therein.

"**Arrangers**" mean Deutsche Bank AG, London Branch and UBS Limited or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has terminated pursuant to the Dealer Agreement.

"**Business Day**" means (save in relation to Clause 4) a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating and (d) in relation to a Loan corresponding to a Series of Notes to be sold pursuant to Rule 144A under the Securities Act, banks and foreign exchange markets are open for business generally in New York City.

"**Calculation Agent**" means, in relation to a Loan, Deutsche Bank AG, London Branch or any person named as such in the relevant Loan Supplement or any successor thereto.

"**Closing Date**" means the date specified as such in the relevant Loan Supplement.

"**Consolidated Net Tangible Assets**" means the total of all assets less (i) total liabilities, (ii) goodwill, trade names, trade marks, service marks, patents, licences, organisational expenses, research and development expenses, unamortised debt discount and expense, unamortised deferred charges and all other like intangible assets, (iii) all write-ups of fixed assets, net of accumulated depreciation thereon, after the most recent consolidated balance sheet of Gazprom and its consolidated Subsidiaries immediately preceding the relevant Closing Date prepared in accordance with IFRS, as consistently applied, excluding, for the avoidance of doubt, any restatement for changes in the general purchasing power of the Rouble in accordance with IFRS 29 "Financial Reporting in Hyperinflationary Economies" and revaluations supported by an independent appraisal completed by an appropriately qualified firm and (iv) preferred stock, if any, all as set forth on the most recent consolidated balance sheet of Gazprom and its consolidated Subsidiaries prepared in accordance with IFRS, as consistently applied.

"**Day Count Fraction**" has the meaning specified in the relevant Loan Supplement.

"**Dealer Agreement**" means the amended and restated dealer agreement relating to the Programme dated 7 December 2005 between the Lender, Gazprom, the Arrangers and the other dealers appointed pursuant to it.

"**Dollars**", "**$**" and "**U.S.$**" means the lawful currency of the United States of America.

"**Early Redemption Amount**" has the meaning specified in the relevant Loan Supplement.

"**Encumbrance**" means any mortgage, charge, pledge, lien (other than a lien arising solely by operation of law which is discharged within 45 calendar days of arising) or other security interest securing any obligation of any Person or any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

"**Environmental Law**" means any applicable law in any jurisdiction in which any member of the Group conducts business which relates to the pollution or protection of the environment or harm to or the protection of human health or the health of animals or plants.

"**euro**" or "**€**" means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome, as amended.

"**Event of Default**" has the meaning assigned to such term in sub-clause 11.1 hereof.

"**Fees and Expenses Side Agreement**" means, in relation to each Series, the agreement defined as such in the relevant Subscription Agreement.

"**Final Terms**" means, in relation to a Loan, final terms issued specifying the relevant issue details of such Loan, substantially in the form of Schedule C of the Dealer Agreement.

"**Financial Indebtedness**" means any obligation for the payment of money in any currency, other than an obligation for the payment of money in the lawful currency for the time being of the Russian Federation payable to any person domiciled, resident or having its head office or principal place of business in the Russian Federation, whether sole, joint or several, and whether actual or contingent, in respect of:

(a) moneys borrowed or raised (including the capitalised value of obligations under financial leases and hire purchase agreements and deposits, but excluding moneys raised by way of the issue of share capital (whether or not for a cash consideration) and any premium on such share capital) and interest and other charges thereon or in respect thereof;

(b) any liability under any debenture, bond, note, loan stock or other security or under any acceptance or documentary credit, bill discounting or note purchase facility or any similar instrument;

(c) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for a period not exceeding six months for goods or services supplied;

(d) any liability under any interest rate or currency hedging agreement;

(e) any liability under or in respect of any bonding facility, guarantee facility or similar facility; and

(f) (without double counting) any guarantee or other assurance against financial loss in respect of such moneys borrowed or raised, interest, charges or other liability (whether the person liable in respect of such moneys borrowed or raised, interest, charges or other liability is or is not a member of the Group),

but not where the same relates to or is in connection with any Project Financing.

"**Fixed Rate Loan**" means a Loan specified as such in the relevant Loan Supplement.

"**Floating Rate Loan**" means a Loan specified as such in the relevant Loan Supplement.

"**Gazprom Account**" means an account in the name of Gazprom as specified in the relevant Loan Supplement for receipt of Loan funds.

"**Gazprom Agreements**" means this Agreement, the Agency Agreement, the Dealer Agreement, the Trustee and Agents Fee Side Letter and together with, in relation to each Loan, the relevant Final Terms, Subscription Agreement and Loan Supplement.

"**Group**" means Gazprom and its Subsidiaries taken as a whole.

"**IFRS**" means the International Financial Reporting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time).

"**Interest Payment Date**" means the dates specified as such in the relevant Loan Supplement.

"**Interest Period**" means each period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

"**Lead Manager(s)**" means the Relevant Dealer(s) specified as such in the relevant Subscription Agreement.

"**Lender Agreements**" means the Dealer Agreement, this Agreement, the Agency Agreement, the Principal Trust Deed, the Administrative Services and Domiciliation Agreement, the Trustee and Agents Side Letter and together with, in relation to each Loan, the relevant Final Terms, Subscription Agreement, Loan Supplement and Supplemental Trust Deed and Fees and Expenses Side Agreement.

"**Loan**" means each loan to be made pursuant to, and on the terms specified in this Agreement and the relevant Loan Supplement and includes each Fixed Rate Loan and Floating Rate Loan.

"**Loan Agreement**" means this Agreement and (unless the context requires otherwise), in relation to a Loan means this Agreement as amended and supplemented by the relevant Loan Supplement.

"**Make Whole Premium**" has the meaning specified in the relevant Loan Supplement.

"**Material Adverse Effect**" means a material adverse effect on (a) the financial condition or operations of Gazprom and the Group taken as a whole or (b) Gazprom's ability to perform its obligations under a Loan Agreement or (c) the rights or remedies of the Lender under a Loan Agreement.

“**Notes**” means the loan participation notes that may be issued from time to time by the Lender under the Programme in Series, each Series corresponding to a Loan and in relation to a Loan as defined in the relevant Loan Supplement.

“**Noteholder**” means, in relation to a Note, the person in whose name such Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

“**Officer’s Certificate**” means a certificate signed by an officer of Gazprom who shall be the principal executive officer, principal accounting officer or principal financial officer of Gazprom in the form of Schedule 2.

“**Opinion of Counsel**” means a written opinion from international legal counsel who is acceptable to the Lender.

“**Permitted Encumbrance**” means:

(i) any Encumbrance existing on the date of the relevant Loan Agreement;

(ii) any Encumbrance existing on any property, income or assets of any corporation at the time such corporation becomes a Subsidiary of Gazprom and not created in contemplation of such event, provided that no such Encumbrance shall extend to any other property, income or assets of such corporation or the Group;

(iii) any Encumbrance on any property, income or assets of any corporation existing at the time such corporation is merged or consolidated with or into Gazprom or any Subsidiary of Gazprom and not created in contemplation of such event, provided that no such Encumbrance shall extend to any other property, income or assets of the Group;

(iv) any Encumbrance on any property or assets securing Financial Indebtedness of Gazprom or any Subsidiary of Gazprom incurred or assumed for the purpose of financing all or part of the cost of acquiring, purchasing, constructing or developing such property or assets, provided that no such Encumbrance shall extend to any other property or assets of the Group, the principal amount of the Financial Indebtedness secured by such Encumbrance shall not exceed the cost of acquiring, purchasing, constructing or developing such property or assets, and such Encumbrance attaches to such property or assets concurrently with or within 90 calendar days after the acquisition or purchase, or the commencement of the construction or development, thereof;

(v) any Encumbrance on any property or assets securing Financial Indebtedness of Gazprom or any Subsidiary of Gazprom incurred or assumed for the purpose of financing all or part of the cost of repairing or refurbishing such property or assets of the Group, provided that no such Encumbrance shall extend to any other property or assets, the principal amount of the Financial Indebtedness secured by such Encumbrance shall not exceed the cost of such repairs or refurbishments, and such Encumbrance attaches to such property or assets concurrently with or within 90 calendar days after the commencement of such repairs or refurbishments;

(vi) any Encumbrance existing on any property, income or assets prior to the acquisition thereof by Gazprom or any Subsidiary of Gazprom and not created in contemplation of such acquisition, provided that no such Encumbrance shall extend to any other property, income or assets of the Group;

(vii) any Encumbrance on the property, income or assets of any Subsidiary of Gazprom securing intercompany Financial Indebtedness of such Subsidiary of Gazprom owing to Gazprom or another Subsidiary of Gazprom;

(viii) any Encumbrance securing Financial Indebtedness incurred in connection with a Project Financing if the Encumbrance is solely on the property, income, assets or revenues of the project for which the financing was incurred;

(ix) any Encumbrance securing Financial Indebtedness not exceeding 50 per cent. of Gazprom’s Consolidated Net Tangible Assets at any time of determination;

(x) any Encumbrance arising out of the refinancing, extension, renewal or refunding of any Financial Indebtedness of Gazprom or any Subsidiary of Gazprom secured by any Permitted Encumbrance, provided that such Financial Indebtedness is not increased and, if the property, income or assets securing any such Financial Indebtedness are changed in connection with any such refinancing, extension, renewal or refunding, the value of the property, income or assets securing such Financial Indebtedness is not increased;

(xi) any Encumbrance over any goods or products, or documents, insurance policies or sale contracts in relation to any goods or products, arising in the ordinary course of trading in connection with the provision of a letter of credit or any similar transaction where such Encumbrance secures only so much of the acquisition cost or selling price (and amounts incidental thereto) of such goods or products which is required to be paid within 120 calendar days after the date upon which liability in respect of the same was first incurred; and

(xii) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group.

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

"**Potential Event of Default**" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"**Principal Subsidiary**" means at any relevant time a Subsidiary of Gazprom:

(i) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent not less than 5 per cent. of the total consolidated assets or the gross consolidated revenues of Gazprom and its Subsidiaries, all as calculated by reference to the then latest audited accounts (or consolidated accounts as the case may be) (in each case, produced on the basis of IFRS, consistently applied) of such Subsidiary and the then latest audited consolidated accounts of Gazprom (produced on the basis of IFRS, consistently applied) and its consolidated Subsidiaries; or

(ii) to which is transferred all or substantially all the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary.

"**Principal Trust Deed**" means the amended and restated principal trust deed dated 7 December 2005 between the Lender and the Trustee as amended, varied or supplemented from time to time in accordance with its terms.

"**Programme**" means the programme for the issuance of loan participation notes.

"**Programme Limit**" means U.S.$15,000,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme as may be increased in accordance with the Dealer Agreement.

"**Project Financing**" means any financing of all or part of the costs of the acquisition, construction, development or operation of any asset or project if the person or persons providing such financing expressly agrees to limit its recourse solely to the asset or project financed and the revenues derived from such asset or project as the principal source of repayment for the moneys advanced.

"**Put Settlement Date**" has the meaning specified in the relevant Loan Supplement.

"**Rate of Interest**" has the meaning assigned to such term in the relevant Loan Supplement.

"**Relevant Time**" means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time.

"**Repayment Date**" means the date specified as such in the relevant Loan Supplement.

"**Roubles**" means the lawful currency of the Russian Federation.

"**Same-Day Funds**" means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time determine to be customary for the settlement of international transactions in Brussels of the type contemplated hereby.

"**Series**" means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.

"**Side Letter**" means the letter specified as such in the relevant Loan Supplement.

"**Specified Currency**" means the currency specified as such in the relevant Loan Supplement.

"**Sterling**" means the lawful currency of the United Kingdom.

"**Subscription Agreement**" means the agreement specified as such in the relevant Loan Supplement.

"**Subsidiary**" means, with respect to any Person, (i) any corporation, association or other business entity of which more than 50 per cent. of the total voting power entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person (or any combination thereof) and (ii) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such person or (b) the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

"**Supplemental Trust Deed**" means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, *inter alia,* such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 10 of the Principal Trust Deed).

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereof.

"**Taxes**" means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Luxembourg or any taxing authority thereof or therein provided, however, that for the purposes of this definition the references to Luxembourg shall, upon the occurrence of the Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to any jurisdiction in which the Trustee is domiciled or resident for tax purposes; and the term "Taxation" shall be construed accordingly.

"**Trust Deed**" means the trust deed specified as such in the relevant Loan Supplement.

"**Trustee**" means Deutsche Bank Trust Company Americas, as trustee under the Trust Deed and any successor thereto as provided thereunder.

"**Trustee and Agents Side Letter**" means a side letter between Gazprom, the Trustee and the Agents (as named therein) dated on or around 7 December 2005.

"**Warranty Date**" means the date hereof, each Trade Date, the date of each Loan Supplement, each Closing Date, each date on which the Base Prospectus or any of the Lender Agreements is amended, supplemented or replaced and each date on which the Programme Limit is increased.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Principal Trust Deed, the Notes, the Agency Agreement or the Dealer Agreement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.3.1 All references to "Clause" or "sub-clause" are references to a Clause or sub-clause of this Agreement.

1.3.2 The terms "hereof", "herein" and "hereunder" and other words of similar import shall mean the relevant Loan Agreement as a whole and not any particular part hereof.

1.3.3 Words importing the singular number include the plural and vice versa.

1.3.4 All references to "taxes" include all present or future taxes, levies, imposts and duties of any nature and the terms "tax" and "taxation" shall be construed accordingly.

1.3.5 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

1.3.6 Any reference herein to a document being in "agreed form" means that the document in question has been agreed between the proposed parties thereto, subject to any amendments that the parties may agree upon prior to the Issue Date.

1.3.7 All references to "this Agreement" are references to this Amended and Restated Facility Agreement.

1.4 Amendment and Restatement

The parties hereto agree that this Agreement amends and restates the Original Facility Agreement. Any Loans made on or after the date hereof shall be made pursuant to, and have the benefit of, this Agreement. The amendments set out herein do not affect any Loans made prior to the date of this Agreement which shall be subject to the Original Facility Agreement or any Loans made in respect of loan participation note issues fungible with any such issue already outstanding which will be documented under the Original Facility Agreement.

2 Loans

2.1 Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to Gazprom Loans up to the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Loan will be used for general corporate purposes, but the Lender shall not be concerned with the application thereof.

2.3 Separate Loans

It is agreed that with respect to each Loan, all the provisions of this Agreement and the Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Loan and the expressions "**Account**", "**Closing Date**", "**Day Count Fraction**", "**Interest Payment Date**", "**Loan Agreement**", "**Notes**", "**Rate of Interest**", "**Repayment Date**", "**Specified Currency**", "**Subscription Agreement**" and "**Trust Deed**", together with all other terms that relate to such a Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that each such Loan shall be made pursuant to this Agreement and the relevant Loan Supplement, together comprising the Loan Agreement in respect of such Loan and that, unless expressly provided, events affecting one Loan shall not affect any other.

3 Drawdown

3.1 Drawdown

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on the Closing Date thereof the Lender shall make a Loan to Gazprom and Gazprom shall make a single drawing in the full amount of such Loan.

3.2 Loan Fees and Expenses

In consideration of the Lender making a Loan to Gazprom, Gazprom hereby agrees that it shall, one Business Day before each Closing Date, pay to the Lender, in Same-Day Funds, an amount equal to the reasonable documented reimbursable expenses incurred by the Lender in a total amount to be specified in the relevant Loan Supplement.

3.3 Disbursement

Subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on each Closing Date the Lender shall transfer the amount of the relevant Loan to the Gazprom Account specified in the relevant Loan Supplement.

3.4 Programme Fees and Expenses

In consideration of the Lender establishing and maintaining the Programme and agreeing to make Loans to Gazprom, Gazprom shall pay on demand to the Lender each year an amount to reimburse the Lender for its reasonable documented expenses relating to its management and operation in servicing the Loans as set forth to Gazprom in an invoice from the Lender.

4 Interest

4.1 Rate of Interest for Fixed Rate Loans

Each Fixed Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the applicable Rate of Interest.

If a Fixed Amount or a Broken Amount is specified in the relevant Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Loan Supplement.

4.2 Payment of Interest for Fixed Rate Loans

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date.

4.3 Interest for Floating Rate Loans

4.3.1 *Interest Payment Dates:* Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, such interest being payable in arrear not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 *Business Day Convention:* If any date referred to in the relevant Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 *Rate of Interest for Floating Rate Loans:* The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Loan Supplement.

(i) ISDA Determination for Floating Rate Loans

Where ISDA Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (i), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(a) the Floating Rate Option is as specified in the relevant Loan Supplement;

(b) the Designated Maturity is a period specified in the relevant Loan Supplement; and

(c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Supplement.

For the purposes of this sub-paragraph (i), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity", "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Loans

(a) Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(I) the offered quotation; or

(II) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Loans is specified in the applicable Loan Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Loans will be determined as provided in the applicable Loan Supplement.

(b) if the Relevant Screen Page is not available or if, sub-paragraph (a)(I) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (a)(II) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(c) if paragraph (b) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of Gazprom and the Lender suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

4.4 Accrual of Interest

Interest shall cease to accrue on each Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the applicable Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

4.5 Margin, Maximum/Minimum Rates of Interest and Rounding

4.5.1 If any Margin is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

4.5.2 If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.

4.5.3 For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred- thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 Calculations

The amount of interest payable in respect of any Loan for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding principal amount of such Loan by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the relevant Loan Supplement in respect of such period, in which case the amount of interest payable in respect of such Loan for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 Determination and Publication of Rates of Interest and Interest Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of such Floating Rate Loan for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to Gazprom, the Trustee, the Lender, each of the Paying Agents and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Clause 4.3.2, the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of Gazprom and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under Clause 11, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously in accordance with this Clause but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Lender otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Loan, the Lender and Gazprom agree that such determination or calculation may be made by or at the direction of the Trustee as set out in the conditions of the corresponding Series of Notes and such determination or calculation shall be deemed to have been made by the Calculation Agent. The parties acknowledge that in doing so, the Trustee shall apply or shall have applied the foregoing provisions of this Clause, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

4.9 Definitions

In this Clause 4, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of euro, a day on which the TARGET system is operating (a "TARGET Business Day"); and/or

(iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the "Calculation Period"):

(i) if "Actual/365" or "Actual/Actual-ISDA" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;

(iii) if "Actual/360" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;

(iv) if "30/360", "360/360" or "Bond Basis" is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the

31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));

(v) if "30E/360" or "Eurobond Basis" is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and

(vi) if "Actual/Actual-ICMA" is specified in the relevant Loan Supplement:

(a) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(I) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(II) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date.

"**Determination Date**" means the date specified in the relevant Loan Supplement or, if none is so specified, the Interest Payment Date.

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means the amount of interest payable, and in the case of Fixed Rate Loans, means the Fixed Amount or Broken Amount, as the case may be.

"**Interest Commencement Date**" means the Closing Date or such other date as may be specified in the relevant Loan Supplement.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the relevant Loan Supplement.

"**ISDA Definitions**" means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement.

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the relevant Loan Supplement.

"**Reference Rate**" means the rate specified as such in the relevant Loan Supplement.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Loan Supplement.

4.10 Calculation Agent

The Lender shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the relevant Loan Supplement and for so long as any amount remains outstanding under a Loan Agreement. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement, the Lender shall (with the prior approval of Gazprom) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both Gazprom and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Agency Agreement in relation to each particular Series.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein and in the applicable Loan Supplement, Gazprom shall repay each Loan not later than 10.00 a.m. (Relevant Time) one Business Day prior to the Repayment Date therefor.

5.2 Special Prepayment

If, as a result of the application of or any amendments to or change in the double tax treaty between the Russian Federation and Luxembourg or the laws or regulations of the Russian Federation or Luxembourg or of any political sub-division thereof or any authority therein or the enforcement of the security provided for in any Trust Deed, Gazprom would thereby be required to make or increase any payment due pursuant to any Loan Agreement as provided in sub-clauses 6.2 or 6.3, or if (for whatever reason) Gazprom would have to or has been required to pay additional amounts pursuant to Clause 8, then Gazprom may (without premium or penalty), upon not less than 10 days' notice to the Lender (which notice shall be irrevocable), prepay the relevant Loan in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Loan, or at any time, in the case of a Fixed Rate Loan.

5.3 Illegality

If, at any time after the date of the relevant Loan Supplement, by reason of the introduction of, or any change in any applicable law or regulation or regulatory requirement or directive of any agency of any state the Lender reasonably determines (such determination being accompanied by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by Gazprom) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of the relevant Loan or the corresponding Series of Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to such Loan, then upon notice by the Lender to Gazprom in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), Gazprom and the Lender shall consult in good faith as to a basis which eliminates the application of such circumstances; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 calendar days of the date on which it so notified Gazprom. If such a basis has not been determined within the 30 calendar days, then upon notice by the Lender to Gazprom in writing, Gazprom shall prepay such

Loan in whole (but not in part) on the next Interest Payment Date therefor, in the case of a Floating Rate Loan, or, in the case of a Fixed Rate Loan, on such date as the Lender shall certify to be necessary to comply with such requirements.

5.4 Payment of Other Amounts

If a Loan is to be prepaid by Gazprom pursuant to any of the provisions of Clauses 5.2 or 5.3, Gazprom shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual receipt of payment by the Lender and all other sums payable by Gazprom pursuant to the relevant Loan Agreement.

5.5 Optional Prepayment under Call Option

If Call Option is specified in the relevant Loan Supplement, Gazprom may, at its option at any time prior to the Repayment Date on giving not less than 30 nor more than 60 days' irrevocable notice to the Issuer, in whole or in part, repay the Loan at the Early Redemption Amount plus the Make Whole Premium. The notice to be given shall specify the date for repayment of the Loan and the date for the redemption of the Notes (the "**Call Redemption Date**"), which shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of such notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. The Loan shall be repaid on the date specified in such notice.

5.6 Optional Prepayment under Put Option

If Put Option is specified in the relevant Loan Supplement, following notification from the Issuer, Gazprom shall prepay the Loan (without premium or penalty), to the extent of the aggregate principal amount of the Notes to be properly redeemed in accordance with Condition 6 of the terms and conditions of the Notes, two Business Days prior to the Put Settlement Date.

5.7 Provisions Exclusive

Gazprom may not voluntarily prepay any Loan except in accordance with the express terms of the relevant Loan Agreement. Any amount prepaid may not be reborrowed.

6 Payments

6.1 Making of Payments

All payments of principal and interest to be made by Gazprom under each Loan Agreement shall be made to the Lender not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the relevant Account. The Lender agrees with Gazprom that it will not deposit any other moneys into such Account and that no withdrawals shall be made from such Account other than as provided for and in accordance with the relevant Trust Deed and the Paying Agency Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by Gazprom under each Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If Gazprom shall be required by applicable law to make any deduction or withholding from any payment under a Loan Agreement for or on account of any Taxes, it shall increase any payment due under such Loan Agreement to such amount as may be necessary to ensure that the Lender receives a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, Gazprom shall reimburse the Lender in the Specified Currency for such payment on demand. For the avoidance of doubt, this Clause 6.2 shall not be prejudiced by the failure (if any) by the Lender to satisfy its obligation to obtain a certificate from the competent Luxembourg authorities pursuant to Clause 10.7.1.

6.3 Withholding on Notes

If the Lender notifies Gazprom (setting out in reasonable detail the nature and extent of the obligation with such evidence as Gazprom may reasonably require) that it has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make under or in respect of a Series of

Notes in circumstances where the Lender is required to pay additional amounts pursuant to Condition 8 of such Series of Notes, Gazprom agrees to pay to the Lender, not later than 10.00 am (Relevant Time) one Business Day prior to the date on which payment is due to the Noteholders of such Series in Same-Day Funds to the relevant Account, such additional amounts as are equal to the said additional amounts which the Lender must pay pursuant to Condition 8 of such Series of Notes; provided, however, that the Lender shall immediately upon receipt from any Paying Agent of any sums paid pursuant to this provision, to the extent that the Noteholders of such Series, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of such Series of Notes, repay such additional amounts to Gazprom (it being understood that neither the Lender, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series is entitled to such additional amount).

6.4 Reimbursement

To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which Gazprom has made a payment pursuant to this Clause 6 or obtains any reimbursement from the Trustee pursuant to the terms of any Trust Deed, it shall pay to Gazprom so much of the benefit it received as will leave the Lender in substantially the same position as it would have been had no additional amount been required to be paid by Gazprom pursuant to this Clause 6 or had no reimbursement been paid to the Lender pursuant to such Trust Deed; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to Gazprom, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender. The Lender shall use its best endeavours to obtain any credits or refunds available to it, and the Lender shall disclose to Gazprom any information regarding its tax affairs or computations requested by Gazprom and notify Gazprom of any tax credit or allowance or other reimbursement it receives from the Trustee pursuant to such Trust Deed.

6.5 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of Gazprom to make any deduction, withholding or payment as described in sub-clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or Gazprom's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances. Gazprom agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause.

7 Conditions Precedent

7.1 Documents to be Delivered

The obligation of the Lender to make each Loan shall be subject to the receipt by the Lender on or prior to the relevant Closing Date of evidence that the persons mentioned in sub-clauses 14.10.5 and 14.10.6 hereof have agreed to receive process in the manner specified therein.

7.2 Further Conditions

The obligation of the Lender to make each Loan shall be subject to the further conditions precedent that as of the relevant Closing Date (a) the representations and warranties made and given by Gazprom in Clause 9 shall be true and accurate as if made and given on such Closing Date with respect to the facts and circumstances then existing, (b) no event shall have occurred and be continuing that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default, (c) Gazprom shall not be in breach of any of the terms, conditions and provisions of the relevant Loan Agreement, (d) the relevant Subscription Agreement, Trust Deed and the Paying Agency Agreement shall have been executed and delivered, and the Lender shall have received the full amount of the proceeds of the issue of the corresponding Series of Notes pursuant to such Subscription Agreement and (e) the Lender shall have received in full the amount referred to in sub-clauses 3.2 and 3.4, if due and payable, above, as specified in the relevant Loan Supplement.

8 Change in Law or Increase in Cost

8.1 Compensation

In the event that after the date of a Loan Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof, which:

8.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any Taxes payable by the Lender on its overall net income or any Taxes referred to in sub-clauses 6.2 or 6.3); or

8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any Taxes referred to in sub-clauses 6.2 or 6.3); or

8.1.3 imposes or will impose on the Lender any other condition affecting such Loan Agreement or such Loan,

and if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining such Loan is increased; or

(ii) the amount of principal, interest or other amount payable to or received by the Lender under such Loan Agreement is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from Gazprom hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of such Loan, then subject to the following, and in each such case:

(a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to Gazprom, together with a certificate signed by two directors of the Lender or by any person empowered by the board of directors of the Lender to sign on behalf of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such written notice; and

(b) Gazprom, in the case of clauses (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return,

provided that this sub-clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under sub-clauses 6.2 or 6.3.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to sub-clause 8.1:

8.2.1 the Lender shall consult in good faith with Gazprom and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, Gazprom's obligations to pay any additional amount pursuant to such sub-clause; and

8.2.2 Gazprom may, only in accordance with Clause 17 of the Principal Trust Deed (including with the consent of the Trustee thereunder), require the substitution of the Lender as lender under the relevant Loan Agreement(s) and as issuer of the corresponding Series of Notes, except that nothing in this sub-clause 8.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder unless Gazprom agrees to reimburse the Lender such costs or expenses.

9 Representations and Warranties

9.1 Gazprom's Representations and Warranties

Gazprom does, and on each Warranty Date shall be deemed to, represent and warrant to the Lender as follows, to the intent that such shall form the basis of each Loan Agreement:

9.1.1 Gazprom is duly organised and incorporated and validly existing under the laws of the Russian Federation and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under each Loan Agreement and to borrow Loans; Gazprom has taken all necessary corporate, legal and other action required to authorise the borrowing of Loans on the terms and subject to the conditions of each Loan Agreement and to authorise the execution and delivery of each Loan Agreement and all other documents to be executed and delivered by it in connection with each Loan Agreement, and the performance of each Loan Agreement in accordance with its terms.

9.1.2 The Loan Agreement, including each Loan Supplement in relation thereto, has been duly executed and delivered by Gazprom and constitutes a legal, valid and binding obligation of Gazprom enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); (ii) with respect to the enforceability of a judgment whether there is a treaty in force relating to the mutual recognition of foreign judgments; and (iii) to the fact that the gross-up provisions contained in sub-clause 6.2 or 6.3 may not be enforceable under Russian law.

9.1.3 The execution, delivery and performance of each Loan Agreement, including each Loan Supplement in relation thereto, by Gazprom will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of Gazprom or (iii) any agreement or other undertaking or instrument to which Gazprom is a party or which is binding upon Gazprom or any of its assets.

9.1.4 All consents, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation required by Gazprom in connection with the execution, delivery, performance, legality, validity, enforceability, and, subject to Russian legal requirements, admissibility in evidence of each Loan Agreement have been obtained or effected and are in full force and effect.

9.1.5 No event has occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a default under any agreement or instrument evidencing any Financial Indebtedness of Gazprom, and no such event will occur upon the making of a Loan.

9.1.6 Except as disclosed in the base prospectus dated 7 December 2005 relating to the Programme (as amended or supplemented from time to time, the "Base Prospectus") there are no judicial, arbitral or administrative actions, proceedings or claims pending or, to the knowledge of Gazprom, threatened, against Gazprom or any of its Principal Subsidiaries, the adverse determination of which has or would be reasonably likely to have a Material Adverse Effect.

9.1.7 Except for Encumbrances of the types referred to in the definition of Permitted Encumbrances in sub-clause 1.1 hereof, Gazprom and each of its Principal Subsidiaries has the right of ownership (as that expression is defined under the laws of the Russian Federation) to its property free and clear of all Encumbrances which if created would be reasonably likely to have a Material Adverse Effect and Gazprom's obligations under the Loans will rank at least *pari passu* with all its other unsecured and unsubordinated Financial Indebtedness (apart from any obligations mandatorily preferred by law).

9.1.8 The most recent audited consolidated financial statements of Gazprom:

(i) were prepared in accordance with IFRS, as consistently applied; and

(ii) save as disclosed therein, present fairly in all material respects the assets and liabilities as at that date and the results of operations of Gazprom during the relevant financial year.

9.1.9 Except as disclosed in the Base Prospectus, there has been no material adverse change since the date of the last audited consolidated financial statements of Gazprom in the financial condition, results of business operations or prospects of Gazprom and the Group taken as a whole.

9.1.10 The execution, delivery and enforceability of each Loan Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein.

9.1.11 Neither Gazprom nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to each Loan Agreement.

9.1.12 Gazprom is in compliance in all material respects with all applicable provisions of law except where failure to be so in compliance would not have a Material Adverse Effect.

9.1.13 Neither Gazprom, nor any of its Principal Subsidiaries has taken any corporate action nor, to the best of the knowledge and belief of Gazprom, have any other steps been taken or legal proceedings started or threatened in writing against Gazprom or any of its Principal Subsidiaries (except for those which, being contested in good faith and which are capable of being discharged or stayed within 45 Business Days, the Lender reasonably considers to be frivolous or vexatious) for its or their bankruptcy, winding-up, dissolution, external administration or re-organisation related thereto (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of its or of any or all of its or their assets or revenues.

9.1.14 In any proceedings taken in the Russian Federation in relation to each Loan Agreement, the choice of English law as the governing law of each Loan Agreement and any arbitration award obtained in England pursuant to Clause 14.10 in relation to each Loan Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in the Russian Federation.

9.1.15 Subject to sub-clause 10.7.1, under the laws of the Russian Federation, it will not be required to make any deduction or withholding from any payment it may make hereunder.

9.1.16 Its execution of each Loan Agreement will constitute, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial acts done and performed for private and commercial purposes.

9.1.17 It has no overdue tax liabilities which would be reasonably likely to have a Material Adverse Effect other than those which it has disclosed to the Lender prior to the date hereof or which it is contesting in good faith.

9.1.18 All licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable Gazprom and any of its Principal Subsidiaries to own its assets and carry on its business are in full force and effect and, if not, the absence of which would be reasonably likely to not have a Material Adverse Effect.

9.1.19 Gazprom, and each of its Principal Subsidiaries, is in compliance with all Environmental Law except where failure to do so could not have a Material Adverse Effect.

9.2 Lender's Representations and Warranties

The Lender represents and warrants to Gazprom as follows:

9.2.1 The Lender is duly incorporated under the laws of and is a resident for Luxembourg taxation purposes in Luxembourg and has full power and capacity to execute the Lender Agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same.

9.2.2 The execution of the Lender Agreements and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or the constitutive documents, rules and regulations of the Lender or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.

9.2.3 The Lender Agreements constitute legal, valid and binding obligations of the Lender.

9.2.4 All authorisations, consents and approvals required by the Lender for or in connection with the execution of the Lender Agreements, the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

9.2.5 So long as any amount remains outstanding under a Loan Agreement, it will comply with the provisions of Clause 14.14 of the Principal Trust Deed.

10 Covenants

So long as any amount remains outstanding under a Loan Agreement:

10.1 Negative Pledge

Neither Gazprom nor any Principal Subsidiary will create or permit to subsist any Encumbrance (other than a Permitted Encumbrance) upon or in respect of any of its undertakings, property, income, assets or revenues, present or future, to secure any Financial Indebtedness unless, at the same time or prior thereto, Gazprom's obligations hereunder are secured equally and rateably therewith or benefit from such other security or other arrangement, as the case may be, in each case to the satisfaction of the Trustee.

10.2 Maintenance of Authorisations

Gazprom shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of such Loan Agreement or for the validity or enforceability thereof.

10.3 Mergers

Gazprom shall not, without the prior written consent of the Lender, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable Russian legislation), or participate in any other type of corporate reconstruction and Gazprom shall ensure that no Principal Subsidiary enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or participate in any other type of corporate reconstruction if such reorganisation or other type of corporate reconstruction could have a material adverse effect on Gazprom's ability to perform its payment or other material obligations under such Loan Agreement or the validity or enforceability of such Loan Agreement or the rights or remedies of the Lender under such Loan Agreement.

10.4 Disposals

10.4.1 Gazprom shall not and Gazprom shall ensure that no member of the Group shall, without the prior written consent of the Lender, (disregarding (i) sales in the ordinary course of business and assignments of or other arrangements over the rights or revenues arising from contracts for the sale of gas, gas condensate, crude oil or any other hydrocarbon products, (ii) any lease or related transaction, (iii) dispositions of assets or rights not related to the extraction, production, transportation, marketing or supply of gas and (iv) assignments or other arrangements by way of security permitted under Clause 10.1) sell, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets (which for the avoidance of doubt excludes payments of cash, or other consideration, for the acquisition of any asset on normal commercial terms) which have an aggregate value in excess of U.S.$3,000,000,000 or the equivalent thereof to a Person that is not a member of the Group.

10.4.2 Sub-clause 10.4.1 does not apply to disposals of assets in exchange for other assets comparable or superior as to type, value and quality.

10.5 Maintenance of Property

Gazprom and any Principal Subsidiary will cause all property used in the carrying on by it of its business for the time being to be kept in good repair and working order as, in the judgment of Gazprom or such Principal Subsidiary, may be reasonably necessary so that the business may be carried on and the failure to keep such property in such condition would have a Material Adverse Effect.

10.6 Payment of Taxes and Other Claims

Gazprom shall pay or discharge or cause to be paid or discharged, before the same shall become overdue, all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of Gazprom; provided that Gazprom shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS as consistently applied or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.$500,000,000.

10.7 Withholding Tax Exemption

10.7.1 The Lender shall provide Gazprom, as soon as practicable but in any event not later than 21 calendar days after 1 January in each calendar year with a certificate, issued and/or certified by the competent Luxembourg authorities, confirming that the Lender is resident in Luxembourg, provided that the Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the competent Luxembourg authorities, but shall notify Gazprom without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate. In the event that the Lender has not complied with its duty to provide such certificate as set out in this sub-clause, Gazprom has a right of recourse against the Lender in respect of such non compliance. Such certificate shall be appropriately apostilled and a certified translation supplied.

10.7.2 Gazprom and the Lender agree that, should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding change then the procedure referred to in sub-clause 10.7.1 will be deemed changed accordingly.

10.8 Maintenance of Insurance

Gazprom and any Principal Subsidiary shall keep those of their properties which are of an insurable nature insured with insurers who implement good business practices and are believed by Gazprom or such Principal Subsidiary, as the case may be, to be responsible against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated, except where the failure to maintain such insurance could not have a Material Adverse Effect.

10.9 Reports

10.9.1 Gazprom will furnish to the Lender, within 9 months of the relevant year-end, each set of audited annual financial statements prepared in accordance with IFRS as consistently applied, including a report thereon by Gazprom's certified independent accountants.

10.9.2 On each Interest Payment Date, Gazprom shall deliver to the Lender a written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred and shall be continuing, what action Gazprom is taking or proposes to take with respect thereto.

10.9.3 Gazprom will on request of the Lender provide the Lender with such further information, other than information which Gazprom determines in good faith to be confidential, about the business and financial condition of Gazprom and its Subsidiaries as the Lender may reasonably require (including pursuant to Clauses 14.5 and 14.12 of the Principal Trust Deed).

10.9.4 At any time after Gazprom or any subsidiary of Gazprom shall have purchased any Notes and retained such Notes for its own account or for the account of any other company, Gazprom will notify the Lender to that effect and thereafter deliver to the Lender as soon as practicable after being so requested in writing by the Lender a certificate of Gazprom setting out the total number of Notes which, at the date of such Note, are held by Gazprom for its own account or for the account of any other company or any subsidiary of Gazprom for its own account or for the account of any other company.

10.10 Compliance with Terms of Trust Deed

The Lender agrees that it will observe and comply with its obligations set out in the relevant Trust Deed and will not agree to any amendment to the terms of such Trust Deed without prior consultation, if reasonably practicable, with Gazprom. In addition, the Lender agrees that it will only exercise its power to appoint a new Trustee pursuant to Clause 26.1 of the Principal Trust Deed with the consent of Gazprom (such consent not to be unreasonably withheld or delayed).

11 Events of Default

11.1 Events of Default

11.1.1 Gazprom fails to pay within three Business Days any amount payable under a Loan Agreement as and when such amount becomes payable in the currency and in the manner specified therein, provided that such default will not be an Event of Default if (i) it occurs by reason only of administrative or technical difficulties affecting the transfer of the funds due from Gazprom, (ii) Gazprom issued the appropriate transfer and payment instructions in sufficient time to permit the transfer and payment of the amount due to be made on its due date and (iii) the Lender receives from Gazprom that amount within six Business Days after the due date for payment.

11.1.2 Gazprom fails to perform or observe any of its other obligations under a Loan Agreement and (except where in any such case that failure is not capable of remedy when no such notices as is hereinafter mentioned will be required) that failure continues for the period of 45 calendar days (or such longer period as the Lender may permit) next following the submission by the Lender to Gazprom of notice in writing requesting the same to be remedied.

11.1.3 Any representation or warranty of Gazprom or any statement deemed to be made by Gazprom in a Loan Agreement proves to have been inaccurate, incomplete or misleading in any material respect at the time it was made or repeated or deemed to have been made or repeated and the failure to render such representation or warranty true, correct and not misleading could have a Material Adverse Effect and such representation or warranty shall not have been rendered true, correct and otherwise not misleading in any material respect within 30 calendar days following the submission by the Lender to Gazprom of notice in writing requesting the same to be remedied.

11.1.4 Gazprom or any Principal Subsidiary (i) fails to pay any of its Financial Indebtedness as and when such Financial Indebtedness becomes payable, taking into account any applicable grace period or (ii) fails to perform or observe any covenant or agreement to be performed or observed by it contained in any other agreement or in any instrument evidencing any of its Financial Indebtedness if, as a result of such failure, any other party to such agreement or instrument has exercised the right to accelerate the maturity of any amount owing thereunder and such amount becomes so accelerated; provided, that the total amount of such Financial Indebtedness unpaid and accelerated exceeds U.S.$20,000,000 (or its equivalent in another currency); provided however that this sub-clause 11.1.4 shall not apply to foreign currency Financial Indebtedness owed to Russian Persons (being Russian citizens or legal entities organised under Russian law or having their chief place of business in the Russian Federation).

11.1.5 Gazprom or any Principal Subsidiary commences negotiations with its creditors generally with a view to the general readjustment or rescheduling of its indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally; provided that the same could have a Material Adverse Effect.

11.1.6 Gazprom or any Principal Subsidiary takes any corporate action or any order is made by a competent court for its winding-up, dissolution, external administration or re-organisation whether by way of voluntary arrangement, scheme of arrangement or otherwise or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of all or a material part of its revenues and assets; provided that the same could have a Material Adverse Effect.

11.1.7 Gazprom or any Principal Subsidiary (i) fails or is unable to pay its debts generally as they become due (ii) commences a voluntary case in bankruptcy or any other action or proceeding for any other relief under any law affecting creditors' rights as is similar to bankruptcy law, or (iii) a bankruptcy (insolvency) petition in respect of Gazprom or any Principal Subsidiary is accepted by any competent court and bankruptcy proceedings are initiated by such competent court and are not dismissed within 30 calendar days, or any action is brought in and accepted by any competent court for the liquidation of Gazprom or any Principal Subsidiary or a Russian federal law that provides for the liquidation of Gazprom as operator of the Unified Gas Supply System is adopted and comes into effect provided that the same could have a Material Adverse Effect.

11.1.8 Any governmental authorisation necessary for the performance of any obligation of Gazprom under a Loan Agreement fails to be in full force and effect and such failure has not been remedied within 30 calendar days after the occurrence thereof.

11.1.9 Any governmental authority or court takes any action that has a material adverse effect on Gazprom's ability to perform its obligations under a Loan Agreement or the validity or enforceability of a Loan Agreement or the rights or remedies of the Lender under a Loan Agreement, save where such action is being contested in good faith by Gazprom and is not removed, paid out, stayed or discharged within 45 calendar days of such action being taken.

11.1.10 Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the assets of Gazprom or any event occurs which under the laws of any jurisdiction has a similar or analogous effect and the same could have a Material Adverse Effect unless such execution, distress, enforcement of an Encumbrance or similar or analogous event is being contested in good faith by Gazprom and is not removed, paid out, stayed or discharged within 45 calendar days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be.

11.1.11 There are unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against Gazprom and its Principal Subsidiaries which could have a Material Adverse Effect and there is a period of 30 calendar days following the entry thereof during which the relevant judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 10 calendar days after the notice specified in sub-clause 11.2.

11.1.12 Any seizure, compulsory acquisition, expropriation or nationalisation after the date of a Loan Agreement by or under the authority of a government authority of all or part (the book value of which is fifteen per cent. (15 per cent.) or more of the book value of the whole) of the assets or all or more than fifteen per cent. (15 per cent.) of the voting or non-voting shares of Gazprom or any Principal Subsidiary is made by any person.

11.1.13 Gazprom or any of its Principal Subsidiaries ceases to carry on the principal business it carries on at the date of a Loan Agreement; provided that, in the case of a Principal Subsidiary, the same could have a Material Adverse Effect.

11.1.14 At any time it is or becomes unlawful for Gazprom to perform or comply with any or all of its (in the opinion of the Lender) material obligations under a Loan Agreement or any of such material obligations (subject as provided in sub-clause 9.1.2) are not, or cease to be, legal, valid, binding and enforceable.

11.1.15 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs, subject to the same thresholds and cure periods as set out in the relevant paragraph.

11.2 Notice of Default

Gazprom shall deliver to the Lender and the Trustee, (i) promptly upon becoming aware thereof, or (ii) within 10 days of any written request by the Lender, written notice in the form of an Officers' Certificate substantially in the form of Schedule 2, stating whether any event which is a Potential Event of Default or an Event of Default has occurred, its status and what action Gazprom is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to Gazprom, (a) declare the obligations of the Lender under the relevant Loan Agreement to be immediately terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under such Loan Agreement by Gazprom that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all expressly waived by Gazprom; provided, however, that if any event of any kind referred to in sub-clause 11.1.7 occurs, the obligations of the Lender under such Loan Agreement shall immediately terminate, and all amounts payable under such Loan Agreement by Gazprom that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are especially waived by Gazprom.

11.4 Rights Not Exclusive

The rights provided for in each Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12 Indemnity

12.1 Indemnification

Gazprom undertakes to the Lender that if the Lender or any director, officer, employee or agent (other than the Principal Paying Agent or any of the Paying Agents) of the Lender (each an "**Indemnified Party**") incurs any loss, liability, cost, claim, charge, expense (including all legal fees properly incurred) demand or damage (a "**Loss**") which may be properly incurred in respect of a Loan Agreement (or enforcement thereof), and/or the issuance, constitution, sale, listing and/or enforcement of the corresponding Series of Notes and/or the Notes of such Series being outstanding (excluding a Loss that is the subject of the undertakings contained in Clauses 8 and 13 and sub-clause 14.6 of this Agreement (it being understood that the Lender may not recover twice in respect of the same Loss)) Gazprom shall pay to the Indemnified Party on demand an amount equal to such Loss (as evidenced by an invoice distributed to Gazprom by the Lender in accordance with sub-clause 14.4) unless, in any such case, such Loss was either caused by such Indemnified Parties' negligence or wilful misconduct or arose out of a breach of the representations and warranties of the Lender contained herein or in the Dealer Agreement; provided that this sub-clause 12.1 will not apply to or in respect of any Taxes with respect to payments of principal and interest on the Loan or any other amount payable under such Loan Agreement. It is understood and agreed that any payment to be made by Gazprom pursuant to this Clause 12.1 shall be made through the Lender acting as paying agent pursuant to a paying agent agreement dated 7 December 2005 between Gazprom and the Lender, provided that any obligation of Gazprom to pay any amount pursuant to this Clause 12.1 shall only be discharged to the extent that payments of such amount is actually received by the relevant Indemnified Party. It is understood that the amount of Loss that is to be paid pursuant to the preceding provisions of this paragraph, provided such amount is duly documentarily evidenced, will be paid by Gazprom on the basis of an invoice distributed to Gazprom by the Lender and a delivery and acceptance act signed by the parties.

12.2 Notice and Payment of Loss, Defence of Action and Settlement

If any proceeding (including a governmental investigation), claim or demand shall be instituted involving an Indemnified Party, it shall promptly notify Gazprom in writing and Gazprom shall have the right to assume the defence thereof and appoint lawyers which are acceptable to the Indemnified Party (acting reasonably in assessing acceptability) and shall be liable to pay the fees and expenses of such lawyers related to such proceeding. In any proceeding, the Indemnified Party shall have the right to retain its own lawyers, but the fees and expenses of such lawyers shall be at the expense of the Indemnified Party unless (i) Gazprom and the Indemnified Party shall have mutually agreed to the retention of such lawyers or (ii) the named parties to any such proceeding (including any joined parties) include Gazprom and the Indemnified Party and representation of both parties by the same lawyers (in the reasonable opinion of the Indemnified Party) would be inappropriate due to actual or potential differing interests between them or (iii) pursuant to the previous sentence Gazprom has elected to assume the defence itself but has within a reasonable time after the notification of the institution of such action failed to appoint lawyers as contemplated above or (iv) pursuant to the previous sentence Gazprom has elected not to assume such defence itself and the Indemnified Party has assumed such defence and retained lawyers in respect thereof. It is understood that Gazprom shall reimburse such fees and expenses as they are incurred in respect of (i), (ii), (iii) and (iv) above. Gazprom shall not be liable for any settlement of any such proceeding, claim or demand effected without its written consent (provided that such consent shall not be unreasonably withheld or delayed), but if settled with such consent (or without such consent in circumstances where such consent shall have been unreasonably withheld or delayed as aforesaid) or if there be a final judgment for the Indemnified Party, Gazprom agrees to indemnify the Indemnified Party from and against any loss or liability by reason of such settlement or judgment. Gazprom will not settle any proceeding in respect of which indemnity may be sought pursuant to Clause 12.1 without the written consent of the relevant Indemnified Party, unless such settlement includes an unconditional release of each Indemnified Party from all liability arising out of such proceeding, claim or demand.

12.3 Independent Obligation

Sub-clause 12.1 constitutes a separate and independent obligation of Gazprom from its other obligations under or in connection with each Loan Agreement or any other obligations of Gazprom in connection with the issuance of Notes by the Lender and shall not affect, or be construed to affect, any other provision of a Loan Agreement or any such other obligations.

12.4 Evidence of Loss

A certificate of the Lender, supported by relevant documentation, setting forth the amount of losses, expenses and liabilities described in sub-clause 12.1 and specifying in full detail the basis therefor shall be prima facie evidence of the amount of such losses, expenses and liabilities.

12.5 Survival

The obligations of Gazprom pursuant to sub-clauses 6.2, 6.3 and 12.1 shall survive the execution and delivery of each Loan Agreement and the drawdown and repayment of the relevant Loan, in each case by Gazprom.

13 Expenses

13.1 Reimbursement of Front-end Expenses

Gazprom shall, pursuant to sub-clause 3.2 hereof and the relevant Loan Supplement, reimburse the Lender in the Specified Currency for all reasonable documented costs and expenses properly incurred by the Lender in connection with the negotiation, preparation and execution of each Loan Agreement. Reimbursement shall be made pursuant to invoices submitted by the Lender to Gazprom.

13.2 Payment of Ongoing Expenses

In addition, Gazprom hereby agrees to pay to the Lender on demand in the Specified Currency all reasonable documented ongoing commissions, costs, fees and expenses (including, without limitation, enforcement costs), payable by the Lender under or in respect of the Lender Agreements. Gazprom shall also reimburse the Lender for any indemnification or other payment obligations of the Lender under or in respect of the Lender Agreements, (other than the obligation of the Lender to make payments of principal, interest or additional amounts in respect of the corresponding Series of Notes). Payments to the Lender referred to in this sub-clause 13.2 shall be made by Gazprom on the basis of an invoice submitted to Gazprom by the Lender and a delivery and acceptance act signed by the parties at least two Business Days before the relevant payment is to be made or expense incurred.

14 General

14.1 Evidence of Debt

The entries made in the relevant Account shall, in the absence of manifest error, constitute prima facie evidence of the existence and amounts of Gazprom’s obligations recorded therein.

14.2 Stamp Duties

14.2.1 Gazprom shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on Gazprom by any Person in the Russian Federation, Luxembourg or the United States of America which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by Gazprom to pay such taxes or similar charges.

14.2.2 Gazprom agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the Russian Federation, the United States of America or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and any documents related thereto as well as Notes of corresponding Series and any documents related thereto, Gazprom shall repay the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all costs and expenses connected with the payment of such amounts.

14.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or Gazprom, any right, power to privilege under any Loan Agreement and no course of dealing between Gazprom and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies provided in each Loan Agreement are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.4 Notices

All notices, requests, demands or other communications to or upon the respective parties to each Loan Agreement shall be given or made in the English language by facsimile transmission or otherwise in writing and shall be deemed to have been duly given or made to the party to which such notice, request, demand or other communication is required or permitted to be given or made under such Loan Agreement:

(a) if by way of hand or courier, when such communications have been signed for or a receipt has been issued or some similar delivery confirmation has been given; and

(b) if sent by facsimile transmission, when confirmation to its transmission has been recorded by the sender's fax machine at the end of the communication,

such notice, request, demand or other communication to be addressed as follows:

14.4.1 if to Gazprom:

Open Joint Stock Company Gazprom
16 Nametkina Street
117884 Moscow
Russian Federation
Fax: (7 495) 718 6393
Attention: Financial and Economic Department

14.4.2 if to the Lender:

Gaz Capital S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg
Fax: (352) 421 22 718
Attention: The Directors

or to such other address or facsimile number as any party may hereafter specify in writing to the other.

14.5 Assignment

14.5.1 Each Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Loan Agreement. Any reference in a Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender or the giving of an opinion by the Lender, following the enforcement of the security and/or assignment referred to in sub-clause 14.5.2 below, shall be references to the exercise of such rights or discretions or the giving of an opinion by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Lender and Gazprom or any agreements of the Lender or Gazprom pursuant to sub-clauses 6.4 or 6.5 or Clause 8.

14.5.2 Gazprom shall not assign or transfer all or any part of its rights or obligations hereunder to any other party.

14.5.3 The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement except pursuant to (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of the Lender's rights and benefits under such Loan Agreement and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under such Loan Agreement, in each case, pursuant to Clause 6 of the relevant Supplemental Trust Deed.

14.6 Currency Indemnity

To the fullest extent permitted by law, the obligation of Gazprom in respect of any amount due in the Specified Currency under a Loan Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the Specified Currency that the Lender may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in the Specified Currency that may be so purchased for any reason falls short of the amount originally due (the "Due Amount"), Gazprom hereby agrees to indemnify and hold harmless the Lender against any deficiency in the Specified Currency. Any obligation of Gazprom not discharged by payment in the Specified Currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided the relevant Loan Agreement, shall continue in full force and effect. If the amount in the Specified Currency that may be purchased exceeds that Due Amount the Lender shall promptly pay the amount of the excess to Gazprom.

14.7 Prescription

Subject to the Lender having received such amounts from Gazprom, the Lender shall forthwith repay to Gazprom as redundant payments the amount equal to the principal amount or the interest amount thereon, respectively, of any Series of Notes upon any Notes of such Series becoming void pursuant to Condition 11 of such Notes. The Lender and Gazprom shall, at such time, enter into an amendment to the relevant Loan Agreement providing for such repayment and the corresponding reduction of the relevant Loan in form satisfactory to Gazprom.

14.8 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to a Loan Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of such Loan Agreement.

14.9 Choice of Law

Each Loan Agreement shall be governed by, and construed in accordance with, the laws of England.

14.10 Jurisdiction

14.10.1 For the exclusive benefit of the other party, each of Gazprom and the Lender hereby irrevocably agrees that the courts of England shall have jurisdiction to settle any disputes which may arise out of or in connection with any Loan Agreement and that accordingly any suit, action or proceeding (collectively, "Proceedings") arising out of or in connection with such Loan Agreement may be brought in such courts.

14.10.2 Each of the parties irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any Proceedings in any such court referred to in this Clause 14 and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably agrees that a final and conclusive judgment in any Proceedings brought in the English courts with competent jurisdiction shall be conclusive and binding and may be enforced in the courts of any other jurisdiction.

14.10.3 Nothing contained in any Loan Agreement shall limit the right of any party to take Proceedings against another party in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Proceedings in connection with such Loan Agreement in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction or in any other court of competent jurisdiction in connection with such Loan Agreement to the extent permitted by any applicable law.

14.10.4 Each of the parties hereby agrees that, at the option of the other party, any dispute, controversy, claim or cause of action brought by any party against another party or arising out of or relating to any Loan Agreement may be settled by arbitration in accordance with the Rules of the LCIA (formerly the London Court of International Arbitration) (the "**LCIA**"), which rules are deemed to be incorporated by reference into this Clause. The place of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall not be interested in the dispute or controversy, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. Each party shall nominate an arbitrator, who, in turn, shall nominate the Chairman of the Tribunal. If a dispute, claim controversy or cause of action shall involve more than two parties, the parties thereto shall attempt to align themselves on two sides (i.e. claimant and respondent) each of which shall appoint an arbitrator as if there were only two sides to such dispute, claim controversy or cause of action. If such alignment and appointment shall not have occurred within twenty (20) calendar days after the initiating party serves the arbitration demand or if a Chairman has not been selected within thirty (30) calendar days of the selection of the second arbitrator, the Arbitration Court of the LCIA shall appoint the three arbitrators or the Chairman, as the case may be. The parties and the Arbitration Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The arbitrators shall have no authority to award punitive or other punitive type damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement.

Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar costs) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

14.10.5 The Lender agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Deutsche Bank Luxembourg S.A., c/o Deutsche Bank AG, London Branch, Winchester House, 1 Great Winchester Street, London EC2N 2DB or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall, on the written demand of Gazprom, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 calendar days, Gazprom shall be entitled to appoint such a person by written notice to the Lender. Nothing in this Clause shall affect the right of Gazprom to serve process in any other manner permitted by law.

14.10.6 Gazprom agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Gazprom (U.K.) Limited at its registered office being at 41 Vine Street, London EC3N 2AA or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on Gazprom's behalf, Gazprom shall, on the written demand of the Lender, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 calendar days, the Lender shall be entitled to appoint such a person by written notice to Gazprom. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

14.10.7 Gazprom irrevocably and unconditionally:

(i) waives all rights of immunity in respect of it or its assets;

(ii) agrees not to claim immunity from proceedings brought by the Lender against it in relation to any Loan Agreement and to ensure that no such claim is made on its behalf; and

(iii) consents generally to the giving of any relief or the issue of any process in connection with these proceedings.

14.11 Counterparts

Each Loan Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

14.12 Language

The language which governs the interpretation of each Loan Agreement is the English language.

14.13 Amendments

Except as otherwise provided by its terms, each Loan Agreement may not be varied except by an agreement in writing signed by the parties.

14.14 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of each Loan Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the date first written above.

SCHEDULE 1

FORM OF LOAN SUPPLEMENT

This Loan Supplement is made on ● **between**:

(1) **GAZ CAPITAL S.A.**, a société anonyme established under the laws of Luxembourg whose registered office is at 2, Boulevard Konrad Adenauer L-1115 Luxembourg, registered with the Register of Commerce and Companies, Luxembourg under number B-95071 (the "**Lender**") and

(2) **OPEN JOINT STOCK COMPANY GAZPROM,** a company established under the laws of the Russian Federation whose registered office is at 16 Nametkina Street, 117997 Moscow, Russian Federation ("**Gazprom**").

Whereas:

(A) Gazprom has entered into an amended and restated facility agreement dated 7 December 2005 (the "**Facility Agreement**") with the Lender in respect of Gazprom's U.S.$30,000,000,000 Programme for the Issuance of loan participation notes (the "**Programme**").

(B) Gazprom proposes to borrow ● (the "**Loan**") and the Lender wishes to make such Loan on the terms set out in the Facility Agreement and this Loan Supplement.

It is agreed as follows:

1 Definitions

Capitalised terms used but not defined in this Loan Supplement shall have the meaning given to them in the Facility Agreement save to the extent supplemented or modified herein.

2 Additional Definitions

For the purpose of this Loan Supplement, the following expressions used in the Facility Agreement shall have the following meanings:

"**Account**" means the account in the name of the Lender with the Principal Paying Agent (account number ● , ●);

"**Base Prospectus**" means ● ;

["**Calculation Agent**" means Deutsche Bank AG, London Branch;]

"**Closing Date**" means ● ;

["**Early Redemption Amount**" means ● per ● amount of the Loan, plus accrued interest, if any, to the Redemption Date;]

"**Gazprom Account**" means the account in the name of Gazprom (account number ●);

"**Loan Agreement**" means the Facility Agreement as amended and supplemented by this Loan Supplement;

["**Make Whole Premium**" means the excess, if any (as reported in writing to the Issuer and the Trustee by a reputable financial institution operating in ● market in ● selected by the Issuer and approved in writing by the Trustee (the "**Financial Adviser**") (and rounded, if necessary, to the third decimal place (0.0005 being rounded upwards)), of (a) the value at the Redemption Date of the principal amount of the Loan, plus all required interest payments that would otherwise be due to be paid on the Loan during the period between the Redemption Date and the Repayment Date, excluding accrued but unpaid interest at the Redemption Date, calculated using a discount rate equal to ● basis points above the Treasury Rate over (b) the outstanding principal amount of the Loan;]

"**Notes**" means ● per cent. [Floating Rate] Loan Participation Notes due ● issued by the Lender as Series ● under the Programme;

["**Put Settlement Date**" means ● ;]

"**Repayment Date**" means ● ;

"**Side Letter**" means ● ;

"**Specified Currency**" means ● ;

"**Subscription Agreement**" means an agreement between the Lender, Gazprom and ● dated ● relating to the Notes;

["**Treasury Rate**" means a rate equal to the yield, as published by the ● , on actively traded ● with a maturity comparable to the remaining life of the Loan, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary ● dealers in ● selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in ● preceding the Redemption Date; and]

"**Trust Deed**" means the Amended and Restated Principal Trust Deed between the Lender and the Trustee dated 7 December 2005 as amended and supplemented by a Supplemental Trust Deed to be dated on or about ● constituting and securing the Notes.

3 Incorporation by Reference

Except as otherwise provided, the terms of the Facility Agreement shall apply to this Loan Supplement as if they were set out herein and the Facility Agreement shall be read and construed, only in relation to the Loan constituted hereby, as one document with this Loan Supplement.

4 The Loan

4.1 Drawdown

Subject to the terms and conditions of the Loan Agreement, the Lender agrees to make the Loan on the Closing Date to Gazprom and Gazprom shall make a single drawing in the full amount of the Loan on that date.

4.2 Interest

The Loan is a [Fixed Rate][Floating Rate] Loan [and the Notes comprise a Rule 144A Series]. Interest shall be calculated, and the following terms used in the Facility Agreement shall have the meanings, as set out below:

4.2.1	**Fixed Rate Loan Provisions**	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	Interest Commencement Date:	●
(ii)	Rate[(s)] of Interest:	● per cent. per annum payable [annually/semi-annually] in arrears
(iii)	Interest Payment Date(s):	● in each year
(iv)	Fixed Amount[(s)]:	● per ● in principal amount
(v)	Broken Amount:	[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount*[*(s)*]]
(vi)	Day Count Fraction (Clause 4.9):	[30/360/Actual/Actual (ICMA/ISDA)/ other]
(vii)	Determination Date(s) (Clause 4.9):	● in each year. [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/ Actual (ICMA)*]
(viii)	Other terms relating to the method of calculating interest for Fixed Rate Loans:	[Not Applicable/*give details*]
4.2.2	**Floating Rate Loan Provisions**	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	Interest Commencement Date:	●
(ii)	Interest Period(s):	●
(iii)	Specified Interest Payment Dates:	●

(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
(v)	Business Centre(s) (Clause 4.9):	●
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other *(give details)*]
(vii)	Interest Period Date(s):	[Not Applicable/*specify dates*] *(will be not applicable unless different from Interest Payment Date)*
(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	
(ix)	Screen Rate Determination (Clause 4.3.3):	
	—Reference Rate:	
	—Interest Determination Date(s):	
	—Relevant Screen Page:	
(x)	ISDA Determination (Clause 4.3.3):	
	—Floating Rate Option:	
	—Designated Maturity:	
	—Reset Date:	●
(xi)	Margin(s):	● per cent. per annum
(xii)	Minimum Rate of Interest:	● per cent. per annum
(xiii)	Maximum Rate of Interest:	● per cent. per annum
(xiv)	Day Count Fraction (Clause 4.9):	●
(xv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Facility Agreement:	●

4.2.3 Put/Call Options [Put Option/Call Option/Not Applicable]

5 Fees and Expenses

Pursuant to Clause 3.2 of the Facility Agreement and in consideration of the Lender making the Loan to Gazprom, Gazprom hereby agrees that it shall, one Business Day before the Closing Date, pay to the Lender, in Same-Day Funds, the amount of the reasonably documented reimbursable expenses incurred by the Lender in connection with such Loan, [which expenses shall include the amount of all of the commissions, fees, costs and expenses as set forth in sub-clauses [5.1] and [5.2] of the Subscription Agreement, paragraphs 1 and 4 of the Fee Side Letter and sub-clauses 3.2 and 13.1 of the Facility Agreement] pursuant to an invoice submitted by the Lender to Gazprom in the total amount of ● .

6 Governing Law

This Loan Supplement shall be governed by and construed in accordance with English law. This Loan Supplement has been entered into on the date stated at the beginning.

SCHEDULE 2
FORM OF OFFICERS' CERTIFICATE

To: Gaz Capital S.A.
Deutsche Bank Trust Company Americas

From: Open Joint Stock Company Gazprom

Dated:

Dear Sirs

Open Joint Stock Company Gazprom—U.S.$30,000,000,000 Amended and Restated Facility Agreement dated 7 December 2005 (the "Loan Agreement")

1 We refer to the Loan Agreement. This is an Officers' Certificate for the purposes of Clause 11.2 of the Loan Agreement.

2 We confirm that no Potential Event of Default or Event of Default has occurred since the date of our last certification, or if none, the Closing Date(1).

Terms used but not defined herein shall have the meanings given to them in the Loan Agreement.

For and on behalf of Open Joint Stock Company Gazprom

Signed:	Signed:
[principal executive officer/ principal accounting officer/principal financial officer] of Open Joint Stock Company Gazprom	[officer] of Open Joint Stock Company Gazprom

(1) If this statement cannot be made, the certificate should identify any Potential Event of Default or Event of Default that is continuing and the steps, if any, being taken to remedy it.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which (subject to completion and amendment in accordance with the provisions of Part A of the relevant Final Terms) will be attached to the Notes in definitive form, if issued, and (subject to the provisions thereof) apply to the Global Notes representing each Series. Either (i) the full text of these terms and conditions together with Part A of the relevant provisions of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Final Terms. Those definitions will be endorsed on the definitive Notes. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified hereon (the "**Supplemental Trust Deed**") supplemental to an amended and restated principal trust deed (as further amended or supplemented as at the Issue Date, the "**Principal Trust Deed**") dated December 7, 2005, each made between Gaz Capital S.A. (the "**Issuer**") and Deutsche Bank Trust Company Americas (the "**Trustee**," which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee and successors thereof for the holders of the Notes (the "**Noteholders**"). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the "**Trust Deed**."

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan (the "**Loan**") as specified hereon to Open Joint Stock Company Gazprom (the "**Borrower**"). The Issuer and the Borrower have recorded the terms of the Loan in an amended and restated facility agreement (the "**Facility Agreement**") dated December 7, 2005, as supplemented on the Issue Date specified hereon by a loan supplement (the "**Loan Supplement**") each between the Issuer and the Borrower (together, the "**Loan Agreement**").

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement.

The Issuer has charged by way of charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes and under the Trust Deed (a) all principal, interest and other amounts payable by Gazprom to the Issuer as lender under the Loan Agreement, (b) the right to receive all sums which may be or become payable by Gazprom under any claim, award or judgment relating to the Loan Agreement and (c) all the rights, title and interest in and to all sums of money now or in the future deposited in an account with Deutsche Bank AG, London Branch in the name of the Issuer (the "**Account**") and debts represented thereby, including interest from time to time earned on the Account (other than any rights and benefits constituting Reserved Rights and amounts relating to the Reserved Rights (as defined in the Trust Deed)) (the "**Charge**") and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the "**Assignment**" and together with the Charge, the "**Security Interests**"). At any time following the occurrence of an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) and subject as provided in the Trust Deed and Condition 9, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower) pursuant to, an amended and restated paying agency agreement (the "**Agency Agreement**") dated December 7, 2005 and made between the Issuer, Deutsche Bank Luxembourg S.A. as paying agent and Luxembourg registrar, Deutsche Bank Trust Company Americas as paying agent and U.S. registrar (together with Deutsche Bank Luxembourg S.A. in such capacity, each a "**Registrar**," which expressions shall include any successors), Deutsche Bank AG, London Branch as the principal paying agent (the "**Principal Paying Agent**") and calculation agent, Deutsche International Corporate Services (Ireland) Limited as paying agent and Deutsche Bank AG, London Branch and Deutsche Bank Luxembourg S.A. as transfer agents (the "**Transfer Agents**"), which expressions shall include any additional or successor transfer agents), the Borrower and the Trustee.

Copies of the Trust Deed, the Loan Agreement, the Agency Agreement and the Final Terms are available for inspection at the principal office of the Trustee being, at the date hereof, at 60 Wall Street, New York, NY 10005, United States of America, at the specified office of the Principal Paying Agent and at the specified office of the Paying Agent in Ireland.

The statements contained in these Terms and Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Final Terms, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and certain provisions of the Agency Agreement.

All capitalised terms used but not otherwise defined in these Terms and Conditions have the meanings given to them in the Trust Deed.

1 Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and other amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or other amounts (if any) pursuant to the Loan Agreement will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or counterclaim that may arise out of other transactions between the Issuer or the Trustee and the Borrower.

Noteholders have notice of, and have accepted, these Terms and Conditions, the Final Terms and the contents of the Trust Deed and the Loan Agreement, and have hereby accepted that:

1.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph 1.6 below, liability or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any other amounts) due or to become due from the Borrower under the Loan Agreement;

1.2 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Borrower;

1.3 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;

1.4 neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, any of the Paying Agents, the Registrar or the Transfer Agent of their respective obligations under the Agency Agreement;

1.5 the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower; and

1.6 the Issuer and the Trustee shall be entitled to rely on a certificate signed by a duly authorised officer of the Borrower confirming that the Borrower is complying with its obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the assigned property whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security; the Trustee has no responsibility for the value of such security.

1.7 Under the Trust Deed, the obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

1.8 In the event that the payments under the Loan Agreement are made by the Borrower to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will pro tanto satisfy the obligations of the Issuer in respect of the Notes.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to the Borrower except through action by the Trustee pursuant to the Assigned Rights granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured to its satisfaction.

2 Form, Denomination and Title

The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon or integral multiples thereof, without interest coupons; provided that the Rule 144A Notes shall be held in amounts of not less than U.S.$200,000 and further provided that all Notes will have a minimum Specified Denomination of €100,000 (or its equivalent in any other currency as at the date of issue of those Notes).

So long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided hereon and integral multiples of the Tradeable Amounts in excess thereof provided in the relevant Final Terms.

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

3 Register, Title and Transfers

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the "holder" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "Noteholder" shall be construed accordingly. A Note will be issued to each Noteholder in respect of its registered holding.

The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

A Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of the Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

Subject to the last paragraph of this Condition 3, within five business days of the surrender of a Note in accordance with the immediately preceding paragraph above, the Registrar will register the transfer in question and deliver a new Note to each relevant holder at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "business day" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office.

The transfer of a Note will be effected without charge but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

4 Restrictive Covenants

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee shall not, *inter alia*, incur any other indebtedness for borrowed moneys, engage in any other business (other than acquiring and holding the Charged Property in respect of each Series, issuing Notes, entering into Loans and performing any act incidental to or necessary in connection with the foregoing), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these conditions and the Trust Deed), issue any shares, give any guarantee or assume any other liability, or subject to the laws of Luxembourg, petition for any winding-up or bankruptcy.

5 Interest

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified hereon which shall be equal to the rate per annum at which interest under the Loan accrues. Accordingly, on each Interest Payment Date the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

If a Fixed Coupon Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified hereon.

(b) **Interest on Floating Rate Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and as set out in the Loan Agreement.

(c) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(d) **Calculations:** The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction as specified hereon and in the Loan Agreement, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

(e) **Publication of Rates of Interest and Interest Amounts:** The Calculation Agent shall, as soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, Gazprom, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed and/or admitted to trading on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Clause 11 of the Facility Agreement, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5 but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(f) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply or shall have applied the foregoing provisions of this Condition 5, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

6 Redemption

Unless previously prepaid or repaid pursuant to Clause 5.2 or 5.3 of the Facility Agreement, the Borrower will be required to repay the Loan one Business day prior to its Repayment Date (as defined in the Loan Agreement) and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will be redeemed or repaid by the Issuer in the relevant Specified Currency on the Maturity Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100% of the principal amount thereof).

If the Loan should become repayable (and be repaid) pursuant to the Loan Agreement prior to its Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will endeavour to give not less than eight days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

To the extent that the Issuer receives amounts of principal, interest or other amounts (other than amounts in respect of the Reserved Rights) following acceleration of the Loan pursuant to clause 11 of the Loan Agreement, the Issuer shall pay an amount equal to and in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 7.

The Issuer, subject to the Borrower's written consent (which consent shall not be unreasonably withheld or delayed), may compel any beneficial owner of Notes initially sold pursuant to Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act") to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and also a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940).

If Call Option is specified hereon, then pursuant to Clause 5.5 of the Facility Agreement and the relevant Loan Supplement, the Borrower may, at its option at any time prior to the Repayment Date specified hereon on giving not less than 30 nor more than 60 days' irrevocable notice to the Issuer, in whole or in part, repay the Loan at the Early Redemption Amount specified hereon plus the Make Whole Premium specified hereon (the "**Call Option**"). The notice to be given (the "**Call Option Notice**") shall specify the date for repayment of the Loan and the date for the redemption of the Notes (the "**Call Redemption Date**"), which shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of the Call Option Notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. If the Loan should become repayable following exercise of the Call Option by the Borrower (and be repaid) prior to the Repayment Date, the Notes will thereupon become due and repayable and the Issuer shall, subject to receipt of such amounts from the Borrower under the Loan, redeem the Notes on the Call Redemption Date. In the case of a partial redemption, the Notes shall be redeemed *pro rata* and otherwise in such manner as the Trustee deems appropriate, subject to compliance with any applicable laws and stock exchange or other regulatory requirements. The Issuer's obligations in respect of this Condition 6 to redeem and make payment for the Notes shall constitute an obligation only to account to Noteholders on the Redemption Date for an amount equivalent to the sums received by or for the account of the Issuer pursuant to the Loan Agreement.

If Put Option is specified hereon, the Issuer shall, at the option of any Noteholder redeem such Note on the Put Settlement Date specified hereon (the "**Put Option**") at its principal amount together with accrued interest. To exercise such option a Noteholder must deposit the Note or Notes to be redeemed with any Paying Agent together with a duly completed put redemption notice in the form obtainable from any of the Paying Agents, not more than 60 but not less than 30 days prior to the Put Settlement Date. No Note so deposited may be withdrawn. Provided, however, that if, prior to the Put Settlement Date, a Relevant Event has occurred or, upon due presentation of any Note on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note shall, without prejudice to the exercise of the Put Option, be returned to the Noteholder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Option Notice. The Issuer shall notify the Borrower, not more than three Business Days after receipt of notice thereof from the Paying Agent, of the amount of the Loan to be prepaid as a consequence of the exercise by Noteholders of the option contained in this Condition 6. Subject to timely receipt of the relevant amounts from the Borrower under the Loan Agreement, the Issuer shall redeem the Notes in accordance with this Condition 6 on the Put Settlement Date, subject as provided in Condition 7.

7 Payments and Agents

Payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent or of the Registrar and in the manner provided in the paragraph below.

Interest shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest shall be made in the Specified Currency by cheque drawn on a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access to the TARGET System (a "**Bank**") and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank, or by transfer to an account in the Specified Currency maintained by the payee with, a Bank in the principal financial centre of such Specified Currency or in the case of euro, a Bank specified by the payee or at the option of the payee, by a euro-cheque and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of the Transfer Agent.

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

If the due date for payments of interest or principal is not a business day, a Noteholder shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Financial Centres" hereon, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) (in the case of a payment in euro) which is a TARGET Business Day.

The names of the initial Paying Agents and their initial specified offices are set out below. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents provided that (i) so long as the Notes are listed and/or admitted to trading on any stock exchange or market or admitted to listing by any other relevant authority, there will be a paying agent and transfer agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or market or other relevant authority and (ii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to such Directive. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified hereon shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to clause 6 of the Agency Agreement require the Borrower to make all payments of principal and interest to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer (the "Account"). Under the Charge, the Issuer will charge by way of charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of the Noteholders.

8 Taxation

All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Russian Federation or Luxembourg or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In such event, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives an equivalent amount from the Borrower under the Loan Agreement. To the extent that the Issuer receives a lesser additional amount from the Borrower, the Issuer will account to each Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer provided that no such additional amount will be payable in respect of any Note:

8.1 to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with the Russian Federation or Luxembourg other than the mere holding of such Note or the receipt of payments in respect thereof;

8.2 in respect of a Note presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;

8.3 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

8.4 in respect of a Note presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used herein, "**Relevant Date**" (i) means the date on which any payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Borrower has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any other amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9 Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

At any time after an Event of Default (as defined in the Facility Agreement) or of a Relevant Event (as defined in the Trust Deed) has occurred and is continuing, the Trustee may, at its discretion and without notice and shall, if requested to do so by Noteholders owning 25% in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, institute such proceedings as it may think fit to enforce the rights of the Noteholders and the provisions of the Trust Deed, including to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable (in the case of an Event of Default), or enforce the security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

10 Meetings of Noteholders; Modification of Notes, Trust Deed and Loan Agreement; Waiver; Substitution of the Issuer

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement or the Trust Deed. Noteholders will vote *pro rata* according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed or, following the creation of the Security Interests, the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders.

The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Terms and Conditions of the Notes or the Trust Deed or, following the creation of the Security Interests, by the Borrower of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the

Noteholders (as a class). Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be promptly notified to the Noteholders.

The Trust Deed contains provisions to the effect that the Issuer may, and at the request of the Borrower shall, having obtained the consent of the Borrower (if such substitution is not to be made at the request of the Borrower) and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such reasonable requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes.

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11 Prescription

Notes will become void unless presented for payment of principal within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12 Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured to its satisfaction. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or the Borrower and any entity related to the Issuer and/or the Borrower without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the Loan Agreement.

The Trustee has no obligation to take any action (or step) which would or might in its opinion result in it incurring liabilities of any nature unless it is indemnified to its satisfaction in respect of the same and in forming any such opinion the Trustee shall be entitled to rely on legal advice or other advice received by it (as provided for by the Trust Deed) as to the existence and extent of such liabilities without liability to Noteholders for so doing regardless of whether and the extent to which the taking of any action or step by the Trustee is thereby delayed.

Nothing contained in these Conditions shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any right, power, authority or discretion hereunder if it has reasonable grounds for believing the repayment of such funds or adequate indemnity against, or security for, such risk or liability is not reasonably assured to it.

13 Replacement of Notes

If any Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of any Registrar or the Paying Agent in Ireland on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14 Notices

All notices to the Noteholders shall be deemed to have been duly given if (i) posted to such holders at their respective addresses as shown on the Register and (ii) so long as the Notes are listed and/or admitted to trading on the Irish Stock Exchange and the rules of that exchange so require, published in a daily newspaper of general circulation in Ireland approved by the Trustee, currently expected to be The Irish Times. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

15 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and the date of the first payment of interest) so as to be consolidated and form a single series with the Notes. Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides. In relation to any further issue which is to be consolidated and form a single series with the Notes, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with the Borrower on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Notes). The Issuer will provide a further fixed charge in favour of the Trustee in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement which will secure both the Notes and such further Notes and which will supplement the Security Interests in relation to the existing Notes of such Series.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

The Notes, the Agency Agreement and the Trust Deed are governed by, and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the exclusive jurisdiction of the courts of England and has appointed an agent for the service of process in England. The provisions of articles 86 to 94-8 of the Luxembourg law of August 10, 1915, as amended, on commercial companies are excluded.

There will appear at the foot of the Conditions endorsed on or (as the case may be) attached to each Definitive Note and the Global Notes the names and Specified Offices of the Registrars, the Paying Agents and the Transfer Agents as set out at the end of this Base Prospectus.

GAZ CAPITAL S.A.

Gaz Capital S.A. (the "Issuer") was incorporated as a *société anonyme* on July 23, 2003 for an unlimited duration with limited liability under the laws of the Grand Duchy of Luxembourg. Its Articles of Incorporation have been published in the Mémorial, Recueil des Sociétés et Associations on August 21, 2003. It is registered with the Register of Commerce and Companies, Luxembourg under number B 95 071.

The Issuer's registered office is located at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, and its telephone number is +352 421 22 243.

The Issuer is a special purpose vehicle whose subscribed share capital amounts to euro 31,000 divided into 31 registered shares with a par value of euro 1,000 each. All of the shares are fully paid up. Thirty shares are owned by Stichting Gaz Capital and one share by Stichting Participatie DITC Amsterdam.

Deutsche Bank Luxembourg S.A. is the domiciliation agent of the Issuer. Its duties include the provision of certain administrative and related services. It may terminate its appointment at any time upon giving not less than two months' prior notice in writing, provided that any such termination shall not be effective until a replacement acceptable to the Issuer and the Trustee has been suggested by Deutsche Bank Luxembourg S.A.

Principal Activities

The corporate objects of the Issuer, as described in Article 3 of its Articles of Incorporation, are:

- the issue of Notes and other debt securities under the Programme for the purpose of financing Loans to Gazprom;
- the granting of Loans to Gazprom;
- the granting of Security Interests over its assets to the Trustee in relation to the issuance of Notes; and
- the making of deposits at banks or with other depositaries.

The Issuer may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its corporate objectives except for any banking activities.

In general the Issuer may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Board of Directors

The Issuer has a board of directors, currently consisting of three directors. The directors at present are:

- Kailash Ramassur, employee, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg;
- Laurie Domecq, employee, having her professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg; and
- Graeme Jenkins, employee, having her professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

Financial Statements

The Issuer's fiscal year ends on December 31 of each year. The Issuer's audited financial statements as of and for the three years ended December 31, 2014, 2013 and 2012 were prepared in accordance with Luxembourg legal and regulatory requirements applicable to the preparation of financial statements.

PricewaterhouseCoopers, Société coopérative, having its registered office at 2, rue Gerhard Mercator, B.P. 1443, L-1014, Luxembourg was appointed to act as approved independent auditor of the Issuer for the years ended December 31, 2014, 2013 and 2012. PricewaterhouseCoopers, Société coopérative is a member of the Luxembourg body of registered auditors ("Institut des Réviseurs d'Entreprises").

The Issuer is fully consolidated into Gazprom's consolidated financial statements prepared in accordance with IFRS.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each purchaser of Rule 144A Notes within the United States, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is (a) a qualified institutional buyer within the meaning of Rule 144A (a "QIB") that is also a qualified purchaser as defined in Section 2(a)(51) of the Investment Company Act (a "QP"), (b) not a broker-dealer that owns and invests on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acting for its own account, or for the account of a QIB that is also a QP, (e) not formed for the purpose of investing in the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

(2) It will, (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories.

(3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State or another jurisdiction of the United States.

(4) It understands that the Issuer has the power under the Trust Deed and Condition 6 to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and also a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honor the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and a QP.

(5) It understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB") THAT IS ALSO A QUALIFIED PURCHASER AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940 (A "QP") THAT (A) IS NOT A BROKER- DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (B) IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (C) IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP, IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN U.S.$200,000, (D) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OF THIS NOTE, (E) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (F) WILL PROVIDE NOTICE OF THESE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE, OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. A TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. THE ISSUER, SUBJECT TO THE BORROWER'S (AS DEFINED IN THE TRUST DEED) WRITTEN CONSENT (WHICH

CONSENT SHALL NOT BE UNREASONABLY WITHHELD OR DELAYED) HAS THE RIGHT UNDER THE TRUST DEED TO COMPEL ANY BENEFICIAL OWNER THAT IS A U.S. PERSON AND IS NOT A QIB AND A QP TO SELL ITS INTEREST IN THIS NOTE, OR MAY SELL SUCH INTEREST ON BEHALF OF SUCH BENEFICIAL OWNER. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT BY ITS PURCHASE AND FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED APPLIES OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE, (2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN SECTION 3(32) OF ERISA OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE U.S. TAX CODE, THE PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT AND WILL NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR ANY OTHER LEGAL AUTHORITY APPLICABLE TO SUCH GOVERNMENTAL PLAN OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE U.S. TAX CODE, AND THE PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT AND WILL NOT RESULT IN THE ASSETS OF THE ISSUER OF THE NOTES BEING CONSIDERED PLAN ASSETS OF SUCH GOVERNMENTAL PLAN OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE U.S. TAX CODE, AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

(6) At the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan to which Section 4975 of the U.S. Tax Code applies, or (iii) an entity whose underlying assets include plan assets by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a governmental plan, as defined in Section 3(32) of ERISA or other plan not subject to Title I of ERISA or Section 4975 of the U.S. Tax Code, the purchase, holding and disposition of the Notes or any interest therein does not and will not violate any statute, regulation, administrative decision, policy or any other legal authority applicable to such governmental plan or other plan not subject to Title I of ERISA or Section 4975 of the U.S. Tax Code, and the purchase, holding and disposition of the Notes or any interest therein does not and will not result in the assets of the Issuer being considered plan assets of such governmental plan or other plan not subject to Title I of ERISA or Section 4975 of the U.S. Tax Code, and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations, warranties and covenants from that person.

(7) It acknowledges that the Issuer, Gazprom, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, Gazprom and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(8) It understands that the Rule 144A Notes will be evidenced by a global Note (the "Rule 144A Global Note"). Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (substantially in the form provided in the Agency Agreement) as to compliance with applicable laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States and each subsequent purchaser of Regulation S Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, Gazprom or a person acting on behalf of such an affiliate.

(2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(3) It acknowledges that the Issuer, Gazprom, the Registrar, the Dealers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, Gazprom and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(4) It understands that the Regulation S Notes will be evidenced by a global Note (the "Regulation S Global Note"). Before any interest in the Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (substantially in the form provided in the Agency Agreement) as to compliance with applicable laws.

(5) At the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan to which Section 4975 of the U.S. Tax Code applies or (iii) an entity whose underlying assets include plan assets by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a governmental plan, as defined in Section 3(32) of ERISA, or other plan not subject to Title I of ERISA or Section 4975 of the U.S. Tax Code, the purchase, holding and disposition of the Notes or any interest therein does not and will not violate any statute, regulation, administrative decision, policy or any other legal authority applicable to such governmental plan or other plan not subject to Title I of ERISA or Section 4975 of the U.S. Tax Code, and the purchase, holding and disposition of the Notes or any interest therein does not and will not result in the assets of the Issuer being considered plan assets of such governmental plan or other plan not subject to Title I of ERISA or Section 4975 of the U.S. Tax Code, and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations, warranties and covenants from that person.

CLEARING AND SETTLEMENT

The Global Notes

Each Series of Notes will be evidenced on issue by a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and, in the case of Rule 144A Notes, a Rule 144A Global Note deposited with (i) Deutsche Bank AG, London Branch as common depositary for, and registered in the name of BT Globenet Nominees Ltd as nominee of, Euroclear and Clearstream, Luxembourg, or (ii) Deutsche Bank Trust Company Americas as custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "—Book-Entry Procedures for the Global Notes." By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, and that, if it determines to transfer such beneficial interest prior to the expiration of the 40-day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes (a) to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to be a person who takes delivery in the form of an interest in a Rule 144A Global Note (if applicable). See "Transfer Restrictions." Beneficial interests in a Rule 144A Global Note may be held through DTC or Euroclear and Clearstream, Luxembourg. See "—Book-Entry Procedures for the Global Notes." By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Trust Deed. See "Transfer Restrictions."

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Trust Deed, and with respect to Rule 144A Notes, as set forth in Rule 144A, and the Notes will bear the legends set forth thereon regarding such restrictions set forth under "Transfer Restrictions." A beneficial interest in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note in denominations greater than or equal to the minimum denominations applicable to interests in a Rule 144A Global Note and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made to a non-U.S. person and in accordance with Regulation S.

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the "Definitive Notes"). The Notes are not issuable in bearer form.

So long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and integral multiples of the Tradeable Amount in excess thereof specified in the relevant Final Terms or Series Prospectus, as the case may be.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- Payments. Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other

Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.

- Notices. So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes provided that for so long as the Notes are listed and admitted to trading on the Irish Stock Exchange and the Guidelines for Asset Backed Securities (the "Guidelines") so require, notices will also be filed at the Companies Announcements Office of the Irish Stock Exchange.

- Meetings. For the purposes of any meeting of Noteholders, the holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as being entitled to one vote in respect of each integral currency unit of the specified currency of the Notes.

- Trustee Powers. In considering the interests of Noteholders while the Global Notes are held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to each Global Note and may consider such interests as if such accountholders were the holders of any Global Note.

- Cancellation. Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive form if: (i) a Global Note is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in definitive form and a notice to such effect signed by two directors of the Issuer or by any person(s) empowered by the board of directors of the Issuer to sign on behalf of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or the Transfer Agent and the Noteholders of its intention to exchange the relevant Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of a Global Note may surrender such Global Note to or to the order of the Registrar or Transfer Agent. In exchange for such Global Note, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in Part 1 of Schedule 2 of the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the due date for any payment of principal or interest in respect of the Notes; provided that any such transfer shall be made in accordance with the Trust Deed.

"Exchange Date" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Borrower (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "Transfer Restrictions."

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "Transfer Restrictions," or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Notes

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "—Settlement and Transfer of Notes."

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("Direct Participants") or indirectly ("Indirect Participants" and together with Direct Participants, "Participants") through organizations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a "banking organization" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerized book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organizations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "—Exchange for Definitive Notes," DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing Regulation S Notes or the Rule 144A Global Note representing Rule 144A Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Note representing Rule 144A Notes of any Series will have an ISIN, Common Code and a CUSIP number and will be deposited with a custodian (the "Custodian") for and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "Beneficial Owner") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement ("SDFS") system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisors.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated December 7, 2005 (the "Dealer Agreement") between the Issuer, Gazprom, the Permanent Dealers and the Arrangers, the Notes will be offered from time to time by an Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, among other things, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the Relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers.

Each of the Issuer and Gazprom has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes and the corresponding Loans have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States or the securities laws of any other jurisdiction. Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that:

- the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those registration requirements; and

- except as permitted by the Dealer Agreement it will not offer or sell the Notes of any Series (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Series of which such Notes are a part, as determined and certified to the Principal Paying Agent by such Dealer (or, in the case of such Series of Notes sold to or through more than one Dealer on a syndicated basis, by any Dealer acting as lead manager), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Terms used in this section have the meanings given to them by Regulation S.

Notes offered and sold outside the United States to non-U.S. persons may be sold in reliance on Regulation S. The Dealer Agreement provides that the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to persons whom they reasonably believe are QIBs that are also QPs who can represent that (a) they are QPs who are QIBs within the meaning of Rule 144A; (b) they are not broker-dealers who own and invest on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers; (c) they are not a participant-directed employee plan, such as a 401(k) plan; (d) they are acting for their own account, or the account of another QIB who is a QP; (e) they are not formed for the purpose of investing in the Issuer; (f) each account for which they are purchasing will hold and transfer at least U.S.$200,000 in principal amount of Notes at any time; (g) they understand the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories; and (h) they will provide notice of the transfer restrictions set forth in this Base Prospectus to any subsequent transferees.

In addition, until 40 days after commencement of the offering of any identifiable Series of Notes, an offer or sale of such Notes within the United States by a dealer (whether or not participating in the offering of such Series of Notes) may violate the registration requirements of the Securities Act, if such offer or sale is made otherwise than in accordance with Rule 144A.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States, the resale of the Notes in the United States and for the listing of Notes on the Irish Stock Exchange. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any

QIB who is also a QP (a "QIB/QP") and to whom an offer has been made directly by one of the Dealers or its U.S. broker-affiliate. Distribution of this Base Prospectus by any non-U.S. person outside the United States or by any QIB/QP in the United States to any U.S. person or to any other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. person or QIB/QP with respect thereto, is unauthorized and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. person or QIB/QP, is prohibited.

United Kingdom

Each Dealer has represented and agreed that (i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of FSMA by the Issuer, (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of FSMA does not apply to the Issuer, and (iii) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each of the Dealers has agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law; it being understood and agreed that the Dealers may distribute this Base Prospectus and (or) the Final Terms or Series Prospectus to persons in the Russian Federation in a manner that does not constitute advertisement or offering of the Notes in Russia (each as defined in Russian securities laws) and may sell the Notes to Russian persons in a manner that does not constitute "offering," "placement" or "circulation" of the Notes in the Russian Federation (as defined in Russian securities laws) and otherwise not in breach of Russian law.

Canada

Each of the Dealers in relation to any offering of the Notes, has or will have, prior to any such offering, acknowledged, represented and agreed that: (i) the Notes have not been, and will not be, qualified for sale under the securities laws of any province or territory of Canada; (ii) it has not offered, sold, solicited an offer to purchase, or delivered, and that it will not offer, sell, solicit an offer to purchase or deliver, any Notes, directly or indirectly, in Canada or to, or for the benefit of, any Canadian Person; (iii) it has not distributed, and will not distribute, this Base Prospectus or any other offering material relating to the Notes in Canada or to, or for the benefit of Canadian Persons; and (iv) Canadian Persons are restricted from participating in any way, directly or indirectly, in the offering of the Notes (or any dealings related to the offering of the Notes), pursuant to the Special Economic Measures (Russia) Regulations.

General

Each Dealer has agreed that it has, to the best of its knowledge and belief, complied and will comply in all material respects with applicable laws and regulations in each jurisdiction in which they offer, sell or deliver Notes or distribute this Base Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or Gazprom.

The Arrangers, the Dealers and their respective affiliates have engaged and are engaged in transactions with Gazprom and other members of the Group (including, in some cases, credit agreements and credit lines) in the ordinary course of their banking business. The Arrangers and the Dealers performed various investment banking, financial advisory, and other services for Gazprom, for which they received customary fees, and the Arrangers, the Dealers and their respective affiliates may provide such services in the future.

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

These selling restrictions may be modified by the agreement of the Issuer, Gazprom and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms, or Series Prospectus, as the case may be, issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and the Loans and does not purport to be a comprehensive discussion of the tax treatment of the Notes or the Loans.

Prospective purchasers of the Notes are advised to consult their own tax advisors as to the consequences arising in their particular circumstances under the tax laws of countries of which they are residents of the purchase, ownership, holding and disposition of any series of the Notes, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of the Notes.

The information and analysis contained within this section are limited to tax issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes or the Loans.

Russian Federation

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of any Series of the Notes as well as taxation of interest and some other payments on the corresponding Loans.

The summary is based on the laws of the Russian Federation as in effect on the date of this Base Prospectus (whereas they are subject to changes which could occur frequently, at short notice and could apply retrospectively). The summary does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia or tax implications arising for the Noteholders applying special tax regimes available under Russian tax legislation. Similarly this summary does not seek to address the availability of double tax treaty relief to, and the eligibility for double tax relief of any Noteholder in respect of income payable to that Noteholder on any Series of the Notes, or practical difficulties connected with claiming and obtaining such double tax treaty relief. The analysis set out herein does not include any comments on tax implications which could arise for the Noteholders in connection with entering into REPO or stock lending transactions with any Series of the Notes or into term deals, derivatives and/or any similar types of transactions with any Series of the Notes.

Many aspects of Russian tax laws and regulations are subject to significant uncertainty and lack of interpretive guidance resulting in differing interpretations and inconsistent application thereof by the various Russian authorities in practice. Further, the substantive provisions of Russian tax laws and regulations applicable to financial instruments may be subject to more rapid and unpredictable changes (possibly with the retroactive effect) and inconsistent application as compared to jurisdictions with more developed capital markets and tax systems. The interpretation and application of such provisions will, in practice, to a large extent rest substantially with local tax inspectorates and such interpretations may often be inconsistent or may often change.

In practice, interpretation and application of tax laws and regulations by different tax inspectorates in Russia and their representatives may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Furthermore, court rulings on tax or other related matters adopted by different courts relating to the same or similar circumstances may be also inconsistent or contradictory.

Prospective investors should consult their own tax advisors regarding tax consequences of investing in the Notes that will arise in their own particular circumstances. No representation with respect to Russian tax consequences relevant to any particular Noteholder is made hereby.

Taxation of the Notes

General

For the purposes of this summary, the term "Resident Noteholder" means:

- a Russian legal entity or an organization which acquires, holds and disposes the Notes, a legal entity or an organization, in each case organized under a non-Russian law, which acquires, holds and disposes the Notes through its permanent establishment in Russia or an organization organized under a non-Russian law and recognized as Russian tax resident in accordance with the requirements set out in the Russian Tax Code which acquires, holds and disposes the Notes (the "Resident Noteholder-Legal Entity"). An organization organized under a non-Russian law shall be deemed to be tax resident of the Russian Federation for the purposes of the Russian Tax Code if (1) it is deemed to be tax resident of the Russian Federation in accordance with an applicable double tax treaty and (2) its place of management is in the Russian Federation unless a different conclusion follows from an applicable double tax treaty;

- a Noteholder who is an individual and satisfies the criteria for being a Russian tax resident, who acquires, holds and disposes of the Notes. A "Russian tax resident" is an individual who is actually present in Russia for an aggregate period of 183 calendar days or more in any period comprised of 12 consecutive months (the "Resident Noteholder—Individual"). Presence in Russia for Russian personal income tax residency purposes is not considered interrupted if an individual departs from Russia for short periods of time (less than six months) for medical treatment, education purposes or completion of employment or other duties related to work (rendering services) at offshore hydrocarbon fields.

For the purposes of this summary, the term "Non-Resident Noteholder" means:

- a legal entity or an organization in each case organized under a non-Russian law which acquires, holds and disposes of the Notes other than through its permanent establishment in Russia and does not satisfy the criteria for being a Russian tax resident as defined above (the "Non-Resident Noteholder—Legal Entity");

- a Noteholder who is an individual and does not satisfy the criteria for being a Russian tax resident as defined above and who acquires, holds and disposes of the Notes (the "Non-Resident Noteholder—Individual").

For the purposes of this summary, the definitions of "Resident Noteholder" and "Non-Resident Noteholder" in respect of individuals are taken at face value based on the wording of Russian tax law as currently written. In practice, however, the application of the above formal residency definition by the Russian tax authorities may differ depending on their position in each case. The law is currently worded in a way that implies the potential for a split year residency for individuals. However, both the Russian Ministry of Finance and the Russian tax authorities have expressed the view that an individual should be either tax resident or non-resident in Russia for the full calendar year. Consequently, if the travel pattern dictates a differing tax residency status for a part of the tax year, the application of the Russian personal income resident tax rate may in practice be disallowed. This situation may be altered by the introduction of amendments to the provisions of the Russian Tax Code dealing with taxation of individuals, a change in the position of the Russian tax authorities or by outcomes of tax controversy through the courts.

Although, the Russian Tax Code states that tax residency for individuals depends exclusively on the number of days spent in Russia, in the beginning of 2015 the Federal Tax Service of the Russian Federation has issued several private clarifications promulgating a view that besides number of days of physical presence such factors as permanent home and central of vital interest (country where family, business are located) must be taken into account for the purposes of determination of tax residency. Even though there may be insufficient legislative grounds for this position, we may not exclude the risk of challenge of non-resident status for individuals who do not meet the physical presence test for residents but have ties (property, family, business, etc.) to Russia.

Tax residency rules and Russia's rights with regard to taxation may be affected by the applicable double tax treaty. The Russian tax treatment of interest payments made by Gazprom to the Issuer (or to the Trustee, as the case may be) under any Loan Agreement may affect the Noteholders (see "—Taxation of Interest Payments on the Loans" below).

Resident Noteholders

The Resident Noteholders will be subject to all applicable Russian taxes in respect of income derived by them in connection with the acquisition, ownership and/or disposal of the Notes (including interest received on the Notes).

The Resident Noteholders should consult their own tax advisors with respect to the effect that the acquisition, holding and/or disposal of any Series of the Notes may have on their tax position.

Non-Resident Noteholders

Taxation of the Non-Resident Noteholders—Legal Entities

Acquisition of the Notes

Acquisition of the Notes by the Non-Resident Noteholders—Legal Entities (whether upon their issue or in the secondary market) should not constitute a taxable event under Russian tax law. Consequently, acquisition of the Notes should not trigger any Russian tax implications for the Non-Resident Noteholders—Legal Entities.

Interest on the Notes

The Non-Resident Noteholders—Legal Entities generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer. Taxation of interest on the Notes of any Series may however be affected by the taxation treatment of interest on any Loan (see "—Taxation of Interest Payments on the Loans" below).

Sale or other Disposal of the Notes

In the event that proceeds from the sale or other disposition of the Notes of any Series are received by a Non-Resident Noteholder—Legal Entity from a source within Russia, there should be no Russian tax on any gain on the sale or other disposition of the Notes of any Series imposed on such Non-Resident Noteholder—Legal Entity.

Redemption of the Notes

The Non-Resident Noteholders—Legal Entities generally should not be subject to any Russian taxes in respect of repayment of principal on the Notes received from the Issuer.

Taxation of the Non-Resident Noteholders—Individuals

Acquisition of the Notes

Acquisition of the Notes by the Non-Resident Noteholders—Individuals may constitute a taxable event for Russian personal income tax purposes pursuant to provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of the acquisition of securities (taking into account that the Notes will be initially issued at par, these provisions are likely to be relevant for the acquisitions of the Notes in the secondary market only). In particular, if the acquisition price of the Notes is below the lower margin of the fair market value of the Notes calculated based on specific procedure for the determination of market prices of securities for Russian personal income tax purposes, the difference may become subject to Russian personal income tax at the rate of 30% (or such other tax rate as may be effective at the time of acquisition), which is, arguably, subject to reduction or elimination under the applicable double tax treaty.

Under the Russian tax legislation, taxation of income of the Non-Resident Noteholders—Individuals will depend on whether this income is qualified as received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, in practice the Russian tax authorities may infer that such income should be considered as Russian source income if the Notes are purchased "in Russia." In the absence of any guidance as to what should be considered as a purchase of securities "in Russia," the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the location of the issuer, or other similar criteria. There is no assurance therefore that as a result any material benefit received by the Non-Resident Noteholders—Individuals in connection with the acquisition of the Notes will not become taxed in Russia.

Interest on the Notes

The Non-Resident Noteholders—Individuals generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer. Taxation of interest on the Notes of any Series may however be affected by the taxation treatment of interest on any Loan (see "—Taxation of Interest Payments on the Loans" below).

Sale or other Disposal of the Notes

Non-Resident Noteholders–Individuals should not be subject to any Russian taxes in respect of gains or other income realized on a redemption, sale or other disposal of the Notes outside of Russia, provided that the proceeds of such sale, redemption, or disposal are not received from a source within Russia.

Subject to any available tax treaty relief, if receipt of any proceeds from the sale or other disposal of the Notes by a Non-Resident Noteholder—Individual is classified as income from Russian sources for Russian personal income tax purposes, these proceeds will become subject to Russian personal income tax at the rate of 30% (or such other tax rate as may be effective at the time of payment). Since the Russian Tax Code does not contain any guidance as to when the sales or disposal proceeds should be deemed to be received from Russian sources, in practice the Russian tax authorities may infer that such income should be considered as Russian source income, if the Notes are sold or disposed "in Russia." In absence of any guidance as to what should be considered as a sale or other disposal of securities "in Russia," the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the Issuer, or other similar criteria. There is no assurance therefore that as a result sales or disposal proceeds received by the Non-Resident Noteholders—Individuals will not become taxed in Russia.

The tax will apply to the gross amount of sales or disposal proceeds received upon the disposition of any Series of the Notes (including accrued and paid interest on any Series of the Notes) decreased by the amount of any duly documented cost deductions (including the original acquisition costs and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes) provided that such documentation is duly executed and is made available to the person obliging to calculate and withhold the tax in a timely manner. There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities or the person remitting the respective income to the Non-Resident Noteholders—Individuals (where such person is considered as the tax agent obliged to calculate and withhold Russian personal income tax and remit it to the Russian budget), the deduction will be disallowed and the tax will apply to the gross amount of the sales or disposal proceeds.

Under certain circumstances, if sales and/ or disposal proceeds (including accrued and paid interest on any Series of the Notes) are paid to a Non-Resident Noteholder—Individual by a licensed broker or an asset manager that is a Russian legal entity or organization carrying out operations for the benefit of the Non-Resident Noteholder—Individual under an asset management agreement, a brokerage agreement, an agency agreement, a commission agreement or a commercial mandate agreement, the applicable Russian personal income tax at the rate of 30% (or such other tax rate as may be effective at the time of payment) should be withheld at source by that person considered as the tax agent. The amount of tax withheld will be calculated after taking into account available documented deductions for the original acquisition cost and related expenses on the acquisition, holding and sale or other disposal of the Notes to the extent such deductions and expenses can be determined by the entity making the payment of income to the Non-Resident Noteholder-Individual. The tax agent would be required to report to the Russian tax authorities in respect of its inability to withhold personal income tax in full within one month upon termination of the agreement (see above) or by March 1 of the year following the calendar year in which the income was received. Failure or inability of the tax agent to timely withhold the applicable Russian personal income tax in full will place the onus of reporting and payment of such tax on the Non-Resident Noteholder-Individual.

If the duly documented acquisition costs and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes were born within the relationship with a party other than the tax agent who is currently obliged to calculate and withhold Russian personal income tax, then these original duly documented costs and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes may be taken into account by the tax agent upon written application of the Noteholder and presentation of the documents confirming the costs and expenses.

When the Notes are sold to other legal entities, organizations (other than licensed brokers or asset managers acting under the agreements mentioned in preceding paragraphs) or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder—Individual will be required to file a personal income tax return individually, report the amount of income realized to the Russian tax authorities and apply for a deduction in the amount of the acquisition and other expenses related to the acquisition, holding and the sale or other disposal of the Notes confirmed by the supporting documentation. The applicable personal income tax will then have to be paid by the Non-Resident Noteholder—Individual on the basis of the personal income tax return.

Under certain circumstances gains received and losses incurred by a Non-Resident Noteholder—Individual as a result of the sale or other disposal of the Notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes which would affect the total amount of personal income tax payable by a Non-Resident Noteholder—Individual in Russia.

There is also a risk that any gains derived by a Non-Resident Noteholder—Individual from the sale or other disposal of the Notes may be affected by changes in the exchange rate between the currency of the acquisition of the Notes, the currency of the sale or other disposal of the Notes and rubles.

Non-Resident Noteholders—Individuals should consult their own tax advisors with respect to tax consequences of the purchase of the Notes, sale or other disposition of the Notes, including the receipt of sales proceeds from a source within Russia.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honors some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions allowing the reduction or elimination of Russian taxes applicable to income received by a Non-Resident Noteholder from Russian sources in connection with the acquisition, holding, sale or other disposal of the Notes.

In order to obtain the benefits available under the respective double tax treaty, a Non-Resident Noteholder must comply with the certification, information, and reporting requirements which are in force in the Russian Federation (relating, in particular, to the confirmation of the entitlement and eligibility for treaty benefits).

Under Russian domestic law, in order to enjoy benefits of the applicable double tax treaty, a Non-Resident Noteholder—Individual will have to provide the Russian tax authorities with a tax residency certificate issued by the competent authorities in his/her country of tax residence and a confirmation from the relevant foreign tax authorities on income received and the tax payment made by that Non-Resident Noteholder—Individual outside Russia in relation to income with respect to which the respective double treaty benefits are claimed.

Technically, these requirements may mean that a Non-Resident Noteholder—Individual would not be able to rely on any double tax treaty until he or she pays the tax with respect to that income in the jurisdiction of his or her tax residency. Individuals in practice would not be able to obtain the advance treaty relief in relation to income derived by them from Russian sources, as it is very unlikely that the supporting documentation required for the treaty relief purposes would be provided to the Russian tax authorities and, consequently, approval from the latter would be obtained, before the receipt of income by a Non-Resident Noteholder—Individual occurs.

Starting from 2016 in order to enjoy benefits of an applicable double tax treaty a Non-Resident Noteholder-Individual will have to provide to the tax agent a passport of a foreign citizen in order to prove his/ her tax residency status in the foreign jurisdiction. If this document is not sufficient to prove the residency status, the tax agent will request the Non-Resident Noteholder-Individual to provide a tax residency certificate issued by the competent authorities in his/ her country of residence for tax purposes. It is not explicit whether under the new law Russian citizens may enjoy exemption from taxation at source under an applicable double tax treaty. The procedure of elimination of double taxation of the Non-Resident Noteholders-Individuals in case of absence of a tax agent is not explicitly indicated in the Russian Tax Code. Also, it is not obvious whether the new rules cover income received in the calendar year 2015 which is generally subject to reporting in the annual tax declaration in the calendar year 2016 or whether these new rules will apply only starting from income received in 2016 calendar year.

The Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of interest income on the Notes or any income received in connection with the acquisition and the sale or other disposal of the Notes of any Series.

Refund of Tax Withheld

If Russian withholding tax on income derived from Russian sources by a Non-Resident Noteholder—Legal Entity was withheld at source, despite the domestic release of such income from Russian withholding tax, a claim for a refund of the tax that was excessively withheld at source can be filed by that Non-Resident Noteholder—Legal Entity with the Russian tax authorities within three years following the year in which the tax was withheld, either based on general tax reclaim procedures or provided that such Non-Resident Noteholder—Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income. There is no assurance that such refund will be available in practice.

If Russian personal income tax on income derived from Russian sources by a Non-Resident Noteholder—Individual was withheld at source despite the right of this Non-Resident Noteholder—Individual to rely on benefits of the applicable double tax treaty allowing such individual not to pay the tax in Russia or allowing to pay the tax at a reduced tax rate in relation to such income, a claim for application of the benefits of the applicable double tax treaty may be filed with the Russian tax authorities, together with the supporting documents envisaged by this double tax treaty confirming the right of the Non-Resident Noteholder—Individual to such benefits, within one year following the tax year in which the tax was withheld. Provided that such claim has been made in a timely manner, an application for a refund of Russian personal tax which was excessively withheld at source may be filed with the tax agent within three years following the date when the tax was withheld. In the absence of the tax agent who withheld the Russian personal income tax under consideration (e.g., when the tax has been paid on the basis of the tax return), such an application for a refund accompanied by the Russian tax return may be filed with the Russian tax authorities within the same period (three years) from the date when the tax was paid, provided a claim for application of the benefits of the applicable double tax treaty has been made in a timely manner. There can be no assurance that the tax agent and/or the Russian tax authorities will refund this tax in practice.

Starting from 2016 claim for refund of tax withheld in excess and application of the benefits of the applicable double tax treaty may be filed by the Non-Resident Noteholder-Individual with the tax agent within three years following the year when the corresponding income was received. In the absence of a tax agent to withhold the Russian personal income tax on such income (e.g., in case of a liquidation of the tax agent), application for a refund may be filed with the Russian tax authorities within the same period (three years from the date when the tax was paid) accompanied by the Russian tax return, a tax residency certificate and documents proving tax withholding to the Russian tax authorities. It is not obvious whether the new rules cover income received in the calendar year 2015 which is generally subject to reporting in the annual tax declaration in the calendar year 2016 or whether these new rules will apply only starting from income received in 2016 calendar year. There can be no assurance that the tax agent and/ or the Russian tax authorities will refund this tax in practice.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which have to be provided by the foreign person to the Russian tax authorities for the tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming, for instance, a right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

Obtaining a refund of Russian income taxes which were excessively withheld at source is likely to be a time consuming process requiring many efforts and no assurance can be given that such refund will be granted to the Non-Resident Noteholders in practice.

The Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain refund of Russian income taxes, which were excessively withheld at source.

Taxation of Interest Payments on the Loans

In general, payments of interest on borrowed funds made by a Russian entity to a non-resident legal entity or organization having no registered presence and/or no permanent establishment in Russia are subject to Russian withholding tax at the rate of 20%, which could be potentially reduced or eliminated under the terms of an applicable double tax treaty subject to timely compliance with the respective treaty clearance formalities by the interest recipient.

In particular, the Russia-Luxembourg double tax treaty establishes that Russian withholding tax could be eliminated provided certain criteria specified in the treaty are satisfied by the recipient of income.

Beneficial ownership concept which is broadly in line with the concept developed by the Organisation for Economic Co-operation and Development has been introduced into the Russian Tax Code by the Anti-Offshore Law starting from January 1, 2015 and may impact the application of the tax benefits under the Russia-Luxembourg double tax treaty.

Specifically, on December 30, 2011, before the concept of factual/ beneficial owner of income was officially introduced in the Russian tax legislation, the Russian Ministry of Finance issued letter No. 03-08-13/1(the “Letter”) addressed to the Russian Federal Tax Service, in which the Russian Ministry of Finance asserted that in the context of a very specific Eurobond structure, which is not the same as the structure of the transaction described in this Base Prospectus, a foreign issuer of Eurobonds cannot benefit from the provisions of the Russia-Ireland double tax treaty in respect of interest paid by the Russian borrower because, in the view of the Ministry, such foreign issuers of Eurobonds may not be considered as the beneficial owners of interest income. Conversely, the Letter says that holders of the notes could apply the provisions of the respective tax treaty (if any) concluded between Russia and the country of residency of each holder of the notes. We cannot preclude the possibility that the Russian tax authorities might apply the same approach to the payments made under the structure of the Programme as described in this Base Prospectus.

Generally, no withholding tax should arise in Eurobond structures by virtue of the special exemption envisaged by the Russian Tax Code. The Russian Tax Code provides that Russian borrowers should be fully released from the obligation to withhold tax from interest and other payments made to foreign entities provided that the following conditions are all met:

(1) interest is paid on debt obligations of Russian entities that arose in connection with the placement by foreign entities of “issued bonds,” which are defined as bonds or other debt obligations (a) listed and/or admitted to trading on one of the specified foreign exchanges and/or (b) that have been registered in foreign depository/clearing organizations;

    The lists of qualifying foreign exchanges and foreign depositary/clearing organizations were approved by Order No. 12-91/pz-n dated October 25, 2012 of the former Federal Financial Markets Service of the Russian Federation which came into force on December 30, 2012. The Irish Stock Exchange, Euroclear and Clearstream, Luxembourg are included in the above-mentioned lists. DTC is not expressly mentioned in the lists, but its holding company, the Depository Trust & Clearing Corporation, is mentioned in the lists. We believe that the aforementioned conditions provided by the Russian Tax Code are satisfied because, among other things, the Rule 144A Global Notes, if any, will be deposited with Deutsche Bank Trust Company Americas as custodian for DTC, and Deutsche Bank Trust Company Americas is included in the respective lists.

    The connection between the loan and the issued bonds should be evident and supported with certain documents, which are set forth in the Russian Tax Code.

(2) the recipient of interest on the relevant Loan is a foreign entity which is the issuer of issued bonds (i.e., the Issuer), or a foreign entity authorized to receive interest income payable on the issued bonds, or a foreign entity to which rights and obligations under bonds issued by another foreign entity have been assigned;

(3) the Loan interest income recipient is a tax resident of a jurisdiction with which Russia concluded a double tax treaty which can be confirmed by a tax residency certificate.

We believe that it should be possible to satisfy conditions established by the Russian Tax Code and obtain a release from the obligation to withhold tax from payments of interest and certain other amounts, as the case may be, on each Loan to the Issuer, which satisfies the conditions set forth above. However, there can be no assurance that the release from tax agency obligation will be available in practice. Amendments introduced by the Anti-Offshore Law to the Russian Tax Code establish that generally the tax residency certificate should be provided by a foreign organization claiming double tax treaty benefits which has the actual right to receive income ("beneficial owner of income"), while the Russian Ministry of Finance in its Letter opined that a foreign issuer of Eurobonds may not be viewed as the beneficial owner of interest income. The Russian Tax Code, however, allows for a different interpretation pursuant to which the exemption for Eurobond structures does not directly require the tax residency certificate to be provided by the beneficial owner of income, but rather refers only to the issuer of issued bonds (i.e., the Issuer) or a foreign entity authorized to receive interest income payable on the issued bonds or a foreign entity to which rights and obligations under bonds issued by another foreign entity have been assigned.

Importantly, the Russian Tax Code does not provide exemption to the foreign interest income recipients from Russian withholding tax, although currently there is no requirement in the Russian tax legislation for the foreign income recipients being the legal entities to self-assess and pay the tax to the Russian tax authorities. The Russian Ministry of Finance acknowledged in its information letter published on its website that the release from obligation to act as a tax agent means, in effect, that tax at source within Russia should not arise in connection with Eurobonds, since there is neither a mechanism nor obligation for a non-resident to independently calculate and pay such tax. In a separate letter issued by the Russian Ministry of Finance on a later date, it opined that the foreign income recipient remains liable to tax, if the amount of tax was due for withholding and was not withheld by the Russian tax agent. The letter was not however issued in connection with Eurobonds. There can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not change their position on the matter in connection with Eurobond structures or would not make attempts to collect the tax from the foreign income recipients, including the Issuer or the Noteholders.

If interest and/or any other amounts due under any Loan become payable to the Trustee pursuant to the Trust Deed, there is some residual uncertainty whether the release from the obligation to withhold tax under the Russian Tax Code is available to Gazprom.

Specifically, there is some uncertainty whether the Trustee will qualify for the "entity authorized to receive interest income payable on the issued bonds" containing in the Russian Tax Code which creates a potential risk that Russian withholding tax in respect of payments of interest and some other amounts to the Trustee at the rate of 20% (or such other tax rate as may be effective at the time of payment) or Russian personal income tax at the rate of 30% (or such other tax rate that may be effective at the time of payment) should be deducted by Gazprom upon making such payments to the Trustee. It is not expected that the Trustee will, or will be able to, claim a Russian withholding tax exemption or reduction under any applicable double tax treaty under such circumstances. In addition, while some Noteholders that are persons not residing in Russia for tax purposes may seek a reduction or elimination of Russian withholding tax or personal income tax, as applicable, or a refund of the respective taxes under applicable double tax treaties entered into between their countries of tax residence and the Russian Federation, where such treaties exist and to the extent they are applicable, there is no assurance that any treaty relief will be available to them in practice under such circumstances.

If any payments under any Loan become subject to Russian withholding tax (as a result of which the Issuer will be required to reduce payments made by it under the corresponding Series of the Notes by the amount of such withholding tax) we will be obliged (subject to certain conditions) under the terms of the relevant Loan Agreement to increase payments made under the relevant Loan, as may be necessary, so that the net payments received by the Issuer will be equal to the amounts it would have received in absence of such withholding tax.

It is currently unclear whether provisions of the relevant Loan Agreements obliging us to gross-up any payments under the Loans will be enforceable under Russian law as currently in effect. There is a risk that gross-up for Russian withholding tax will not take place and that payments made by us under the respective Loans will be reduced by the amount of Russian income tax or Russian personal income tax withheld by us at source.

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

No VAT will be payable in Russia in respect of interest and principal payments under each Loan.

European Union

The Council of the European Union has adopted Council Directive 2003/48/EC (the "Savings Directive") regarding the taxation of savings income in the form of interest payments. The Savings Directive entered into force on July 1, 2005. The term "Paying Agent" as used below has to be understood in the sense laid down by the Savings Directive. The Savings Directive provides that certain interest payments made by a Paying Agent situated within a European Union member state to an individual resident in another EU member state will either have to be reported to the tax authorities of the country of establishment of the Paying Agent or will be subject to a withholding tax depending on the location of the Paying Agent. For most EU countries, the tax authorities of the country of establishment of the Paying Agent will report relevant information to the tax authorities of the country of residence of the individual. For a transitional period, Austria will instead apply a withholding tax. The applicable withholding tax rate will be 35% until the end of the transitional period. Responsibility for the withholding tax will be assumed by the paying agent. However there exist some procedures to avoid the withholding tax, i.e. a procedure providing an exchange of information or a procedure providing the presentation of a tax certificate to the Paying Agent.

A number of non-EU countries and territories have adopted similar measures, some of which involve a withholding tax system.

The Council of the European Union has adopted certain amendments to the Savings Directive, which will, upon implementation, amend or broaden the scope of the requirements described above. The Savings Directive may, however, be repealed in due course in order to avoid overlap with the amended Council Directive 2011/16/EU on administrative cooperation in the field of taxation, pursuant to which Member States will be required to apply other new measures on mandatory automatic exchange of information from January 1, 2016 (except that Austria is allowed to start applying these measures up to one year later).

Luxembourg elected out of the withholding system in favor of automatic exchange of information under the Savings Directive with effect from January 1, 2015.

Noteholders and potential investors are advised to consult their professional advisors concerning possible taxation or other consequences of purchasing, holding, selling or otherwise disposing of the Notes under the laws of their country of incorporation, establishment, citizenship, residence or domicile. The above statements on taxation are based on the laws and practices in force at the date of this Base Prospectus. As is the case with any investment, there can be no guarantee that the tax position or proposed tax position at the time of an investment will endure indefinitely.

Luxembourg

Luxembourg tax residency of the Noteholders

A Noteholder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of the Notes.

Withholding tax

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to individual Noteholders and to certain entities, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to individual Noteholders and to certain entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

Taxation of Luxembourg non-residents

In accordance with the law of November 25, 2014, Luxembourg elected out of the withholding system in favor of automatic exchange of information under the Savings Directive with effect from January 1, 2015. Payments of interest by Luxembourg paying agents to non-resident individual Noteholders and to certain residual entities are thus no longer subject to any Luxembourg withholding tax.

Luxembourg residents

In accordance with the law of December 23, 2005, as amended, on the introduction of a withholding tax on certain interest payments on savings income, interest payments made by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg individual residents or to certain residual entities that secure interest payments on behalf of such individuals (unless such entities have opted either to be treated as UCITS recognized in accordance with Council Directive 2009/65/EC or for the exchange of information regime) are subject to a 10% withholding tax (the "10% Luxembourg Withholding Tax"). The Luxembourg paying agent will be responsible for withholding such 10% Luxembourg Withholding Tax.

Taxation of the Noteholders

Taxation of Luxembourg non-residents

Noteholders who are non-residents of Luxembourg and who do not have a permanent establishment, a permanent representative or a fixed base of business in Luxembourg with which the holding of the Notes is connected, will not be subject to taxes (income taxes and net wealth tax) or duties in Luxembourg with respect to payments of principal or interest (including accrued but unpaid interest), payments received upon redemption, repurchase or exchange of the Notes or capital gains realized upon disposal or repayment of the Notes.

Taxation of Luxembourg residents

Noteholders who are residents of Luxembourg, or non-resident Noteholders who have a permanent establishment, a permanent representative or a fixed base of business in Luxembourg with which the holding of the Notes is connected will not be liable to any Luxembourg income tax on repayment of principal.

Luxembourg resident individuals

Interest received by an individual resident in Luxembourg is, in principle, reportable and taxable at the progressive rates unless the interest has been subject to the 10% Luxembourg Withholding Tax (see "—Withholding Tax—Luxembourg residents") or to the self-applied 10% Tax (as defined hereafter), if applicable. Pursuant to the Luxembourg law of December 23, 2005 as amended, Luxembourg resident individuals, acting in the course of their private wealth, can opt to self-declare and pay a 10% tax (the "10% Tax") on interest payments made after December 31, 2007 by paying agents (defined in the same way as in the Savings Directive) located in an EU Member State other than Luxembourg, a Member State of the European Economic Area or in a State or territory which has concluded an international agreement directly related to the Savings Directive. The 10% Luxembourg Withholding Tax or the 10% Tax represents the final tax liability on interest received for the Luxembourg resident individuals receiving the payment in the course of their private wealth. Individual Luxembourg resident Noteholders receiving the interest as business income must include interest income in their taxable basis. The 10% Luxembourg Withholding Tax levied will be credited against their final income tax liability.

Luxembourg resident individual Noteholders are not subject to taxation on capital gains upon the disposal of the Notes, unless the disposal of the Notes precedes the acquisition of the Notes or the Notes are disposed of within six months of the date of acquisition of the Notes. Upon the sale, redemption or exchange of the Notes, accrued but unpaid interest will be subject to the 10% Withholding Tax or to the 10% Tax (if the Luxembourg resident individuals opt for the 10% Tax). Individual Luxembourg resident Noteholders receiving the interest as business income must also include the portion of the price corresponding to this interest in their taxable income. The 10% Luxembourg Withholding Tax levied will be credited against their final income tax liability.

Luxembourg resident companies

Luxembourg resident corporate Noteholders (*société de capitaux*) or foreign entities of the same type which have a permanent establishment or a permanent representative in Luxembourg with which the holding of the Notes is connected, must include in their taxable income any interest (including accrued but unpaid interest) and the difference between the sale or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes sold or redeemed.

Luxembourg resident companies benefiting from a special tax regime

Luxembourg resident corporate Noteholders which are companies benefiting from a special tax regime (such as family wealth management companies subject to the law of May 11, 2007, undertakings for collective investment subject to the law of December 17, 2010 or specialized investment funds subject to the law of February 13, 2007) are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (i.e., corporate income tax, municipal business tax and net wealth tax) other than the annual subscription tax calculated on their (paid up) share capital (and share premium) or net asset value.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a corporate Noteholder, unless (a) such Noteholder is a Luxembourg resident other than a Noteholder governed by (i) the laws of December 17, 2010 and February 13, 2007 on undertakings for collective investment; (ii) the law of March 22, 2004 on securitization; (iii) the law of June 15, 2004 on the investment company in risk capital; or (iv) the law of May 11, 2007 on family estate management companies, or (b) the Notes are attributable to an enterprise or part thereof which is carried on in Luxembourg through a permanent establishment or a permanent representative.

Other Taxes

No stamp, registration, transfer or similar taxes or duties will be payable in Luxembourg by Noteholders in connection with the issue of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer or redemption of the Notes, unless the documents relating to the Notes are voluntarily registered in Luxembourg.

There is no Luxembourg VAT payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes. Luxembourg VAT may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg VAT purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg VAT does not apply with respect to such services.

No Luxembourg inheritance taxes are levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes. No Luxembourg gift tax will be levied on the transfer of the Notes by way of gift unless the gift is registered in Luxembourg.

United States

The following is a summary of certain material U.S. federal income tax consequences of the purchase, beneficial ownership and disposition of Notes by a U.S. Holder (as defined below) and, to the extent discussed below under "Foreign Account Tax Compliance," a non-U.S. Holder (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Final Terms or Series Prospectus, as the case may be, will contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note, as appropriate. This summary deals only with purchasers of Notes that beneficially own the Notes as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "U.S. Tax Code") and that purchase the Notes upon their initial issuances at the original offering price. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the purchase, ownership or disposition of Notes by particular investors or to investors subject to special tax treatment under U.S. federal income tax laws (such as financial institutions, insurance companies, banks, regulated investment companies, U.S. expatriates, investors liable for the alternative minimum tax, individual retirement accounts and other tax deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar) and does not address the tax consequences of the purchase, ownership or disposition of Notes with respect to any state, local, foreign tax laws, any income tax treaties, or other tax laws, including U.S. federal estate and gift tax laws. Prospective U.S. Holders should consult their own tax advisor with regard to the application of any non-U.S. or U.S. federal, state, and local tax and tax treaties, including income, gift and estate tax laws.

As used herein, the term "U.S. Holder" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or partnership or other business entity taxed as a corporation) created or organized under the laws of the United States, any state or political subdivision thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities treated as partnerships for U.S. federal income tax purposes and partners in such partnership should consult their tax adviser concerning the U.S. federal income tax consequences to their partners of the purchase, ownership and disposition of Notes by the partnership.

As used in this discussion, a "non-U.S. Holder" means a beneficial owner of a Note that is not a U.S. Holder.

The summary is based on the tax laws of the United States including the U.S. Tax Code, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Characterization of the Notes

No authority directly addresses the U.S. federal income tax characterization of securities like the Notes and the Issuer has not and will not seek a ruling from the U.S. Internal Revenue Service ("IRS") as to their characterization for such purposes. The Issuer intends to treat the Notes as indebtedness for such purposes and this discussion assumes that treatment is correct, but no assurance can be given that the IRS will not assert, or that a court would not sustain, a position regarding the characterization of the Notes that is contrary to this intended treatment. One possible alternative characterization is treatment of the Notes as beneficial ownership of the Loans, the U.S. federal income tax consequences of which should be no less favorable than holding Notes of the Issuer. Another alternative characterization may be as equity in the Issuer. In that event, because the Issuer is a passive foreign investment company ("PFIC"), such characterization would generally result in adverse U.S. federal income tax consequences to the U.S. Holders and may require additional filings by U.S. Holders with the IRS. Prospective investors should seek advice from their own tax advisors as to the consequences to them of alternative characterizations of the Notes for U.S. federal income tax purposes.

The following discussion assumes that the Notes will be treated as indebtedness for U.S. federal income tax purposes.

Payments of Interest

Interest on a Note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a "foreign currency"), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Cash basis U.S. Holders, including most individuals, will generally include interest with respect to a Note in income in the year in which they actually and constructively receive an interest payment. Accrual basis U.S. Holders will generally include interest with respect to a Note in income during the year in which it is earned or accrued, without regard to when an actual interest payment is received. Interest paid by the Issuer on the Notes will generally constitute income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Original Issue Discount

General

This summary assumes that the Notes will not be issued with original issue discount ("OID"). Generally, a Note will be treated as issued with OID if the excess of the Note's "stated redemption price at maturity" over its issue price is greater than or equal to a *de minimis* amount (0.25% of the Note's stated redemption price at maturity multiplied by the number of complete years to maturity).

Substitution of Issuer

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. Holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. Holder could be required to recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes), and the U.S. Holder's tax basis in the Notes. U.S. Holders should consult their tax advisors concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Notes.

Purchase, Sale and Retirement of Notes

A U.S. Holder will generally recognize gain or loss on the sale or retirement of a Note equal to the difference between the amount realized on the sale or retirement and such U.S. Holder's tax basis in the Note. A U.S. Holder's tax basis in a Note will generally be its U.S. dollar cost. The amount realized does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent attributable to changes in exchange rates (as discussed below) and except for gain representing accrued interest not previously included in income, gain or loss recognized on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the Notes exceeds one year. The ability of U.S. Holders to offset capital losses against ordinary income is limited. Gain or loss realized by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source income.

Additional Tax on Net Investment Income

U.S. Holders that are individuals or estates and certain trusts are generally subject to an additional 3.8% tax on all or a portion of their "net investment income," or "undistributed net investment income" (in the case of an estate or trust), to the extent such income exceeds certain thresholds. Among other items, net investment income generally includes gross income from interest and net gain attributable to the disposition of certain property, less certain deductions. U.S. Holders should consult their own tax advisors regarding the possible implications of this legislation in their particular circumstances.

Foreign Currency Notes

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognized by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt of payment, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognized with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

In the case of an accrual basis U.S. Holder, upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) for each accrual period equal to the difference between the amount received with respect to such accrual period (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued during such accrual period (as determined above), regardless of whether the payment is in fact converted into U.S. dollars.

Sale or Retirement

As discussed above under "—Purchase, Sale and Retirement of Notes," a U.S. Holder will generally recognize gain or loss on the sale or retirement of a Note equal to the difference between the amount realized on the sale or retirement and its tax basis in the Note. A U.S. Holder's tax basis in a Note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase, or, in the case of Notes traded on an established securities market (within the meaning of the applicable Treasury Regulations) sold by a cash basis U.S. Holder (or an electing accrual basis U.S. Holder), on the settlement date for the purchase. The amount realized on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement, or, in the case of Notes traded on an established securities market (within the meaning of the applicable Treasury Regulations) purchased by a cash basis U.S. Holder (or an electing accrual basis U.S. Holder), on the settlement date for the purchase. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. A U.S. Holder will recognize U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (i) on the date of sale or retirement and (ii) on the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realized only to the extent of total gain or loss realized on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest).

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognized on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Backup Withholding and Information Reporting

In general, payments of interest on, and the proceeds of a sale, redemption or other disposition of, the Notes payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Backup withholding is not an additional tax and may be refunded or credited against the holder's federal income tax liability if certain required information is furnished to the IRS. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

"Specified Foreign Financial Asset" Reporting

Individuals who own "specified foreign financial assets" with an aggregate value exceeding certain dollar thresholds are generally required to file an information report with respect to such assets with their tax returns. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (1) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties, and (iii) interests in foreign entities. The Notes are expected to constitute foreign financial assets subject to these requirements unless the Notes are held in an account at a financial institution.

Penalties apply to any failure to file a required report. Additionally, in the event a U.S. Holder does not file the information report relating to disclosure of specified foreign financial assets, the statute of limitations on the assessment and collection of U.S. federal income taxes of such U.S. Holder for the related tax year may not close before such information is filed. U.S. Holders should consult their own tax advisor as to the possible application of this information reporting requirement and the related statute of limitations tolling provision (in which case the account may be reportable if maintained by a foreign financial institution).

Foreign Account Tax Compliance

Pursuant to the foreign account tax compliance provisions of the Hiring Incentives to Restore Employment Act of 2010 ("FATCA"), the Issuer and other non-U.S. financial institutions through which payments on the Notes are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after December 31, 2018 in respect of any Notes issued or materially modified on or after the date that is six months after the date on which the final regulations defining the term "foreign passthru payments" are filed in the Federal Register.

For any Notes that are issued on or before the date that is six months after the date on which the final regulations defining the term "foreign passthru payments" are filed in the Federal Register, payments of interest and principal, and proceeds from the disposition of the Notes will not be subject to FATCA withholding unless such Notes are materially modified after such date. However, if additional notes (as described under "Terms and Conditions of the Notes – Further Issues") that are not distinguishable from these Notes are issued after the expiration of the grandfather period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered hereby, as subject to withholding under FATCA. In the case of Notes that are issued or materially modified after such date, the application of FATCA to interest, principal or other amounts paid with respect to the Notes is currently not clear. In particular, the government of Luxembourg has entered into a Model 1 intergovernmental agreement with the United States (the "IGA") to help implement FATCA for certain entities in Luxembourg. The IGA requires the Issuer to comply with Luxembourg legislation that is to be implemented to give effect to the IGA. The legislation is expected to require the Issuer to provide the name, address, taxpayer identification number and certain other information with respect to certain holders of the Notes to the government of Luxembourg, which would then provide this information to the IRS. The terms of such legislation have not been adopted, and it is not certain how the United States and the Luxembourg will address withholding on "foreign passthru payments" (which may include payments on the Notes) or if such withholding will be required at all.

If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of FATCA, investors may receive less interest or principal than expected.

The application of FATCA to Notes issued or materially modified on or after the date that is six months after the date on which the final regulations defining the term "foreign passthru payments" are filed in the Federal Register may be addressed in supplementary prospectus to this Base Prospectus, as applicable.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE NOTES AND THE HOLDERS IS UNCERTAIN AT THIS TIME. EACH HOLDER OF NOTES SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW THIS LEGISLATION MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.

Reportable Transactions

A U.S. taxpayer that participates in a “reportable transaction” will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds U.S.$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders. In the event the acquisition, holding or disposition of Notes constitutes participation in a reportable transaction for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS. Various monetary penalties and adverse consequences can result from a failure to file. In addition, the Issuer and its advisers may also be required to disclose the transaction to the IRS, and to maintain a list of U.S. Holders, and to furnish this list and certain other information to the IRS upon written request. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, ownership or disposition of Notes.

CERTAIN U.S. EMPLOYEE BENEFIT PLAN CONSIDERATIONS

Notes are not permitted to be acquired or held by employee benefit plans as described in Section 3(3) of ERISA that are subject to Title I of ERISA (collectively, "ERISA Plans"), plans not subject to ERISA but subject to Section 4975 of the U.S. Tax Code, including IRAs, Keogh Plans which cover only self-employed persons and their spouses and other employee benefit plans which cover only the owners of a business (collectively, "Section 4975 Plans"), or by entities whose underlying assets include plan assets by reason of an investment in the entity by ERISA Plans or Section 4975 Plans or otherwise (collectively, "Plan Asset Entities"). ERISA Plans, Section 4975 Plans and Plan Asset Entities are collectively referred to as "Benefit Plan Investors." Subject to certain restrictions described below, Notes are permitted to be acquired and held by governmental plans and non-electing church plans that are not subject to ERISA or Section 4975 of the U.S. Tax Code (collectively, "Non-ERISA Plans").

ERISA imposes fiduciary standards and certain other requirements on ERISA Plans and on those persons who are fiduciaries with respect to ERISA Plans. Section 4975 Plans are subject to certain restrictions similar to ERISA's prohibited transaction rules. Non-ERISA Plans are subject to applicable state, local or federal law, as well as the restrictions of duties of common law, and may also be subject to prohibited transaction provisions that operate similarly to those under ERISA.

Under the regulations issued by the U.S. Department of Labor ("DOL"), as modified by Section 3(42) of ERISA (the "Plan Assets Regulations"), unless certain exceptions apply, if a Benefit Plan Investor invests in an "equity interest" of an entity, the Benefit Plan Investor's assets include both the equity interest and an undivided interest in each of the entity's underlying assets. This "look through" rule will only apply where Benefit Plan Investors own 25% or more of the value of any class of equity interest in the entity. For purposes of this 25% determination, the value of equity interests held by persons (other than Benefit Plan Investors) that have discretionary authority or control with respect to the assets of the entity or that provide investment advice for a fee (direct or indirect) with respect to such assets (or any affiliate of such person) is disregarded. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features.

If the underlying assets of an entity are deemed to be plan assets, those with discretionary authority or control over the entity would be fiduciaries with respect to the entity's assets. The assets of the entity would also be subject to the prohibited transaction rules of ERISA and Section 4975 of the U.S. Tax Code, as well as other rules applicable to plan assets.

The Issuer believes that the Notes should be treated as debt rather than equity for purposes of the Plan Assets Regulations. The DOL, however, may take a contrary view or may view the Notes as having substantial equity features. Further, the Issuer will not be able to monitor the Noteholders' status as Benefit Plan Investors. Accordingly, the Notes are not permitted to be acquired or held by any Benefit Plan Investor.

Non-ERISA Plans and entities that include the assets of Non-ERISA Plans are permitted to acquire and hold the Notes subject to certain restrictions described below. Each Non-ERISA Plan acquiring and holding the Notes will be deemed to have represented and warranted that the acquisition, holding and disposition of the Notes do not and will not violate any statute, regulation, administrative decision, policy or other legal authority applicable to the Non-ERISA Plan and the purchase, holding and disposition of the Notes or any interest therein do not and will not result in the assets of the Issuer being considered plan assets of such Non-ERISA Plan. Non-ERISA Plans are generally not subject to ERISA nor do the prohibited transaction provisions of ERISA or Section 4975 of the U.S. Tax Code apply to these types of plans. However, governmental plans (as described in Section 3(32) of ERISA), are subject to prohibitions on related-party transactions under Section 503 of the U.S. Tax Code, which prohibitions operate similarly to the prohibited transaction rules under ERISA or Section 4975 of the U.S. Tax Code, and other Non-ERISA Plans may be subject to similar prohibitions. Accordingly, the fiduciary of a Non-ERISA Plan must consider applicable state or local laws, if any, imposed upon such plan before purchasing and holding a Note or any interest therein.

BY ITS PURCHASE AND HOLDING OF A NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, THAT (1) IT IS NOT AND WILL NOT BE (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF ERISA THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE U.S. TAX CODE APPLIES OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE, (2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN SECTION 3(32) OF ERISA, OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE U.S. TAX CODE, THE PURCHASE, HOLDING AND DISPOSITION OF THE NOTES OR ANY INTEREST THEREIN DO NOT AND WILL NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR OTHER LEGAL AUTHORITY APPLICABLE TO SUCH GOVERNMENTAL PLAN OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE U.S. TAX CODE, AND THE

PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE OR ANY INTEREST HEREIN DO NOT AND WILL NOT RESULT IN THE ASSETS OF THE ISSUER OF THE NOTES BEING CONSIDERED PLAN ASSETS OF SUCH GOVERNMENTAL PLAN OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE U.S. TAX CODE, AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY SUCH NOTE OR INTEREST TO ANY PERSON WITHOUT FIRST OBTAINING THIS SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

The foregoing is not intended to be exhaustive and the law governing investments by Benefit Plan Investors and Non-ERISA Plans is subject to extensive administrative and judicial interpretations. The foregoing discussion should not be construed as legal advice. Any potential purchaser or holder of Notes should consult counsel with respect to issues arising under ERISA, the U.S. Tax Code and other applicable laws and make their own independent decisions.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Series, subject only to the deletion of non-applicable provisions, is set out below:

Final Terms dated ●

Public Joint Stock Company Gazprom
Issue of [Aggregate Principal Amount of Series][Title of Loan Participation Notes]
by Gaz Capital S.A. for the purpose of financing a Loan to Public Joint Stock Company Gazprom
under a **U.S.$40,000,000,000 Programme for the Issuance of Loan Participation Notes**

Part A—Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated ● [and the supplemental Base Prospectus dated ●] which [together] constitute[s] a base prospectus for the purposes of the Directive 2003/71/EC (the Prospectus Directive). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented][1]. Full information on Gazprom, the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the supplemental Base Prospectus][is][are] available for viewing at www.centralbank.ie and copies may be obtained from [address].]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

1	(i)	Issuer:	Gaz Capital S.A.
	(ii)	Borrower:	Public Joint Stock Company Gazprom
2		Series Number:	●
3		Specified Currency:	●
4		Aggregate Principal Amount of Notes admitted to trading:	●
5		Issue Price:	●per cent. of the Aggregate Principal Amount
6		Specified Denominations:	● ●
7	(i)	Issue Date:	●
	(ii)	Interest Commencement Date:	●
8		Maturity Date:	[*specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]
9		Interest Basis:	[● per cent. Fixed Rate] [Floating Rate](further particulars specified below)
10		Redemption/Payment Basis:	Redemption at par
11		Change of Interest or Redemption/Payment Basis:	[Applicable] [Not Applicable]
12	(i)	Status and Form of the Notes:	Senior, Registered
	(ii)	[Date Board approval for issuance of Notes and borrowing of Loan obtained:	[ ][and [ ], respectively]]*(N.B. Only relevant where Board (or similar) authorization is required for the particular Series of Notes or related Loan)*]
13		Method of distribution:	[Syndicated/Non-syndicated]
14		Financial Centres:	●
15		Loan Amount:	●
16		Put/Call Options:	[Put Option/Call Option/Not Applicable][(further particulars specified below)]

PROVISIONS RELATING TO INTEREST PAYABLE UNDER THE LOAN

17		Fixed Rate Note Provisions:	[Applicable/Not Applicable]*(if not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate [(s)] of Interest:	● per cent. Per annum payable [annually/semi-annually] in arrear
	(ii)	Interest Payment Date(s):	● in each year

[1] *Delete where the Notes are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive*

	(iii)	Fixed Coupon Amount [(s)]:	● per ● in principal amount of Notes in each case payable [annually/semi-annually] in arrear [in equal instalments]
	(iv)	Broken Amount:	[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount*[*(s)*]]
	(v)	Day Count Fraction:	[30/360/Actual/Actual(ICMA/ISDA)]
	(vi)	Determination Date(s):	● in each year. [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*]
18	Floating Rate Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Interest Period(s):	●
	(ii)	Specified Interest Payment Dates:	●
	(iii)	Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iv)	Business Centre(s):	●
	(v)	Manner in which the Rate(s) of Interest is/ are to be determined:	[Screen Rate Determination/ISDA Determination]
	(vi)	Interest Period Date(s):	[Not Applicable/*specify dates*] (*will be not applicable unless different from Interest Payment Date*)
	(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	●
	(viii)	Screen Rate Determination:	[Yes][No]
	(ix)	ISDA Determination:	[Yes][No]
	(x)	Margin(s):	[+/●] per cent. per annum
	(xi)	Minimum Rate of Interest:	● per cent. per annum
	(xii)	Maximum Rate of Interest:	● per cent. per annum
	(xiii)	Reference Rate:	[LIBOR] [LIBID] [LIMEAN] or [EURIBOR]
	(xiv)	Day Count Fraction:	[Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [Actual/Actual-ICMA]

PROVISIONS RELATING TO REDEMPTION

19	Final Redemption Amount of each Note:	[● per Note of ● specified denomination in principal amount of Notes]
20	Early Redemption Amount(s) of each Note payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date:	[● per Note of ● specified denomination in principal amount of Notes, plus accrued interest, if any, to the Redemption Date]
21	Call Option:	[Applicable/Not Applicable]/(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Early Redemption Amount:	●
	(ii) Make Whole Amount:	●
22	Put Option:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Put Settlement Date(s):	●

DISTRIBUTION

23	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
24	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading on the Main Securities Market of the Irish Stock Exchange the issue of Notes described herein pursuant to the U.S.$40,000,000,000 Programme for the Issuance of Loan Participation Notes of Gazprom.]

RESPONSIBILITY

The Issuer and Gazprom accept responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:	Signed on behalf of Gazprom:
By:	By:
Duly authorized	Duly authorized
By:	By:
Duly authorized	Duly authorized

Part B—Other Information

1 LISTING

(i)	Listing:	[Irish Stock Exchange/None]
(ii)	Admission to trading:	[Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List (the "Official List") and trading on its regulated market (the "Main Securities Market") with effect from ●][Not Applicable.]
(iii)	Estimate of total expenses related to admission to trading:	●

2 RATINGS

Ratings: The Notes to be issued have been rated:

●

[[*Insert credit rating agency*] is established in the European Community and has applied for registration under Regulation (EC) No 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.][[*Insert credit rating agency*] is established in the European Community and registered under Regulation (EC) No 1060/2009.][[*Insert credit rating agency*] is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009.][[*Insert credit rating agency*] is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009 but is endorsed by [*insert credit rating agency*] which is established in the European Union and registered under Regulation (EC) No 1060/2009.][[*Insert credit rating agency*] is not established in the European Community and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.] A rating must be issued by a credit rating agency established in the European Community and registered under the Regulation (EC) No 1060/2009 (the "CRA Regulation") unless the rating is provided by a credit rating agency that operated in the European Community before 7 June 2010 and which has submitted an application for registration in accordance with the CRA Regulation and such application for registration has not been refused. (*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3 [**NOTIFICATION**

The Central Bank has provided the competent authority(ies) of [insert details of relevant Host Member State(s)] with a certificate of approval attesting that the [Base Prospectus—insert details of relevant Base Prospectus] has been drawn up in accordance with the Prospectus Directive 2003/71/EC and Commission Regulation (EC) No809/2004.]

4 [**INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE**[**ISSUE/OFFER**]

If applicable a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest is to be included. This may be satisfied by the inclusion of the following statement:

"Save as discussed in "Subscription and Sale", so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

5 [**REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

[(i)	Reasons for the offer	[ ] (See "Use of Proceeds" section in the Base Prospectus-*if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)*] ●
[(ii)]	Estimated net proceeds of the Notes and the Loan:	(*If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.*)

6 [Fixed Rate Notes only-YIELD Indication of yield: The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7	**OPERATIONAL INFORMATION**	
	ISIN Code (Reg S Notes):	●
	ISIN Code (Rule 144A Notes):	●
	Common Code (Reg S Notes):	●
	Common Code (Rule 144A Notes):	●
	Rule 144A CUSIP number:	●
	Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme [or DTC] and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s*[*and addresses*])]
	Delivery:	Delivery [against/free of] payment
	Names and addresses of additional Paying Agent(s) (if any):	
8	**GENERAL**	
	Tradeable Amount:	● So long as the Notes are represented by a Global Note, the Notes will be tradeable only in principal amounts of at least the Specified Denomination and integral multiples of the Tradeable Amount in excess thereof.
9	**THE LOAN**	

The following terms used in the Facility Agreement shall have the following meanings:

Terms of the Loan

(i)	Drawdown:	● [*Closing Date*]
(ii)	Closing Date:	●
(iii)	Early Redemption:	● per ● amount of the Loan, plus accrued interest, if any, to the Redemption Date
(iv)	Make Whole Premium:	the excess, if any (as reported in writing to the Issuer and the Trustee by a reputable financial institution operating in ● market in ● selected by the Issuer and approved in writing by the Trustee (the "Financial Adviser") (and rounded, if necessary, to the third decimal place (0.0005 being rounded upwards)), of (a) the value at the Redemption Date of the principal amount of the Loan, plus all required interest payments that would otherwise be due to be paid on the Loan during the period between the Redemption Date and the Repayment Date, excluding accrued but unpaid interest at the Redemption Date, calculated using a discount rate equal to ● basis points above the Treasury Rate over (b) the outstanding principal amount of the Loan
(v)	Put Settlement Date:	●
(vi)	Repayment Date:	●
(vii)	Specified Currency:	●
(viii)	Treasury Rate:	a rate equal to the yield, as published by the ●, on actively traded ● with a maturity comparable to the remaining life of the Loan, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary ● dealers in ● selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in ● preceding the Redemption Date
(ix)	Governing Law:	the Loan shall be governed by and construed in accordance with English law
(x)	Put/Call Options:	[Put Option/Call Option/Not Applicable]

Interest

The Loan is a [Fixed Rate][Floating Rate] Loan [and the Notes comprise a Rule 144A Series]. Interest shall be calculated as set out below:

Fixed Rate Loan Provisions		[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
(i)	Interest Commencement Date:	●
(ii)	Rate[(s)] of Interest:	● per cent. per annum payable [annually/semi-annually] in arrears
(iii)	Interest Payment Date(s):	● in each year
(iv)	Fixed Amount[(s)]:	● per ● in principal amount

(v)	Broken Amount:	[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount[(s)]]
(vi)	Day Count Fraction (Clause 4.9):	[30/360/Actual/Actual (ICMA/ISDA)]
(vii)	Determination Date(s) (Clause 4.9):	● in each year. [Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/ Actual (ICMA)]
Floating Rate Loan Provisions		[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
(i)	Interest Commencement Date:	●
(ii)	Interest Period(s):	●
(iii)	Specified Interest Payment Dates:	●
(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention]
(v)	Business Centre(s) (Clause 4.9):	●
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii)	Interest Period Date(s):	[Not Applicable/specify dates] (will be not applicable unless different from Interest Payment Date)
(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	
(ix)	Screen Rate Determination (Clause 4.3.3):	
	—Reference Rate:	
	—Interest Determination Date(s):	
	—Relevant Screen Page:	
(x)	ISDA Determination (Clause 4.3.3):	
	—Floating Rate Option:	
	—Designated Maturity:	
	—Reset Date:	●
(xi)	Margin(s):	● per cent. per annum
(xii)	Minimum Rate of Interest:	● per cent. per annum
(xiii)	Maximum Rate of Interest:	● per cent. per annum
(xiv)	Day Count Fraction (Clause 4.9):	●

OVERVIEW OF THE RUSSIAN GAS INDUSTRY, CLASSIFICATION OF RESERVES AND CERTAIN APPLICABLE REGULATORY MATTERS

The information set forth in this section is based on publicly available information, including Russian legislation and regulatory acts. Each of the Issuer and Gazprom accepts responsibility for accurately reproducing such information and as far as Gazprom or the Issuer is aware no facts have been omitted which would render such information misleading, but neither Gazprom, nor the Issuer accepts any further responsibility in respect of such information. Such information may include approximations or use rounded numbers.

General

We currently account for the majority of natural gas production in Russia. In 2014 and 2013, we produced 444.9 bcm and 488.4 bcm of natural gas, accounting for approximately 69 and 73% of total natural gas production in Russia, respectively (based on CDU TEC (source: www.cdu.ru) and Gazprom figures). The current Russian gas market is also characterized by declining demand, rising competition and a significant level of government regulation. We expect that a share of independent companies in the total natural gas production in Russia may continue to increase.

Classification of Reserves

DeGolyer and MacNaughton have evaluated our reserves of natural gas, gas condensate and crude oil according to PRMS Standards. In addition, certain evaluations were prepared in accordance with the Russian reserves system, which differs in certain material respects from PRMS Standards and standards applied by the SEC.

Russian Reserves System

The Russian reserves system is based on an analysis of the geological attributes of reserves and takes into account the actual presence of, and the probability of the presence of, hydrocarbons in the applicable geological formations. Explored reserves are represented by categories A, B and C_1, preliminary estimated reserves are represented by category C_2, potential resources are represented by category C_3, and forecasted resources are represented by categories D_1 and D_2.

In accordance with the Russian reserves system, natural gas reserves in categories A, B and C_1 are considered to be fully extractable. For reserves of crude oil and gas condensate, a predicted coefficient of extraction is calculated based on geological and technical factors.

Russian methods for calculating and classifying reserves differ from generally accepted practices in the United States and other countries. Reserves that are calculated using different methods cannot accurately be reconciled.

The estimation of reserves of natural gas, gas condensate and crude oil can be broken down into two components: (i) geological reserves, or the quantities of natural gas, gas condensate and crude oil contained in the subsoil; and (ii) extractable reserves, or the portion of geological reserves the extraction of which from the subsoil as of the date the reserves are calculated is economically efficient given market conditions and rational use of modern extraction equipment and technologies and taking into account compliance with the requirements of subsoil and environmental protection. The following paragraphs describe the categories of the Russian reserves system in more detail.

Category A reserves are calculated on the part of a deposit drilled in accordance with an approved development project for the oil or natural gas field. They represent reserves that have been analyzed in sufficient detail to define comprehensively the type, shape and size of the deposit, the level of hydrocarbon saturation, the reservoir type, the nature of changes in the reservoir characteristics, the hydrocarbon saturation of the productive strata of the deposit, the content and characteristics of the hydrocarbons, and the major features of the deposit that determine the conditions of its development (mode of operations, well productivity, strata pressure, natural gas, gas condensate and oil balance, hydro- and piezo-conductivity and other features).

Category B represents the reserves of a deposit (or portion thereof) the oil or gas content of which has been determined on the basis of commercial flows of oil or gas obtained in wells at various hypsometric depths. The type, shape and size of the deposit, the effective oil and gas saturation depth and type of the reservoir, the nature of changes in the reservoir characteristics, the oil and gas saturation of the productive strata of the deposit, the composition and characteristics, of oil, gas and gas condensate under in-situ and standard conditions and other parameters, and the major features of the deposit that determine the conditions of its development have been studied in sufficient detail to draw up a project to develop the deposit.

Category B reserves are computed for a deposit (or a portion thereof) that has been drilled in accordance with either a trial industrial development project in the case of a natural gas field or an approved technological development scheme in the case of an oil field.

Category C_1 represents the reserves of a deposit (or a portion thereof) the crude oil or gas content of which has been determined on the basis of commercial flows of crude oil or gas obtained in wells (with some of the wells having been probed by a formation tester) and positive results of geological and geophysical exploration of non-probed wells.

The type, shape and size of the deposit and the formation structure of the oil-and gas-bearing reservoirs have been determined from the results of drilling exploration and production wells and by those geological and geophysical exploration techniques that have been field-tested for the applicable area. The lithological content, reservoir type and characteristics, oil and gas saturation, oil displacement ratio and effective oil and gas saturation depth of the productive strata have been studied based on drill cores and geological and geophysical exploration techniques. The composition and characteristics of oil, gas and gas condensate under in situ and standard conditions have been studied on the basis of well testing data. In the case of an oil and gas deposit, the commercial potential of its oil-bearing fringe has been determined. Well productivity, hydro- and piezo-conductivity of the stratum, stratum pressures and oil, gas and gas condensate temperatures and yields have been studied on the basis of well testing and well exploration results. The hydro-geological and geocryological conditions have been determined on the basis of well drilling results and comparisons with neighboring explored fields.

Category C_1 reserves are computed on the basis of results of geological exploration work and production drilling and must have been studied in sufficient detail to yield data from which to draw up either a trial industrial development project in the case of a natural gas field or a technological development scheme in the case of an oil field.

Category C_2 reserves are preliminary estimated reserves of a deposit calculated on the basis of geological and geophysical research of unexplored sections of deposits adjoining sections of a field containing reserves of higher categories and of untested deposits of explored fields. The shape, size, structure, level, reservoir types, content and characteristics of the hydrocarbon deposit are determined in general terms based on the results of the geological and geophysical exploration and information on the more fully explored portions of a deposit. Category C_2 reserves are used to determine the development potential of a field and to plan geological, exploration and production activities.

Category C_3 resources are prospective resources prepared for the drilling of (i) traps within the oil- and gas-bearing area, delineated by geological and geophysical exploration methods tested for such area and (ii) the formation of explored fields which have not yet been exposed by drilling. The form, size and stratification conditions of the assumed deposit are estimated from the results of geological and geophysical research. The thickness, the reservoir characteristics of the formations, the composition and the characteristics of hydrocarbons are assumed to be analogous to those for explored fields. Category C_3 resources are used in the planning of prospecting and exploration work in areas known to contain other reserve bearing fields.

Category D_1 resources are calculated based on the results of regional geological, geophysical and geochemical research and by analogy with explored fields within the region being evaluated. Category D_1 resources are reserves in lithological and stratigraphic series that are evaluated within the boundaries of large regional structures confirmed to contain commercial reserves of oil and gas.

Category D_2 resources are calculated using assumed parameters on the basis of general geological concepts and by analogy with other, better studied regions with explored oil and gas fields. Category D_2 resources are reserves in lithological and stratigraphic series that are evaluated within the boundaries of large regional structures not yet confirmed to contain commercial reserves of oil and gas. The prospects for these series to prove to be oil- and gas-bearing are evaluated based on geological, geophysical and geochemical research.

The evaluation of gas reserves in newly discovered natural gas or oil-and-gas deposits is carried out under the Russian reserves system using the volume method. The volume method determines the volume of reserves by examining the filtration and capacitive parameters of the deposit based on (i) the area of the deposit, (ii) the effective depth of hydrocarbon saturation, and (iii) the porousness of the deposit and the level of saturation of the hydrocarbons, taking into account thermobaric conditions.

The evaluation of natural gas reserves in deposits already under development is carried out under the Russian reserves system using both the volume method and the material balance method. The material balance method takes into account temporal changes in the effective reservoir pressure as a result of the extraction of the hydrocarbons and the resultant influx of water.

PRMS Standards

While the Russian reserves system focuses on the actual physical presence of hydrocarbons in geological formations, and reserves are estimated based on the probability of such physical presence, PRMS Standards take into account not only the probability that hydrocarbons are physically present in a given geological formation but also the economic viability of recovering the reserves (including such factors as exploration and drilling costs, ongoing production costs, transportation costs, taxes, prevailing prices for the products, and other factors that influence the economic viability of a given deposit).

Under PRMS Standards, reserves are classified as “proved,” “probable” and “possible.”

Proved reserves include reserves that are confirmed with a high degree of certainty through an analysis of the development history and/or volume method analysis of the relevant geological and engineering data. Proved reserves are those that, based on the available evidence and taking into account technical and economic factors, have a better than 90% chance of being produced.

Probable reserves are those reserves in which hydrocarbons have been located within the geological structure with a lesser degree of certainty because fewer wells have been drilled and/or certain operational tests have not been conducted. Probable reserves are those reserves that, on the available evidence and taking into account technical and economic factors, have a better than 50% chance of being produced.

Possible reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the Proved plus Probable plus Possible reserves estimate.

An evaluation of proved, probable and possible natural gas reserves naturally involves multiple uncertainties. The accuracy of any reserves evaluation depends on the quality of available information and engineering and geological interpretation. Based on the results of drilling, testing and production after the audit date, reserves may be significantly restated upwards or downwards. Changes in the price of natural gas, gas condensate or crude oil may also affect our proved and probable reserves estimates, as well as estimates of our future net revenues and present worth, because the reserves are evaluated, and the future net revenues and present worth are estimated, based on prices and costs as of the audit date.

Differences between PRMS Standards and SEC Standards

PRMS Standards differ in certain material respects from SEC Standards. The SEC has recently adopted revisions to the SEC Standards that make such regulations more consistent with PRMS Standards in certain respects. These revisions became effective on January 1, 2010. The principal differences between PRMS Standards and the current SEC Standards include the following:

Certainty of existence. Under PRMS Standards, reserves in undeveloped drilling sites that are located more than one well location from a commercial producing well may be classified as proved reserves if there is “reasonable certainty” that they exist. Under current SEC Standards, it must be “demonstrated with certainty” that reserves exist before they may be classified as proved reserves. The revisions to the SEC Standards establish a uniform standard of “reasonable certainty” that applies to all proved reserves, regardless of location or distance from producing wells.

Duration of license. Under PRMS Standards, proved reserves are projected for the period of the efficient development of the evaluated fields. Under SEC Standards, crude oil and gas deposits may not be classified as proved reserves if they will be recovered after the expiration of a current license period unless the license holder has the right to renew the license and there is a demonstrated history of license renewal. The absence of an absolute legal right to an extension and lack of historical support prevents us from concluding that the extractable reserves in our fields for periods past the expiration of the primary terms of these licenses could be considered proved under SEC Standards. We have not reviewed our fact pattern with the SEC and therefore do not have definitive guidance on whether in our circumstances such extractable reserves could be considered proved under SEC Standards.

Accordingly, information relating to our estimated proved natural gas, gas condensate and crude oil reserves under PRMS Standards is not necessarily indicative of information that would be reported under SEC Standards. In addition, although the revised SEC Standards allow for voluntary disclosure of “probable” and “possible” reserves after January 1, 2010, current SEC Standards do not permit the presentation of reserves other than proved reserves.

If we applied SEC Standards, these differences could potentially cause the amount of estimated proved natural gas, gas condensate and crude oil reserves reported by us under SEC Standards to be lower than would otherwise be reported under PRMS Standards. An eventual decrease in the amount of natural gas, gas condensate and crude oil reserves reported by us could, if material, affect certain financial data reported by us in the Group’s Financial Statements in future periods.

Russian Regulation

The Russian legal system’s rapid evolution during the last 20 years is particularly evident in the context of natural gas industry regulation. Below is a brief overview of some key aspects of the current regulatory regime for the natural gas and oil industries.

The regulation of legal and economic relations in the Russian natural gas industry is generally based on the Constitution, the Civil Code, the Subsoil Resources Law, the Natural Monopoly Law, the Gas Supply Law, the Gas Export Law, the Continental Shelf Law, Federal Law No. 191-FZ of December 17, 1998 "On the Exclusive Economic Zone of the Russian Federation," as amended, (the "EEZ Law"), and Federal Law No. 155-FZ "On the Internal Sea Waters, the Territorial Sea and the Contiguous Zone of the Russian Federation," as amended (the "Internal Sea Waters Law"). The most important piece of legislation is the Gas Supply Law, which establishes a legal, economic and organizational framework for natural gas supply in the Russian Federation and is directed at meeting state needs for strategic energy resources.

Under the Gas Supply Law, Russian federal authorities have jurisdiction over natural gas supplies, including, among other things, the development and implementation of Government policy on natural gas supply, the regulation of strategic natural gas reserves, federal state monitoring and control over the industrial and environmental safety of the industrial sites of the natural gas supply systems, federal state control (compliance monitoring) over setting and (or) application of the state-controlled prices (tariffs) in the gas supply sector, standardization, unification of measurement, mandatory confirmation of compliance with respect to natural gas supply and ensuring energy security for Russia.

With respect to gas supply, the Government of the Russian Federation has the authority to: (i) set the procedure for forming and approving the projected natural gas production and sales balance in Russia based on available gas resources, technical capacity of the gas transportation system and anticipated demand for energy supplies, (ii) determine the level of natural gas prices and natural gas transportation tariffs for gas transportation through pipelines and gas distribution networks, (iii) approve procedures for compensation of losses incurred by gas distribution companies that supply gas to subsidized households, (iv) regulate natural gas deliveries, (v) approve gas utilization and gas supply regulations; (vi) approve federal gasification programs in Russia, (vii) set procedures for providing independent organizations with access to the natural gas transportation and distribution networks, (viii) set procedures for utilization of gas as engine fuel; (ix) determine the categories of customers, including those that have the preemptive right for gas utilization as engine fuel, to whom natural gas deliveries cannot be restricted or suspended, (x) approve rules regarding protection of gas supply facilities; (xi) approve regulations as regards determination of reliability and quality of transportation services through gas distribution networks.

The Ministry of Industry and Trade is a federal executive body responsible for, among other things, the development of governmental civil and military industrial policy, regulation of certain sectors of industry, including the regulation of energy supply and the improvement of energy market efficiency, supporting exports of industrial products and the state regulation of foreign trade (except for tariff and customs regulation).

The Ministry of Energy is responsible, in particular, for the development of governmental fuel and energy sector policy, regulation of the energy sector, provision of state services, management of state property in the energy sector and use of energy resources.

The Ministry of Natural Resources and Ecology is a federal executive body responsible, in particular, for the development of governmental policy and regulation of the use, study, reproduction and protection of natural resources and water objects and environmental monitoring and protection.

The Federal Service for Environmental, Technological and Nuclear Supervision is a federal executive body responsible for the development of governmental policy and regulation, control and supervision of subsoil use and industrial safety. The Federal Service for Environmental, Technological and Nuclear Supervision is also a state authority responsible for mining, federal energy and construction supervision.

The Constitution of the Russian Federation stipulates that subsoil legislation is under the joint jurisdiction of the federal and regional authorities.

Subsoil licensing

In 1992, the Subsoil Resources Law introduced a licensing system governing the geological survey, exploration and production of natural resources from the subsoil in Russia. Under the Subsoil Resources Law, licenses for fields and subsoil plots were awarded through auctions or tenders conducted by the Committee on Geology and the Use of Mineral Resources of the Government ("Geokom of Russia"), together with the legislative branch of the relevant constituent entity of the Russian Federation. Currently, licenses are generally awarded by the federal authority responsible for management of state property in the area of subsoil use, which in accordance with Governmental Resolution No. 293 of June 17, 2004, as amended, is Rosnedra.

The Subsoil Resources Law provides criteria for determining subsoil plots of federal importance and defines legal grounds for establishment and termination of rights to use subsoil plots of federal importance. Under the Subsoil Resources Law, subsoil plots of federal importance are awarded through auctions or without an auction procedure with respect to the subsoil plots of federal importance included in the list approved by the Government. The most important criterion for determining an auction winner is the amount of the proposed payment for the right to use the subsoil.

The Gas Supply Law and the Subsoil Resources Law set forth special requirements in relation to granting the right of subsoil use for gas fields to the owner of the UGSS. In particular, to maintain reliability of gas supplies in Russia, the Government may grant the right of subsoil use (combined licenses) for fields of federal importance to the owner of the UGSS without an auction.

There are several categories of licenses applicable to the geological survey, exploration and production of natural resources, including: (i) licenses for geological survey; (ii) licenses for exploration and production of natural resources; and (iii) licenses for geological survey, exploration and production of natural resources (combined licenses). Under the Subsoil Resources Law, licenses are granted either for the term stipulated in the license or for an indefinite term. Geological survey licenses may have a maximum term of five years (10 years for geological survey of subsoil areas of internal sea waters, territorial seas and the continental shelf and seven years for geological survey of subsoil areas located in Russian regions with severe environmental and weather conditions); exploration and production licenses may have a term of the expected operational life of the field based on a feasibility study that provides for rational use and protection of subsoil; production licenses for underground waters may have a maximum term of 25 years; licenses for the production of natural resources based on the short-term right to use subsoil plots may have a maximum term of one year. The Subsoil Resources Law allows the subsoil user to request an extension of the existing license in order to complete either the development of the field or the procedures necessary to vacate the land once the exploration, assessment and exploitation of the subsoil is complete, subject to compliance with the terms and conditions of the license. Indefinite term licenses (not related to production of natural resources) are provided, in particular, for the construction and operation of waste burial facilities and underground oil and gas storage facilities.

Licenses for subsoil use may be transferred only under certain limited circumstances that are identified in the Subsoil Resources Law, including the reorganization or merger of the license holder, transfer of a license as part of the property a bankrupt license holder, or in the event that an initial license holder transfers its license to a legal entity in which it has at least a 50% ownership interest as well as any transfer of a license within a consolidated group of companies, provided that the transferee possesses the equipment and authorizations necessary to conduct the exploration or production activity that is covered by the transferred license. A license shall be reissued when the right for subsoil use is transferred or if the legal name of a license holder has changed. In this case the terms and conditions of subsoil use set forth in the previous license are not subject to revision. A transfer of the right to use a subsoil plot and the re-issuance of the license, which has been granted on the basis of a production sharing agreement, is regulated by Federal Law “On Production Sharing Agreements” No. 225-FZ of December 30, 1995, as amended (the “PSA Law”).

Unless otherwise provided by law, the transfer of a subsoil area of federal importance is prohibited by any entity established in accordance with the Russian legislation that has participation of a foreign investor, or a group of entities that include a foreign investor, in which a foreign investor has the ability to (i) directly or indirectly control more than 10% of the entity’s voting shares, (ii) control the entity’s management by contract or otherwise, or (iii) appoint the entity’s chief executive officer or more than 10% of its executive officers or members of the entity’s board of directors or other management committee. In exceptional circumstances and in accordance with the Government’s resolutions, the transfer of rights to use subsoil plots of federal importance to entrepreneurial entities indicated in the law may be permitted.

Under a licensing agreement, the licensee assumes certain undertakings, including obligations with respect to the period and volume of exploration, provision of pre-project and project documentation, payments for subsoil use, projected extraction volume of natural resources, compliance with environmental safety requirements, elimination of environmental pollution, and, in certain instances, assurance of employment and development of infrastructure. When a license expires, the licensee, at its own cost, shall restore the relevant subsoil plot to a condition which is adequate for future use. The licensee can be fined or the license can be revoked, suspended or limited if the licensee breaches material terms of a license, including timing and scope of works at a subsoil plot, submission of required reports, as well as in cases of direct threat to the lives or health of the people working or residing in the area where licensed activities are carried on, in case of emergency or other circumstances.

Most of the conditions provided by licensing agreements are based on mandatory provisions of Russian law; however, other provisions may be negotiated by the parties subject to mandatory provisions of the Subsoil Resources Law.

A holder of a license for subsoil use, including geological survey of natural resources, assessment and exploration of fields, must make one-off payments for subsoil use under certain conditions as may be provided in the license including one-off payments in the event of the change of subsoil area borders, and regular payments for subsoil use. The regular payments for subsoil use based on economic and geographic conditions, size of the subsoil area, type of natural resources, period of exploration, geological profile of the subsoil plot and degree of risk. Such payments are charged separately on each type of subsoil use works and with the account for the stage of geological process and pursuant to specific rates set by Rosnedra within the range established by law.

Payments for subsoil are in addition to relevant tax obligations applicable to the license holder in accordance with general tax legislation.

Federal Law No.161-FZ dated June 29, 2015 “On Pecularities of Legal Regulation of Subsoil Use Relations in Connection with the Accession to the Russian Federation of the Republic of Crimea and the City of Federal Significance Sevastopol” provides among other things that granting the rights of subsoil use with respect to the subsoil areas located in the Black Sea and Azov Sea within the sovereign territory of the Russian Federation is permitted without holding an auction pursuant to a resolution of the Government.

Regulating the activities of natural monopolies

The Natural Monopoly Law defines “natural monopoly” as a condition of the commodities market in which the demand for products is satisfied more effectively in the absence of competition due to technological characteristics of the manufacturing process and in which another product cannot readily be substituted for the monopoly product, which makes demand for the monopoly product less responsive to the price movements than demand for other products. The Natural Monopoly Law sets out, among other things, a regime for the regulation of entities which have a natural monopoly over natural gas transportation. It also establishes an authority which supervises:

- transactions involving the acquisition by a natural monopoly entity of title to (or the rights to use) assets unrelated to the industry in which the natural monopoly entity operates (“durable means of production and distribution”), where the value of such assets exceeds 10% of the natural monopoly entity’s equity capital (as calculated in accordance with its latest audited balance sheet);

- investments in production or distribution of goods, not related to the industry of the natural monopoly entity, whose value exceeds 10% of the natural monopoly entity’s equity capital (as calculated in accordance with its latest audited balance sheet);

- sales, leases or other transactions whereby an entity purchases title to (or the rights to use) assets of a natural monopoly entity used in the industry in which a natural monopoly entity operates where the value of such assets exceeds 10% of the value of the natural monopoly entity’s equity capital (as calculated in accordance with its latest audited balance sheet);

- setting and (or) application of prices (tariffs) for gas transportation through pipelines; and

- compliance with disclosure requirements by natural monopoly entities.

The FAS supervises the activities of natural monopolies and is responsible for setting tariffs.

The FAS can adopt binding decisions in the case of a breach of law and issue binding instructions to a natural monopoly to prevent a breach of law, including instructions on eliminating the consequences of a breach.

The principal methods of regulating the activities of natural monopolies by relevant supervising authorities are:

- price regulation by setting prices (tariffs) or price limits; and

- identifying consumers entitled to receive mandatory services and (or) setting natural monopoly minimum supply levels for such consumers (with a view to protecting the rights and legal interests of citizens, state security, the environmental and cultural values).

As a natural monopoly entity, we must submit ongoing reports on our activities and drafts of capital investment plans to the relevant supervisory authority pursuant to the Natural Monopoly Law.

In order to promote transparency in activity and regulation, natural monopolies, including Gazprom, are required to grant free access to the information on their activity in accordance with the standards of disclosure approved by the Government. The information on the regulated activity of the natural monopolies include the following: (i) information on prices (tariffs) for regulated goods and services; (ii) information on principal operational and financial activity, which is regulated; (iii) information on basic consumer characteristics of the regulated goods and services and their compliance with statutory requirements; (iv) information on technical access to the regulated goods and services, or the lack thereof and on the status of applications relating to technical connection to natural monopoly infrastructure; (v) information on the terms and conditions of supply of the regulated goods and services; (vi) information on investment plans and performance reports, etc.

The supervisory authority has the authority to: (i) regulate natural monopoly entities and to apply regulatory measures contemplated by the Natural Monopoly Law including price regulation; (ii) instruct natural monopoly entities to cease violations and mitigate its consequences, including by entering into contracts with the consumers entitled to the mandatory provision of services, instruct natural monopoly entities to make amendments to existing contracts or to transfer to federal budget profits from activities violating the Natural Monopoly Law; and (iii) perform other acts contemplated by federal laws.

The UGSS

The Gas Supply Law defines the UGSS as a centrally managed, technologically and economically regulated system of gas production, processing, transportation, storage and supply.

Gazprom is currently the owner of the UGSS. Under the Gas Supply Law, the owner of the UGSS has a number of responsibilities. To ensure reliable gas supply and compliance with international treaties of the Russian Federation and gas delivery contracts, Gazprom maintains and develops a network of UGSS facilities, monitors and manages the function of its facilities, procures the use of equipment and processes for power-saving and environmental safety at its industrial sites, takes action to ensure industrial and environmental safety within the UGSS and operates emergency management systems.

The Gas Supply Law does not permit the division of the UGSS. The liquidation of its owner can only be carried out if a federal law is passed permitting such liquidation. As amended, the Gas Supply Law requires that at least 50% plus one ordinary share of the company owning the UGSS must be owned by the Russian Federation or joint stock companies in which the Russian Federation owns at least a 50% plus one share interest, and may be disposed of by federal law. Currently, the Russian Federation controls more than 50% of Gazprom’s shares.

Production sharing agreements

Production sharing agreements are commercial arrangements between the Russian Federation and investors relating to exploration and development and the sharing of production of mineral resources between parties. Under a production sharing agreement, an investor is exempted from a number of taxes and other mandatory payments in exchange for giving the Russian Federation a portion of its production, generally, after the investor has recovered its development costs.

The PSA Law came into force in January 1996. It established the principal legal framework for state regulation of production sharing agreements relating to oil and gas field development and production. The PSA Law contains rules purporting to protect investors against adverse changes in federal and regional laws and regulations.

The PSA Law provides that operations conducted under a production sharing agreement pursuant to the PSA Law will be governed by the production sharing agreement itself and will not be affected by contrary provisions of any other legislation with several exceptions. Furthermore, production sharing agreement entered into by the Russian Federation prior to the enactment of the PSA Law (e.g., Sakhalin I, Sakhalin II and Kharyaga) are “grandfathered” to the PSA Law so that their provisions will be effective even if they are inconsistent with the PSA Law.

In accordance with Order of the Government No. 1539-r dated September 6, 2011 we have been assigned the right of the Russian Federation to receive consideration in kind as a payment for production of natural resources (royalty) and a share in sales under the Sakhalin II production sharing agreement.

Transportation and supply of gas

The relationship between natural gas suppliers and off-takers is governed by the Gas Supply Law, the Regulation on Natural Gas Supplies in the Russian Federation approved by Government Resolution No. 162 dated February 5, 1998 (“Resolution No. 162”), as amended, and other regulations.

A right of priority to enter into natural gas supply agreements is given to off-takers that purchase natural gas for the Government, utility consumers and households, and certain off-takers wishing to extend their existing natural gas supply agreements.

Pursuant to Government Resolution No. 858 dated July 14, 1997, we provide independent suppliers with access to the GTS subject to the following requirements:

- availability of spare transport capacity from the connection point to the point of delivery for the time period requested by the independent supplier;
- quality and technical parameters of the natural gas supplies;

- availability of input connections from suppliers and output connections to consumers and natural gas recovery and quality control stations; and

- availability of gas supply agreements and relevant customer demand for the proposed time period.

In accordance with the Gas Supply Law, consumers are obligated to pay for natural gas supplies and transportation services. If consumers fail to make such payments, suppliers have the right to limit or suspend natural gas supplies to such consumers in accordance with specific procedures provided for by a number of Government resolutions. Government Resolution No. 364 dated May 29, 2002 provides for special terms and conditions of gas delivery to institutions responsible for national security. The supplier may not suspend or limit gas supplies below the limits provided by the state-related customer for its affiliated institutions.

The Saint Petersburg International Mercantile Exchange has arranged gas trading in the double-sided auction mode. Exchange trading is governed by the Gas Supply Law, Resolution No. 162 and other pieces of legislation.

In accordance with the Government Resolution No. 294 dated April 4, 2000, as amended, payments for natural gas acquired in trading systems are to be made pursuant to gas supply agreements the terms of which are consistent with the rules for conducting trading activities and enactments of the Government. Resolution No. 162, as amended, provides that the requirements as to minimum and maximum daily gas supply volumes do not apply to trading system transactions.

Gas exports

Pursuant to the Gas Export Law, as the owner of the UGSS, Gazprom and its wholly owned subsidiaries have the exclusive right to export natural gas in its natural state produced in any hydrocarbon field within Russia, except for gas produced under production sharing agreements that were entered into before the Gas Export Law came into effect. Federal Law No. 318-FZ dated November 30, 2013 introduced amendments to the Gas Export Law granting the right to export LNG produced in Russia also to other companies that meet specified requirements.

Transportation of crude oil and petroleum products

The trunk pipelines transmitting crude oil and petroleum products in Russia are owned by Transneft which is a state-controlled monopoly. Pursuant to the Natural Monopolies Law, pipeline terminal access rights for the purpose of crude oil export are allocated among oil producers and their parent companies in proportion to the volumes of oil produced and delivered to the Transneft pipeline system (and not in proportion only to oil production volumes).

The Ministry of Energy approves quarterly plans that detail the precise volumes of oil that each oil producer can pump through the Transneft system for export. Once the access rights are allocated, oil producers generally cannot increase their allotted capacity in the export pipeline system, although they have limited flexibility in altering delivery routes. Oil producers are generally allowed to transfer their access rights within one group of companies.

Prices and tariffs

Pricing of gas produced by Gazprom and its affiliates, as well as rates for gas transportation services through trunk gas pipelines operated by Gazprom, are regulated and supervised by the Russian Federation pursuant to the Gas Supply Law and the Natural Monopoly Law, as well as certain governmental regulations, such as Government Resolution No. 239 "On Measures to Stabilize State Regulation of Prices (Tariffs)" dated March 7, 1995, as amended, and Government Resolution No. 1021 "On State Regulation of Gas Prices and Tariffs for Gas Transportation in the Territory of the Russian Federation" dated December 29, 2000, as amended. In accordance with the Gas Supply Law, the Government is authorized, and has implemented such right, to substitute service tariffs for gas transportation through pipelines, which is a natural monopoly activity, with the regulation of natural gas prices for end users as well as tariffs on gas transportation services for independent organizations.

Currently, the Government regulates wholesale natural gas prices (excluding wholesale natural gas prices sold through trading systems), tariffs for gas transportation services through trunk pipelines for independent organizations, tariffs for gas transportation through pipelines owned by independent organizations, tariffs for gas transportation through supply networks, tariffs for connecting gas utilization equipment to gas distribution networks and payments for the supply and marketing services rendered by gas distribution companies to the population and retail natural gas prices, special markups to gas transportation tariff charged for gas transmission through distribution networks to finance various gasification programs. Consequently, state agencies regulate prices (tariffs) throughout the entire gas supply system with regard to Russian users.

Tariffs charged to unaffiliated third parties for the transportation of natural gas through our trunk pipelines are established by the FTS and the FAS. See "Gazprom—Transport." A tariff system consists of (i) a payment for the use of natural gas pipelines, which depends on the regions of input to and output from the GTS and (ii) a payment for transportation of mcm per 100 km.

Recent Changes In Russian Tax Regulation

60-66 Tax Regime; Export Duty Changes

On October 1, 2011, the first stage of a new tax regime for the Russian oil industry took effect (the "60-66 tax regime"). The 60-66 tax regime reduced the marginal export duty rate on crude oil from 65% to 60% and unified export duties for light and dark petroleum products at 66% of the export duty on crude oil, except for gasoline and naphtha export duty which was set at 90% of the export duty on crude oil. More specifically, the 60-66 tax regime increased the export duty on fuel oil from 46.7% to 66%, while decreasing the export duty on diesel and jet oil from 67% to 66%.

In 2013 and 2014 further amendments to Russia's customs regime were introduced which resulted in a gradual decrease in the marginal rate of general export duty on crude oil to 59% in 2014, 42% in 2015, 36% in 2016 and 30% in 2017 and changes in export duty rates for oil products:

Export duty rate for oil products (percentage of the export duty on crude oil)	2013	2014	2015	2016	2017 onwards
Light and medium distillates, benzene, toluene, xylenes	66	65	48	40	30
Lubricants	66	66	48	40	30
Gasoline	90	90	78	61	30
Naphtha	90	90	85	71	55
Fuel oil, bitumen and some other dark products	66	66	76	82	100

The current export duty rates for natural gas and for LNG equal to 30% and 0%, respectively. Marginal rate of general export duty on crude oil and gas condensate is 42% in 2015, 36% in 2016 and 30% in 2017. Export duty for dark petroleum products equals to 76% of a general export duty rate on crude oil in 2015 and will be increased to be equal to the export duty for crude oil from 2017. Export duty rates for light oil products for 2015 are 78% of a general export duty rate on crude oil for gasoline and 48% for light and medium distillates, benzene, toluene, xylenes, lubricants; and will be decreased to 30% starting 2017. Export duty rate for naphtha is 85% of a general export duty rate in 2015 and will be decreased to 55% starting 2017.

MET Changes

Gas and Gas Condensate

Federal law No. 263-FZ dated September 30, 2013 effective July 1, 2014 introduced a formula for calculating the MET rate for natural gas and gas condensate instead of fixed MET rates. Beginning January 1, 2015 the MET rate for natural gas has been determined as a production of (1) the base rate of RR35 per mcm for natural gas, (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 extraction of natural gas, and (4) a coefficient based on the transportation costs of gas.

The MET rate for gas condensate is determined by multiplying (1) the base rate of RR42 per ton for gas condensate, (2) the base value of a unit of fuel equivalent, calculated taking into account various macroeconomic indicators including oil and gas prices, (3) the coefficient representing the degree of difficulty of extraction of gas condensate, (4) an adjustment coefficient which is proposed to be 4.4 in 2015, 5.5 in 2016 and 6.5 from 2017 onwards.

Base value of a unit of fuel equivalent is calculated under a complex formula which takes into account various factors such as estimated prices of natural gas and gas condensate and a coefficient reflecting the proportion of sales of gas to the domestic market. Starting January 1, 2015 the estimated prices of gas condensate is calculated based on the coefficient representing the nominal rate of export duty on gas condensate instead of the coefficient representing the nominal rate of export duty on crude oil. The new coefficient is calculated in the same way as export duty for crude oil which is established in the current version of the law concerning the Customs Tariff.

Changes were also introduced with respect to the coefficient representing the degree of difficulty of extraction of natural gas and gas condensate from a hydrocarbon reservoir.

If a subsoil site is located wholly or partially in the Republic of Sakha (Yakutia) and/or the Irkutsk Region with the start of commercial production of natural gas occurring after January 1, 2018, the coefficient reflecting the geographic location of the subsoil site containing the hydrocarbon reservoir (C_l) should be 0 starting from the tax period following the tax period when the subsoil license was issued and for up to 15 calendar years from the date on which commercial production of natural gas started.

Crude Oil

Starting 2015 the MET rate for crude oil was also amended and is calculated pursuant to the following formula:

MET = Basic rate x C_p – C_e, where

Basic rate equals to RR766 per ton, RR857 per ton and RR919 per ton set for 2015, 2016 and 2017, respectively;

C_p is a coefficient reflecting fluctuations of crude oil prices; and

C_e is a coefficient reflecting the characteristics of oil extraction.

C_e is calculated using the same coefficients and indicators that are used for determining the MET rate for crude oil under the 2014 legislation.

The MET incentives established prior to 2015 have not been abolished but currently the minimum MET rate, instead of a zero rate applied in accordance with prior tax regime, is determined as a difference between the MET rate on crude oil established by the current regime and the MET rate on crude oil under the MET regime effective before 2015.

Excise Tax

Following the recent tax changes jet fuel, paraxylene and benzol, subject to certain conditions, became subject to excise tax. Excise tax rates were reduced and are set forth below:

Oil Product	**Rate, RR per ton**		
	2015	**2016**	**2017**
Petrol:			
– Inconsistent with Class 3, 4 or 5	7,300.0	7,530.0	5,830.0
– Class 3	7,300.0	7,530.0	5,830.0
– Class 4	7,300.0	7,530.0	5,830.0
– Class 5	5,530.0	7,530.0	5,830.0
Diesel fuel	3,450.0	4,150.0	3,950.0
Motor oil	6,500.0	6,000.0	5,400.0
Naphtha	11,300.0	10,500.0	9,700.0
Jet fuel*	-4,600.0	-5,520.0	-5,824.0
Paraxylene, benzol*	-6,624.0	-8,520.0	-9,520.0

Notes:

* A negative value of excise tax for jet fuel, paraxylene and benzol means that the amount of such excise tax is to be offset against other taxes.

In addition, starting 2015 natural gas became subject to excise tax if it is provided by the terms of international agreements of the Russian Federation. The excise tax rate is set at 30% of the cost of natural gas sold net of customs duties and expenses for transportation outside Russia unless otherwise provided by international agreements.

Tax Incentives for Offshore Projects

Federal law No. 268-FZ, dated September 30, 2013 and effective January 1, 2014, incentivized oil and gas development on the Russian continental shelf and introduced ad valorem MET rates, export duty relief, transport tax and property tax exemptions, as well as VAT, profit tax and transfer pricing incentives for new offshore projects. In particular, the law provides for lower MET rates for natural gas (depending on the complexity of recovery) with respect to fields that enter the stage of industrial production of hydrocarbons after 2016. The law also extends application of a zero MET rate for a specified period of time for crude oil extracted from fields meeting certain criteria. We believe that the Prirazlomnoye field meets these criteria. The law also provides an exemption for a specified period of time from export duties on crude oil, natural gas, stable gas condensate and on LNG processed from hydrocarbon feedstock produced fields meeting certain criteria. We believe that the Kirinskoye field is eligible for this exemption from export duties with respect to stable gas condensate and LNG. In addition, the law introduced property tax breaks for properties located on the continental shelf used for exploring, preparing and developing offshore fields and transport tax breaks relating to offshore floating and stationary platforms, offshore mobile drilling rigs and drill ships.

Property Tax

The 2012 amendments to tax legislation also provide for an increase in property tax rate imposed on infrastructure property, including power lines and trunk pipelines, over a six-year transition period starting 2013. The corporate property tax rate for the aforementioned types of property is set at 0.4% in 2013, 0.7% in 2014 and is expected to rise by 0.3 percentage points each year to the generally established corporate property tax rate of 2.2% in 2019. In addition, from 2014 the property tax imposed on certain immovable property is calculated on the basis of its cadastral value instead of its average annual net book value. However, starting 2015 a zero property tax rate effective until January 1, 2035 was introduced in relation to trunk pipelines, installations which form an integral technological part of them, gas extraction facilities, facilities for the production and storage of helium subject to certain conditions.

Procurement Law

In accordance with the Procurement Law, certain categories of legal entities, including natural monopoly entities, their subsidiaries in which a natural monopoly entity holds more than 50% of the share capital (the "Direct Subsidiaries") and the subsidiaries of the Direct Subsidiaries in which any Direct Subsidiary holds more than 50% of the share capital (the "Indirect Subsidiaries"), are required to purchase goods, services and works through a competitive tender or public auction, subject to certain exemptions provided by the Procurement Law. Gazprom is a natural monopoly entity pursuant to Articles 3 and 4 of the Natural Monopoly Law. In accordance with the Procurement Law we enacted procurement regulations (the "Procurement Regulations") setting out rules and procedures for competitive purchase of goods, services and works by us, our Direct Subsidiaries and Indirect Subsidiaries and published them on our Internet website. We carry out procurement of goods, services and works pursuant to the Procurement Law and the Procurement Regulations.

Environmental requirements

Russian environmental legislation establishes a "pay-to-pollute" regime. The Federal Service for the Supervision of the Use of Natural Resources, which is subordinate to the Ministry of Natural Resources and Ecology, exercises supervision over the observance of environmental legislation (including legislation relating to handling of hazardous wastes but excluding nuclear wastes), controls geological exploration, the rational use and protection of subsoil (including compliance with the relevant terms and conditions of subsoil licenses) and exercises land control.

Fees are assessed for both pollution within the limits agreed on emissions and effluents and for pollution in excess of these limits. There are additional fines for certain other breaches of environmental regulations. The environmental protection legislation contains an obligation to make compensation payments to the budget for all environmental losses caused by pollution. In the event of a dispute concerning losses caused by breaches of environmental laws and regulations, the prosecutor's office or other authorized governmental bodies may bring suit. Courts may impose clean-up obligations, subject to the agreement of the parties, in lieu of or in addition to imposing fines.

Subsoil licenses generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low.

Health and Safety

The principal law regulating industrial safety is Federal Law No. 116-FZ dated July 21, 1997 "On Industrial Safety of Hazardous Industrial Facilities," as amended, (the "Safety Law"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities related to exploration and production of gas, among other things, are carried out. The Safety Law also contains a comprehensive list of hazardous substances and their permitted concentrations, and extends to facilities and sites where these substances are used.

Our activities include operation of certain hazardous industrial sites regulated by the Federal Service for Environmental, Technological and Nuclear Supervision (the "Rostekhnadzor"). Project documentation relating to laying up or liquidation of a dangerous industrial site is subject to state industrial safety review. Project documentation in relation to reequipment of a dangerous industrial site has to be reviewed by a licensed expert with the results of the review to be submitted to the Rostekhnadzor unless the documentation is subject to state review in accordance with the urban planning legislation. Any amendment of project documentation in the process of construction or reconstruction of regulated industrial sites needs to be reviewed by a licensed state expert in accordance with the Russian urban-planning legislation. Any amendment of project documentation in the process of laying up or liquidation of regulated industrial sites is subject to state industrial safety review and needs to be approved by the Rostekhnadzor or its territorial body. Any amendment of project documentation in the process of reequipment of a dangerous industrial site has to be agreed with the Rostekhnadzor or its territorial body unless the change has been agreed with the urban planning authorities.

Companies that operate hazardous industrial sites have a wide range of obligations under the Safety Law and the labor legislation of the Russian Federation. In particular, they must limit access to such sites to certified specialists without any medical contra-indications, maintain industrial safety controls, carry insurance for third-party liability for injuries caused in the course of operating hazardous industrial sites and form financial and material reserves that could be used to contain or liquidate consequences of an accident on a hazardous industrial site. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services and conduct personnel training programs, create systems to cope with and inform respective state authorities of accidents and maintain these systems in good working order.

In case of an accident, a special commission led by a representative of the Rostekhnadzor conducts a technical investigation of the cause. The company operating the industrial facility where the accident took place must bear all costs of the investigation and provide the special commission with all necessary information required to conduct a thorough investigation of the accident. The Rostekhnadzor may suspend a company's operations or impose other administrative liability on a company or its officials.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability and individuals may also incur criminal liability. A company that violates safety rules in a way that adversely impacts the health of an individual may also be liable to compensate the individual for lost earnings, as well as health-related damages.

The Safety Law classifies all industrially hazardous assets into four groups: 1st hazard class or extremely dangerous assets, 2nd hazard class or highly dangerous assets, 3rd hazard class or moderately dangerous assets, and 4th hazard class or lowly dangerous assets. Depending on the type of business, operational facilities are assigned relevant hazard classes upon registration of such facilities in the state register. For instance, industrially hazardous assets in gas transportation are deemed 2nd hazard class if they are designed to transport natural gas under pressure in excess of 1.2 MPa or liquefied natural gas to the extent the pressure is greater than 1.6 MPa. All other gas distribution and gas utilization networks not reaching those criteria are deemed 3rd hazard class. Safety measures to be observed in operating industrial facilities are prescribed by the hazard class applied to a particular asset. In certain cases, companies operating hazardous industrial sites must prepare declarations of industrial safety which would summarize the risks associated with operating a particular regulated industrial site and measures the company has taken and will take to mitigate such risks and use such site in accordance with applicable industrial safety requirements. Declaration of industrial safety must be prepared in relation to 1st and 2nd hazard class assets. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein, and is subject to the state industrial safety review and registration with the Rostekhnadzor.

Employment and Labor Regulation

Labor matters in Russia are primarily governed by the Labor Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws. In respect to certain territories with harsh climatic conditions, Russian legislation establishes additional regulations to protect the interest of employees. Under Law of the Russian Federation No. 4520-1 "On State Guarantees and Compensations for Persons Working and Residing in the Far North Regions and Areas of Equal Status" dated February 19, 1993, as amended, the employees working in certain territories with harsh climatic conditions are entitled to certain additional benefits, including the regional coefficients pursuant to which the salary and other benefits of such employees are increased (the amount of coefficient differs for each territory) and additional vacation days.

Inland sea waters, territorial sea, continental shelf and the exclusive economic zone

Offshore hydrocarbon operations in the internal sea waters, territorial sea, continental shelf and the exclusive economic zone of the Russian Federation are governed by the Commercial Maritime Code of the Russian Federation No. 81-FZ, dated April 30, 1999, as amended, EEZ Law, the Subsoil Resources Law, the Continental Shelf Law, Internal Sea Waters Law, the PSA Law and international treaties to which the Russian Federation is a party.

The territorial sea of the Russian Federation is a belt of sea adjacent to its land territory or its internal waters, which has the breadth of twelve nautical miles, measured from the baselines determined in accordance with the Russian Internal Sea Waters Law. The internal sea waters of the Russian Federation are waters on the landward side of the baseline of the territorial sea, which form part of the Russian territory. The continental shelf of the Russian Federation comprises the seabed and subsoil of the submarine areas that extend beyond its territorial sea throughout the natural prolongation of its land territory to the outer edge of the continental margin. Inner and outer limits of the continental shelf are determined in accordance with the Continental Shelf Law and international treaties. The "exclusive economic zone" of the Russian Federation is the marine area located outside Russia's territorial sea and limited by the 200 nautical miles from the baselines from which the width of the territorial sea of the Russian Federation is measured (or as otherwise provided by international law or treaty), including all islands located within this area except for mountain rocks ineligible for living and economic activities.

The EEZ Law focuses on protecting and monitoring the natural resources of the exclusive economic zone, including mineral resources. The EEZ Law establishes a framework of protective measures with respect to dumping, accidents at sea, and protection and conservation of ice-bound and other specially designated areas. Users of resources in the exclusive economic zone make certain payments in accordance with Russian legislation.

Foreign Investments

On April 29, 2008, Federal Law No. 57-FZ "On the Procedure for Making Foreign Investments in the Companies Of Strategic Importance for the Defense and State Security," as amended (the "Foreign Investment Law"), was adopted. The Foreign Investment Law sets forth certain restrictions relating to foreign investments in Russian companies of strategic importance for national defense and security. Among others, companies engaged in the geological exploration and/or extraction of minerals at the subsoil sites of federal significance are considered to be strategically important and foreign investments in such companies are subject to restrictions set out by the Foreign Investment Law.

Under the Foreign Investments Law, an acquisition by a foreign investor of direct or indirect control over a Russian company of strategic importance requires a permit of the special Governmental commission. In addition, an acquisition by a foreign investor or its group of companies of the shares (participation interests) in a company of strategic importance (directly or indirectly) exceeding certain thresholds (which vary from over 5% to over 50% of total voting rights in equity capital of a company of strategic importance, depending on type of the foreign investor and type of the company of strategic importance) requires obtaining a prior permit of the special Governmental commission. If the acquisition of interest over the relevant threshold happens without the requisite prior permit, the acquisition transaction is void under Russian law and the foreign investor and/or its group of companies may be held deprived from voting rights regarding the equity capital of a company of strategic importance.

For purposes of the Foreign Investment Law, Gazprom is a company of strategic importance for national defense and security, but we are exempted from the approval procedures contained therein because the Russian Federation directly or indirectly holds more than 50% of our voting shares.

Decree No. 1285 requires that companies listed as "strategic" by the President, as well as their subsidiaries, (including Gazprom and its subsidiaries) obtain permission from an authorized governmental agency before engaging in certain activities with foreign governments (including their regulatory and controlling bodies), international organizations and unions of foreign states.

Specifically, when requested "by the bodies of foreign states or by international organizations, unions of foreign states, or bodies (institutions) of these organizations and unions," such companies and their subsidiaries must not, without prior consent of the authorized governmental agency:

- provide to such "bodies, organizations or unions" information relating to their business activities;

- amend contracts entered into with foreign parties, or amend any other documents related to their business policies, including pricing policies, in foreign countries; or

- dispose of their (i) shares in foreign companies; (ii) rights to conduct business in foreign countries; or (iii) immovable property in foreign states.

Prior permission for aforementioned activities is not required if the information is provided pursuant to Russian legislation and in the course of the issuance, circulation and acquisition of securities.

Permission for such activities shall be refused if they could harm the economic interests of the Russian Federation.

The Ministry of Energy has been authorized to issue permissions to Gazprom and its subsidiaries pursuant to Decree No. 1285.

Regulation Abroad

Gas Directives

The Second Gas Directive was adopted by the European Parliament and the Council of the European Union in June 2003, and effective July 1, 2004, replaced gas Directive 98/30/EC adopted in 1998.

The Second Gas Directive established common rules for the transmission, distribution, supply and storage of natural gas. The Second Gas Directive set out rules for the organization of the natural gas sector (including LNG), access to the market, the operation of transmission and distribution systems, and the criteria and procedures for authorizing the transmission, distribution, supply and storage of natural gas in order to open domestic gas markets to competition. Since July 1, 2007, all customers have the right to choose their supplier. The Second Gas Directive only provided for regulated access to gas transportation and distribution systems and to LNG terminals. Such access was supposed to be based on the tariffs that became effective only upon their publication and applicable uniformly to all consumers. The implementation of the Second Gas Directive led to significant liberalization of the European natural gas market, going further than the Second Gas Directive's minimum requirements.

According to CEDIGAZ's statistical survey "2014 Natural Gas Year in Review: First Estimates" (May 2015), Russia is the largest supplier of natural gas to Western Europe, followed by Norway, the Netherlands, the U.K., Algeria and Qatar. The leading consulting companies' projections show the increasing dependence upon imports from outside the EU to satisfy demand in the conditions of declining production of natural gas within the EU. In the medium term it is however expected that gas consumption in the EU will stagnate or grow insignificantly. While European gas consumption stagnates it may decline at the same rate as the gas production within the EU.

As a result of the liberalization of the EU natural gas market, short-term contracts and spot transactions involving natural gas have become more popular. Continued development of short-term contracts and spot transactions has had in the past and may continue to have a significant effect on the state of the market. The long-term "take-or-pay" contracts under which most of Europe's natural gas is supplied by the Group, however, provide for secure and stable natural gas supplies while at the same time balancing the interests of both exporters and importers. Such contracts are also the main element of major natural gas export financing projects, which provide producers with capital needed for investment in gas field exploration and development and transportation infrastructure. At the same time, these long-term contracts also ensure that gas importers have access to the required quantities of natural gas over long periods of time. In light of anticipated import demand for natural gas in the European countries and the liberalization of the gas market, long-term contracts are likely to be of continued importance.

In July 2009, the European Council adopted the Third Energy Package which included, in particular, the Third Gas Directive and Directive 2009/72/EC (electricity) providing for further liberalization of the EU gas and electricity markets and repealing Directive 2003/55/EC (gas) and Directive 2003/54/EC (electricity), respectively. The directives envisaged three alternatives for the vertical disintegration of existing energy producers and suppliers from operators of relevant transportation networks. These alternatives establish various degrees of restriction on the participation of energy producers in ownership and management of the transportation networks, from certain restrictions in managing the networks imposed by a national regulator up to a mandatory disposition of assets or requirement to transfer control over assets to an independent operator. Despite the fact that not all of the EU states have incorporated provisions of the Third Gas Directive into their respective legislation, the directive has been directly applied within the EU from March 2011. In addition, the European Commission announced its intention to initiate an investigation against 18 countries which delayed incorporating the Third Gas Directive into their respective national law. Provisions of the Gas directive apply to all undertakings and transportation networks within the EU. As of now, we cannot predict with any certainty the impact the Third Gas Directive may have on our joint ventures, which own transportation facilities and operate in the EU. It is also possible, however, that vertical disintegration would provide us an opportunity for additional access to consumers in the EU market.

GENERAL INFORMATION

(1) It is expected that the Base Prospectus will be approved on or before October 1, 2015. Transactions will normally be effected for delivery on the third working day after the day of the transaction. However, Notes may be issued pursuant to the Programme which will not be listed on any stock exchange. The Listing Agent is not seeking admission to listing of the Notes on the Irish Stock Exchange for the purposes of the Prospectus Directive on its own behalf, but as agent on behalf of Gazprom and the Issuer. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List or trading on its regulated market for the purposes of the Prospectus Directive.

(2) The establishment of the Programme was approved by a resolution of the Management Committee of Gazprom on July 31, 2003 and by a resolution of the Board of Directors of the Issuer on September 8, 2003; the update of the Programme was approved by a resolution of the Board of Directors of the Issuer on September 30, 2015. Gazprom and the Issuer will obtain all necessary consents, approvals and authorizations in Russia and Luxembourg in connection with any Loan and the issue and performance of the corresponding Series of Notes.

(3) Except as disclosed under "Overview," "Risk Factors," "Summary Consolidated Financial Information," "Summary Production Information," "Summary Sales and Operating Information," "Capitalization," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Gazprom," "Certain Transactions," "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters," "Index to Financial Information," "Appendix A" or "Appendix B" in this Base Prospectus, there has been no significant change in the financial or trading position of Gazprom or the Group since June 30, 2015 and there has been and no material adverse change in the prospects of Gazprom or the Group since December 31, 2014.

(4) There has been no significant change in the financial or trading position and no material adverse change in the prospects of the Issuer since December 31, 2014.

(5) Except as disclosed under "Risk Factors" and "Gazprom" in this Base Prospectus, neither Gazprom nor any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Gazprom is aware) during the 12 months preceding the date of this Base Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of Gazprom or the Group.

(6) The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Issuer is aware) during the 12 months preceding the date of this Base Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer.

(7) The Annual consolidated financial statements included in this Base Prospectus have been audited by AO PricewaterhouseCoopers Audit, independent auditors, as stated in their audit reports appearing herein. AO PricewaterhouseCoopers Audit has registered office at Butyrsky Val 10, 125047, Moscow, Russian Federation. AO PricewaterhouseCoopers Audit is a member of the Audit Chamber of Russia (Auditorskaya Palata Rossii).

With respect to the Unaudited consolidated interim condensed financial information included in this Base Prospectus, FBK, a new auditor of Gazprom, reported that they have applied limited procedures in accordance with professional standards for review of such information. However, their report dated August 31, 2015, appearing herein, states that they did not audit and they do not express an opinion on the Unaudited consolidated interim condensed financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Gazprom publishes unaudited consolidated interim condensed financial information prepared in accordance with IAS 34, for the three-month period ended March 31, the six-month period ended June 30 and for the nine-month period ended September 30 in each year. Gazprom does not publish audited or unaudited interim or year-end consolidated or non-consolidated financial statements prepared in accordance with U.S. GAAP.

(8) Certain information with respect to Gazprom's and Gazprom Neft's natural gas, gas condensate and crude oil reserves associated with their respective natural gas, gas condensate and crude oil properties is derived from the report of DeGolyer and MacNaughton, an internationally recognized firm of independent reservoir engineers, as of December 31, 2014, and has been included herein upon the authority of said firm as an expert with respect to the matters covered by such report and in giving such report. DeGolyer and MacNaughton annually evaluates hydrocarbon reserves of the Group in accordance with PMRS and delivers respective reports to Gazprom's and Gazprom Neft's management. DeGolyer and MacNaughton's headquarter is at 5001 Spring Valley Road, Suite

800 East, Dallas, Texas 75244 with a number of international offices located in Houston, Texas, Moscow, Calgary and Algiers. The letter of DeGolyer and MacNaughton attached hereto as Appendix B has been prepared at the request of Gazprom. DeGolyer and MacNaughton holds no interest in the Issuer.

(9) The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number ("ISIN") and (where applicable) the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms or Series Prospectus, as the case may be.

(10) The issue price and the amount of the relevant Notes will be determined before filing of the relevant Final Terms or Series Prospectus of each Series, based on then prevailing market conditions. Gazprom and the Issuer do not intend to provide any post-issuance information in relation to any issues of Notes.

(11) For so long as the Programme remains in effect or any Notes remain outstanding, the following documents in physical form will be available from the date hereof, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Principal Paying Agent and Deutsche International Corporate Services (Ireland) Limited:

- the articles of association of the Issuer and the charter of Gazprom;
- the Trust Deed (which includes the form of the Global Notes and the Definitive Notes);
- the Agency Agreement;
- the Dealer Agreement;
- the Facility Agreement and the Deed of Amendment dated October 28, 2014;
- the audited consolidated financial statements of Gazprom as of and for the years ended December 31, 2014, 2013 and 2012, in each case together with the audit reports thereon;
- the unaudited consolidated interim condensed financial statements of Gazprom as of and for the six months ended June 30, 2015 and 2014;
- each Final Terms or Series Prospectus, as the case may be, for Notes which are listed on the Irish Stock Exchange or any other stock exchange (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, Gazprom and the Principal Paying Agent as to its holding of Notes and identity); and
- a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus.

(12) Any website referred to in this document does not form part of this Base Prospectus.

GLOSSARY OF SELECTED TERMS

"bbls"	Billions of barrels
"bboe"	Billon barrels of oil equivalent
"bcf"	Billion cubic feet
"bcm"	Billion cubic meters, as measured under one atmosphere of pressure at 20C°
"Board of Directors"	Gazprom's board of directors, consisting of 11 members and appointed pursuant to the Joint Stock Companies Law and the Charter
"boe"	Barrel of oil equivalent
"CBR"	Central Bank of the Russian Federation
"Central and Eastern Europe"	For the purposes of this Base Prospectus: Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Former Yugoslav Republic of Macedonia, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia
"Charter"	Gazprom's Charter of May 31, 1996, as amended
"CIS"	The Commonwealth of Independent States. For the purposes of this Base Prospectus the CIS includes Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, Uzbekistan and excludes Russia
"Constitution"	The constitution of the Russian Federation adopted on December 12, 1993
"Customs Union"	A customs union of the Russian Federation, the Republic of Belarus and the Republic of Kazakhstan established in accordance with the Treaty on the Establishment of the Common Customs Territory and Formation of the Customs Union of October 6, 2007
"Energy Charter Treaty"	Treaty between European states, the main objective of which is to assist in the development of the European energy market
"EU"	European Union
"EU35"	EU countries, plus Andorra, Iceland, Israel, Norway, Serbia, Switzerland and Turkey
"Europe"	For the purposes of this Base Prospectus, Central and Eastern Europe and Western Europe
"Europe and Other Countries"	For the purposes of this Base Prospectus, refers to countries other than Russia and the FSU countries
"FEED"……………………………	Front-end engineering and design
"FAS"………………………………	Federal Antimonopoly Service of the Russian Federation, established pursuant to Government Resolution No.331 dated June 30, 2004
"FSU"	Excluding Russia, the countries which formerly comprised the Soviet Union: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan
"FTS"	Federal Tariffs Service of the Russian Federation, established pursuant to Decree No. 314 dated March 9, 2004 as the successor to, among other things, the domestic gas price and transport tariff regulation functions of the Federal Energy Commission
"Gas Directives"	Directive 2009/73/EC, Directive 2003/55/EC and Directive 98/30/EC adopted by the European Parliament and the Council in 2009, 2003 and 1998, respectively, and came into force in March 2011, July 2004 and August 1998, respectively, with the purpose of establishing common rules for the organization and functioning of the European natural gas market
"Gcal"	Giggacalories
"Gcal/h"	Giggacalories per hour
"General Meeting of Shareholders"...	Gazprom's highest authority in accordance with its Charter, with exclusive power over various aspects of Gazprom's management
"GPP"	Gas processing plant
"GTS"	Gas Transportation System, a system of gas transportation and storage facilities including pipelines, compressor stations and UGSFs designed to deliver gas to points of delivery to gas distribution companies.
"GW"	Giggawatt
"IFRS"	International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board
"International Energy Agency"..........	A forum with 28 member countries that serves as a forum in which to share energy information, coordinate energy policies and cooperate in the development of energy programs, and is an authoritative source for energy statistics worldwide
"km"	Kilometer
"kW"	Kilowatt

"kWh"	Kilowatt hour
"Management Committee"	An executive body of Gazprom, which, along with the Management Committee Chairman, manages Gazprom's day-to-day affairs and implements the strategic plans of the Board of Directors
"mcf"	Thousand cubic feet
"mcm"	Thousand cubic meters, as measured under one atmosphere of pressure at 20C°
"mmbls"	Millions of barrels
"mmboe"	Million barrels of oil equivalent
"mmcm"	Million cubic meters, as measured under one atmosphere of pressure at 20C°
"mtoe"	Million metric tons of oil equivalent
"MW"	Megawatt
"NGV"	Natural gas vehicle
"OGKs"	Wholesale market generation companies
"Russia"	Russian Federation
"Russian Tax Code"	Federal Law No.146-FZ "Tax Code of the Russian Federation (part one)" dated June 31, 1998, as amended, and Federal Law No.117-FZ "Tax Code of the Russian Federation (part two)" dated August 5, 2000, as amended
"State Duma"	Lower chamber of the Russian parliament
"tcf"	Trillion cubic feet
"tcm"	Trillion cubic meters, as measured under one atmosphere of pressure at 20C°
"TGKs"	Territorial generation companies
"toe"	Metric ton of oil equivalent
"ton"	One metric ton
"UGSF"	Underground natural gas storage facility
"UGSS"	Unified Gas Supply System
"U.K."	United Kingdom
"U.S."	United States of America
"Western Europe"	For the purposes of this Base Prospectus: Andorra, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Greenland, Iceland, Republic of Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, The Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, Turkey and the United Kingdom
"WFLH"	Wide fraction of light hydrocarbons

CONVERSION TABLE

metric measure	U.S. measure
1 bcm	35,316,000,000 cubic feet
1 tcm	35,316,000,000,000 cubic feet
1 ton	1,000 kilos, 2,204.6 pounds, 7.33 barrels of crude oil, 8.18 barrels of gas condensate
1 kilometer	Approximately 0.62 miles
1 metric ton of oil equivalent.........................	25.2 quadrillion btus (British Thermal Units), approximately 1,125 mcm of natural gas
1 barrel of gas condensate....	1 barrel of oil equivalent (boe)
1 metric ton of gas condensate........................	8.18 barrels of gas condensate
1 mcm of natural gas............	5.89 barrels of oil equivalent (boe)

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FBK
44/1 Myasnitskay st. Moscow, Russia101990
T +7 (495) 737 5353F +7 (495) 737 5347
www.fbk.ru

Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors of PJSC Gazprom

Introduction

We have reviewed the accompanying consolidated interim condensed balance sheet of PJSC Gazprom and its subsidiaries as of 30 June 2015 and the related consolidated interim condensed statements of comprehensive income for the three-month and six-month periods then ended, and of cash flows and changes in equity for the six-month period then ended. Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Accounting Standard 34 Interim Financial Reporting. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

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

Conclusion

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

President of FBK, LLC

S.M. Shapiguzov
(on the ground of the Charter)

31 August 2015
Moscow, Russian Federation

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

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED BALANCE SHEET (UNAUDITED)
AS OF 30 JUNE 2015
(in millions of Russian Rubles)

Notes		30 June 2015	31 December 2014
	Assets		
	Current assets		
6	Cash and cash equivalents	1,104,568	1,038,191
	Restricted cash	1,890	2,085
21	Short-term financial assets	10,381	10,735
7	Accounts receivable and prepayments	874,236	1,045,936
8	Inventories	690,744	671,916
	VAT recoverable	209,009	289,287
	Other current assets	377,143	403,005
		3,267,971	**3,461,155**
	Non-current assets		
9	Property, plant and equipment	10,143,082	9,950,209
	Goodwill	104,801	104,221
10	Investments in associated undertakings and joint ventures	712,038	677,216
11	Long-term accounts receivable and prepayments	546,841	436,468
21	Available-for-sale long-term financial assets	239,573	201,824
12	Other non-current assets	342,920	346,377
		12,089,255	**11,716,315**
	Total assets	**15,357,226**	**15,177,470**
	Liabilities and equity		
	Current liabilities		
	Accounts payable, accruals and provisions for liabilities and charges	1,071,807	1,217,141
	Current profit tax payable	7,751	8,402
	Other tax payable	167,493	165,622
	Short-term borrowings, promissory notes and current portion of long-term borrowings	508,169	464,782
		1,755,220	**1,855,947**
	Non-current liabilities		
13	Long-term borrowings, promissory notes	2,045,990	2,224,042
20	Provisions for liabilities and charges	343,219	297,106
14	Deferred tax liability	636,571	594,098
	Other non-current liabilities	58,787	86,256
		3,084,567	**3,201,502**
	Total liabilities	**4,839,787**	**5,057,449**
	Equity		
15	Share capital	325,194	325,194
15	Treasury shares	(103,919)	(103,919)
	Retained earnings and other reserves	9,987,023	9,595,283
		10,208,298	**9,816,558**
	Non-controlling interest	309,141	303,463
	Total equity	**10,517,439**	**10,120,021**
	Total liabilities and equity	**15,357,226**	**15,177,470**

M.L. Sereda
Acting Chairman of the Management Committee
31 August 2015

E.A. Vasilieva
Chief Accountant
31 August 2015

The accompanying notes on pages 8 to 36 are an integral part of this consolidated interim condensed financial information.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2015
(in millions of Russian Rubles)

Notes		Three months ended 30 June 2015	Three months ended 30 June 2014	Six months ended 30 June 2015	Six months ended 30 June 2014
16	Sales	1,265,199	1,315,195	2,913,452	2,873,932
	Net gain (loss) from trading activity	10,060	10,575	(7,953)	14,377
17	Operating expenses	(1,052,630)	(1,158,910)	(2,224,215)	(2,248,659)
	Operating profit	**222,629**	**166,860**	**681,284**	**639,650**
18	Finance income	379,628	138,286	1,063,303	165,596
18	Finance expense	(265,834)	(15,453)	(949,422)	(218,540)
10	Share of net income of associated undertakings and joint ventures	24,101	26,977	61,415	47,884
	Gains (losses) on disposal of available-for-sale financial assets	392	(56)	430	(26)
	Profit before profit tax	**360,916**	**316,614**	**857,010**	**634,564**
	Current profit tax expense	(47,954)	(61,926)	(122,538)	(124,525)
	Deferred profit tax expense	(11,324)	(21,126)	(43,216)	(44,813)
	Profit tax expense	(59,278)	(83,052)	(165,754)	(169,338)
	Profit for the period	**301,638**	**233,562**	**691,256**	**465,226**
	Other comprehensive income (loss):				
	Items that will not be reclassified to profit or loss:				
20	Remeasurements of post-employment benefit obligations	(64,080)	(304)	(118,428)	(6,463)
	Total items that will not be reclassified to profit or loss	**(64,080)**	**(304)**	**(118,428)**	**(6,463)**
	Items that may be reclassified subsequently to profit or loss:				
	Gains (losses) arising from change in fair value of available-for-sale financial assets, net of tax	38,185	9,754	38,783	(8,850)
	Share of other comprehensive income (loss) of associated undertakings and joint ventures	7,502	(1,030)	11,619	(3,403)
	Translation differences	(58,119)	(60,017)	(68,945)	13,667
	Gains (losses) from cash flow hedges, net of tax	10,708	3,416	13,478	(6,971)
	Total items that may be reclassified subsequently to profit or loss	**(1,724)**	**(47,877)**	**(5,065)**	**(5,557)**
	Other comprehensive loss for the period, net of tax	**(65,804)**	**(48,181)**	**(123,493)**	**(12,020)**
	Total comprehensive income for the period	**235,834**	**185,381**	**567,763**	**453,206**
	Profit attributable to:				
	Owners of PJSC Gazprom	293,792	227,571	675,904	450,578
	Non-controlling interest	7,846	5,991	15,352	14,648
		301,638	**233,562**	**691,256**	**465,226**
	Total comprehensive income attributable to:				
	Owners of PJSC Gazprom	228,803	182,610	557,002	438,470
	Non-controlling interest	7,031	2,771	10,761	14,736
		235,834	**185,381**	**567,763**	**453,206**
19	**Basic and diluted earnings per share for profit attributable to the owners of PJSC Gazprom (in Russian Rubles)**	**12.80**	**9.92**	**29.45**	**19.63**

M.L. Sereda
Acting Chairman of the Management Committee
31 August 2015

E.A. Vasilieva
Chief Accountant
31 August 2015

The accompanying notes on pages 8 to 36 are an integral part of this consolidated interim condensed financial information.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2015
(in millions of Russian Rubles)

Notes		Six months ended 30 June 2015	2014
	Cash flows from operating activities		
	Profit before profit tax	857,010	634,564
	Adjustments to profit before profit tax for:		
17	Depreciation	250,635	228,784
18	Net finance (income) expenses	(113,881)	52,944
10	Share of net income of associated undertakings and joint ventures	(61,415)	(47,884)
	Charge for provisions	46,615	237,066
17	Derivatives (gains) losses	(16,046)	9,454
	Other	(6,682)	10,109
	Total effect of adjustments	99,226	490,473
	Cash flows from operating activities before working capital changes	956,236	1,125,037
	Increase in non-current assets	(5,219)	(950)
	(Decrease) increase in non-current liabilities	(2,415)	5,239
	Changes in working capital	131,053	(14,682)
	Profit tax paid	(94,418)	(128,501)
	Net cash from operating activities	**985,237**	**986,143**
	Cash flows from investing activities		
	Capital expenditures	(784,905)	(620,690)
18	Interest paid and capitalised	(57,448)	(35,776)
	Net change in loans issued	(27,296)	(22,638)
	Acquisition of subsidiaries, net of cash acquired	303	(17,243)
	Investments in associated undertakings and joint arrangements	(1,241)	(57,262)
	Interest received	28,610	13,799
	Change in available-for-sale long-term financial assets	(36,677)	(615)
	Proceeds from associated undertakings and joint ventures	21,845	43,847
	Long-term bank deposits placement	-	(20,115)
	Repayment of long-term bank deposits	20,050	526
	Other	(2,614)	18,017
	Net cash used in investing activities	**(839,373)**	**(698,150)**
	Cash flows from financing activities		
	Proceeds from long-term borrowings	122,387	205,223
	Repayment of long-term borrowings (including current portion of long-term borrowings)	(172,725)	(174,186)
	Proceeds from short-term borrowings	101,829	26,890
	Repayment of short-term borrowings	(72,414)	(42,472)
	Dividends paid	(2,651)	(15,012)
18	Interest paid	(29,956)	(27,329)
	Purchase of treasury shares	-	(6)
	Acquisition of non-controlling interests in subsidiaries	(123)	-
	Change in restricted cash	195	(498)
	Net cash used in financing activities	**(53,458)**	**(27,390)**
	Effect of foreign exchange rate changes on cash and cash equivalents	(26,029)	(5,851)
	Increase in cash and cash equivalents	**66,377**	**254,752**
6	Cash and cash equivalents at the beginning of reporting period	1,038,191	689,130
6	**Cash and cash equivalents at the end of reporting period**	**1,104,568**	**943,882**

M.L. Sereda
Acting Chairman of the Management Committee
31 August 2015

E.A. Vasilieva
Chief Accountant
31 August 2015

The accompanying notes on pages 8 to 36 are an integral part of this consolidated interim condensed financial information.

(in millions of Russian Rubles)

			Attributable to the owners of PJSC Gazprom					
Notes		Number of shares outstanding (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total	Non-controlling interest	Total equity
	Six months ended 30 June 2014							
	Balance as of 31 December 2013	**23.0**	**325,194**	**(103,919)**	**9,098,315**	**9,319,590**	**314,764**	**9,634,354**
	Profit for the period		-	-	450,578	450,578	14,648	465,226
	Other comprehensive income (loss):							
20	Remeasurements of post-employment benefit obligations		-	-	(6,463)	(6,463)	-	(6,463)
	Losses arising from change in fair value of available-for-sale financial assets, net of tax		-	-	(8,847)	(8,847)	(3)	(8,850)
	Share of other comprehensive loss of associated undertakings and joint ventures		-	-	(3,403)	(3,403)	-	(3,403)
	Translation differences		-	-	13,470	13,470	197	13,667
	Losses from cash flow hedges, net of tax		-	-	(6,865)	(6,865)	(106)	(6,971)
	Total comprehensive income for the six months ended 30 June 2014		-	-	**438,470**	**438,470**	**14,736**	**453,206**
	Changes in non-controlling interest in subsidiaries		-	-	(3,162)	(3,162)	(2,871)	(6,033)
	Net treasury shares transactions		-	(6)	-	(6)	-	(6)
	Return of social assets to governmental authorities		-	-	(52)	(52)	-	(52)
	Dividends declared		-	-	(165,247)	(165,247)	(10,448)	(175,695)
	Balance as of 30 June 2014	**23.0**	**325,194**	**(103,925)**	**9,368,324**	**9,589,593**	**316,181**	**9,905,774**
	Six months ended 30 June 2015							
	Balance as of 31 December 2014	**23.0**	**325,194**	**(103,919)**	**9,595,283**	**9,816,558**	**303,463**	**10,120,021**
	Profit for the period		-	-	675,904	675,904	15,352	691,256
	Other comprehensive income (loss):							
20	Remeasurements of post-employment benefit obligations		-	-	(118,428)	(118,428)	-	(118,428)
	Gains (losses) arising from change in fair value of available-for-sale financial assets, net of tax		-	-	38,789	38,789	(6)	38,783
	Share of other comprehensive income of associated undertakings and joint ventures		-	-	11,619	11,619	-	11,619
	Translation differences		-	-	(63,970)	(63,970)	(4,975)	(68,945)
	Gains from cash flow hedges, net of tax		-	-	13,088	13,088	390	13,478
	Total comprehensive income for the six months ended 30 June 2015		-	-	**557,002**	**557,002**	**10,761**	**567,763**
	Changes in non-controlling interest in subsidiaries		-	-	-	-	62	62
	Return of social assets to governmental authorities		-	-	(15)	(15)	-	(15)
	Dividends declared		-	-	(165,247)	(165,247)	(5,145)	(170,392)
	Balance as of 30 June 2015	**23.0**	**325,194**	**(103,919)**	**9,987,023**	**10,208,298**	**309,141**	**10,517,439**

M.L. Sereda
Acting Chairman of the Management Committee
31 August 2015

E.A. Vasilieva
Chief Accountant
31 August 2015

The accompanying notes on pages 8 to 36 are an integral part of this consolidated interim condensed financial information.

1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

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

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

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

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

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

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

3 BASIS OF PRESENTATION

This consolidated interim condensed financial information is prepared in accordance with IAS 34 Interim Financial Reporting. The consolidated interim condensed financial information should be read in conjunction with the consolidated financial statements for the year ended 31 December 2014 prepared in accordance with International Financial Reporting Standards ("IFRS").

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

- as of 30 June 2015 – 55.52 (as of 30 June 2014 – 33.63);
- as of 31 December 2014 – 56.26 (as of 31 December 2013 – 32.73).

3 BASIS OF PRESENTATION (continued)

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

- as of 30 June 2015 – 61.52 (as of 30 June 2014 – 45.83);
- as of 31 December 2014 – 68.34 (as of 31 December 2013 – 44.97).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2014.

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

Application of new IFRSs

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

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

The Group has reviewed amended standards while preparing this Consolidated Interim Condensed Financial Information. The amended standards have no significant impact on the Group’s Interim Consolidated Condensed Financial Information.

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

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

- The amendments to IFRS 11 Joint Arrangements (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016) on accounting for acquisitions of interests in joint operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.
- The amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016) on clarification of acceptable methods of depreciation and amortization. In this amendment the International Accounting Standards Board clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognized when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognized as an asset and amortized over the period when the benefits of the contract are consumed.

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

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

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

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

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

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

5 SEGMENT INFORMATION

The Group operates as a vertically integrated business with substantially all external gas sales generated by the Distribution 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;
- Transport – transportation of gas;
- Distribution – sales of gas within Russian Federation and abroad;
- Gas storage – storage of extracted and purchased gas in underground gas storages;
- Production of crude oil and gas condensate – exploration and production of oil and gas condensate, sales of crude oil and gas condensate;
- Refining – processing of oil, gas condensate and other hydrocarbons, and sales of refined products;
- Electric and heat energy generation and sales.

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

The inter-segment sales mainly consist of:

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

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

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

(in millions of Russian Rubles)

5 SEGMENT INFORMATION (continued)

	Production of gas	Transport	Distribution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Six months ended 30 June 2015									
Total segment revenues	344,288	489,879	1,725,763	21,983	405,399	766,373	217,728	122,288	4,093,701
Inter-segment sales	335,487	399,258	115,802	21,188	274,747	4,770	-	-	1,151,252
External sales	8,801	90,621	1,609,961	795	130,652	761,603	217,728	122,288	2,942,449
Segment result	**8,441**	**22,814**	**396,582**	**3,010**	**20,471**	**127,343**	**32,893**	**(14,187)**	**597,367**
Depreciation	84,601	227,923	8,395	11,234	46,857	16,544	19,168	14,336	429,058
Share of net income (loss) of associated undertakings and joint ventures	3,986	10,551	11,265	(264)	44,467	2,378	(9)	(10,959)	61,415
Six months ended 30 June 2014									
Total segment revenues	337,437	471,414	1,706,796	20,401	369,010	799,037	218,683	103,157	4,025,935
Inter-segment sales	329,750	388,693	127,812	19,133	264,212	5,405	-	-	1,135,005
External sales	7,687	82,721	1,578,984	1,268	104,798	793,632	218,683	103,157	2,890,930
Segment result	**14,385**	**27,927**	**315,584**	**3,822**	**46,710**	**102,497**	**23,989**	**(16,700)**	**518,214**
Depreciation	69,796	187,894	7,676	9,311	36,103	20,650	17,845	14,956	364,231
Share of net income of associated undertakings and joint ventures	2,009	2,687	6,123	16	34,262	1,698	11	1,078	47,884

	Production of gas	Transport	Distribution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Three months ended 30 June 2015									
Total segment revenues	170,527	256,378	652,410	11,483	210,663	398,784	84,524	71,763	1,856,532
Inter-segment sales	166,354	210,264	39,430	11,073	139,522	1,862	-	-	568,505
External sales	4,173	46,114	612,980	410	71,141	396,922	84,524	71,763	1,288,027
Segment result	**20,967**	**26,138**	**56,039**	**1,759**	**19,575**	**66,287**	**14,012**	**(7,009)**	**197,768**
Depreciation	42,450	114,033	3,919	5,614	24,923	6,968	10,253	6,746	214,906
Share of net income (loss) of associated undertakings and joint ventures	1,716	4,770	8,078	(13)	15,049	1,579	(21)	(7,057)	24,101
Three months ended 30 June 2014									
Total segment revenues	156,966	233,323	718,098	10,694	185,924	415,445	84,069	49,640	1,854,159
Inter-segment sales	153,216	190,903	45,129	10,234	130,465	2,471	-	-	532,418
External sales	3,750	42,420	672,969	460	55,459	412,974	84,069	49,640	1,321,741
Segment result	**4,685**	**10,497**	**37,923**	**1,750**	**20,450**	**34,452**	**2,795**	**(9,046)**	**103,506**
Depreciation	34,972	93,861	3,826	7,036	14,871	10,520	8,506	7,593	181,185
Share of net income (loss) of associated undertakings and joint ventures	980	1,610	2,799	(127)	18,355	939	(10)	2,431	26,977

(in millions of Russian Rubles)

5 SEGMENT INFORMATION (continued)

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

	For the three months ended 30 June		For the six months ended 30 June	
	2015	2014	2015	2014
Segment result for reportable segments	204,777	112,552	611,554	534,914
Other segments' result	(7,009)	(9,046)	(14,187)	(16,700)
Segment result	**197,768**	**103,506**	**597,367**	**518,214**
Difference in depreciation[1]	88,542	67,149	178,423	135,447
Expenses associated with pension obligations	(1,792)	(2,393)	(3,720)	(4,361)
Net finance income (expense)	113,794	122,833	113,881	(52,944)
Gains (losses) on disposal of available-for-sale financial assets	392	(56)	430	(26)
Share of net income of associated undertakings and joint ventures	24,101	26,977	61,415	47,884
Other	(61,889)	(1,402)	(90,786)	(9,650)
Profit before profit tax	**360,916**	**316,614**	**857,010**	**634,564**

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

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

	For the three months ended 30 June		For the six months ended 30 June	
	2015	2014	2015	2014
External sales for reportable segments	1,216,264	1,272,101	2,820,161	2,787,773
External sales for other segments	71,763	49,640	122,288	103,157
Total external segment sales	**1,288,027**	**1,321,741**	**2,942,449**	**2,890,930**
Differences in external sales[1]	(22,828)	(6,546)	(28,997)	(16,998)
Total sales per the consolidated interim condensed statement of comprehensive income	**1,265,199**	**1,315,195**	**2,913,452**	**2,873,932**

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

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

(in millions of Russian Rubles)

5 SEGMENT INFORMATION (continued)

	Production of gas	Transport	Distribution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
30 June 2015									
Segment assets	2,252,390	6,076,731	1,354,804	278,545	1,776,023	1,731,817	790,169	632,946	14,893,425
Investments in associated undertakings and joint ventures	17,294	119,838	62,280	6,592	386,847	17,755	405	101,027	712,038
Capital additions[1]	41,481	184,223	3,333	6,729	118,264	46,775	25,477	20,200	446,482
31 December 2014									
Segment assets	2,276,369	6,088,335	1,454,300	280,762	1,896,609	1,378,295	799,914	661,507	14,836,091
Investments in associated undertakings and joint ventures	13,178	123,594	54,083	7,017	346,373	20,063	414	112,494	677,216
Capital additions[2]	254,881	434,433	23,709	15,530	227,421	135,158	82,019	48,177	1,221,328

[1] Capital additions for the six months ended 30 June 2015.
[2] Capital additions for the year ended 31 December 2014.

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

	30 June 2015	31 December 2014
Segment assets for reportable segments	14,260,479	14,174,584
Other segments' assets	632,946	661,507
Total segment assets	**14,893,425**	**14,836,091**
Differences in property, plant and equipment, net[1]	(1,896,604)	(2,070,873)
Loan interest capitalised	508,212	467,373
Decommissioning costs	47,216	47,287
Cash and cash equivalents	1,104,568	1,038,191
Restricted cash	1,890	2,085
Short-term financial assets	10,381	10,735
VAT recoverable	209,009	289,287
Other current assets	377,143	403,005
Available-for-sale long-term financial assets	239,573	201,824
Goodwill	104,801	104,221
Other non-current assets	342,920	346,377
Inter-segment assets	(809,895)	(757,684)
Other	224,587	259,551
Total assets per the consolidated interim condensed balance sheet	**15,357,226**	**15,177,470**

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

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

(in millions of Russian Rubles)

5 SEGMENT INFORMATION (continued)

Segment liabilities:

	30 June 2015	31 December 2014
Distribution	553,821	686,824
Production of crude oil and gas condensate	387,231	323,068
Refining	266,259	247,737
Transport	206,936	351,566
Production of gas	96,469	146,755
Electric and heat energy generation and sales	53,781	78,438
Gas storage	5,337	18,352
Other segments	180,506	130,044
Total	**1,750,340**	**1,982,784**

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

	30 June 2015	31 December 2014
Segment liabilities for reportable segments	1,569,834	1,852,740
Other segments' liabilities	180,506	130,044
Total segment liabilities	**1,750,340**	**1,982,784**
Current profit tax payable	7,751	8,402
Short-term borrowings, promissory notes and current portion of long-term borrowings	508,169	464,782
Long-term borrowings and promissory notes	2,045,990	2,224,042
Provisions for liabilities and charges	343,219	297,106
Deferred tax liabilities	636,571	594,098
Other non-current liabilities	58,787	86,256
Dividends	173,575	4,759
Inter-segment liabilities	(809,895)	(757,684)
Other	125,280	152,904
Total liabilities per the consolidated interim condensed balance sheet	**4,839,787**	**5,057,449**

6 CASH AND CASH EQUIVALENTS

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

	30 June 2015	31 December 2014
Cash on hand and bank balances payable on demand	998,783	969,440
Term deposits with original maturity of three months or less	105,785	68,751
	1,104,568	**1,038,191**

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2015	31 December 2014
Trade receivables	574,439	683,967
Prepayments and advances	109,214	132,477
Other receivables	190,583	229,492
	874,236	**1,045,936**

Accounts receivable and prepayments are presented net of impairment provision of RUB 686,585 million and RUB 646,122 million as of 30 June 2015 and 31 December 2014, respectively.

Accounts receivable due from NJSC Naftogaz Ukraine in relation to gas sales are RUB 877 million and RUB nil million net of impairment provision of RUB 133,443 million and RUB 123,874 million as of 30 June 2015 and 31 December 2014, respectively.

8 INVENTORIES

Inventories are presented net of provision for obsolescence of RUB 6,406 million and RUB 6,888 million as of 30 June 2015 and 31 December 2014, respectively.

(in millions of Russian Rubles)

9 PROPERTY, PLANT AND EQUIPMENT

	Total production assets (including production licenses)	Social assets	Assets under construction	Total
As of 31 December 2013				
Cost	10,942,398	94,737	1,822,794	12,859,929
Accumulated depreciation	(3,886,334)	(33,507)	-	(3,919,841)
Net book value as of 31 December 2013	**7,056,064**	**61,230**	**1,822,794**	**8,940,088**
Six months ended 30 June 2014				
Net book value as of 31 December 2013	7,056,064	61,230	1,822,794	8,940,088
Depreciation	(227,404)	(1,309)	-	(228,713)
Additions	62,296	-	407,468	469,764
Acquisition of subsidiaries	9,406	-	396	9,802
Translation differences	2,149	(10)	201	2,340
Transfers	104,982	1,114	(106,096)	-
Disposals	(5,025)	(778)	(9,625)	(15,428)
Charge for impairment provision	-	-	(75)	(75)
Net book value as of 30 June 2014	**7,002,468**	**60,247**	**2,115,063**	**9,177,778**
Six months ended 31 December 2014				
Net book value as of 30 June 2014	7,002,468	60,247	2,115,063	9,177,778
Depreciation	(237,438)	(1,311)	-	(238,749)
Additions	69,999	1,364	812,964	884,327
Acquisition of subsidiaries	6,952	-	127,721	134,673
Translation differences	158,566	32	18,045	176,643
Transfers	946,654	382	(947,036)	-
Disposals	(91,351)	(1,345)	(15,378)	(108,074)
Charge for impairment provision	(75,432)	-	(957)	(76,389)
Net book value as of 31 December 2014	**7,780,418**	**59,369**	**2,110,422**	**9,950,209**
As of 31 December 2014				
Cost	12,150,747	94,965	2,110,422	14,356,134
Accumulated depreciation	(4,370,329)	(35,596)	-	(4,405,925)
Net book value as of 31 December 2014	**7,780,418**	**59,369**	**2,110,422**	**9,950,209**
Six months ended 30 June 2015				
Net book value as of 31 December 2014	7,780,418	59,369	2,110,422	9,950,209
Depreciation	(250,338)	(1,314)	-	(251,652)
Additions	45,576	15	472,353	517,944
Translation differences	(26,959)	(14)	(10,798)	(37,771)
Transfers	181,521	-	(181,521)	-
Disposals	(17,192)	(176)	(17,929)	(35,297)
Charge for impairment provision	(4)	-	(347)	(351)
Net book value as of 30 June 2015	**7,713,022**	**57,880**	**2,372,180**	**10,143,082**
As of 30 June 2015				
Cost	12,333,689	94,790	2,372,180	14,800,659
Accumulated depreciation	(4,620,667)	(36,910)	-	(4,657,577)
Net book value as of 30 June 2015	**7,713,022**	**57,880**	**2,372,180**	**10,143,082**

Production assets are shown net of provision for impairment of RUB 129,483 million and RUB 129,479 million as of 30 June 2015 and 31 December 2014, respectively. Assets under construction are presented net of provision for impairment of RUB 44,135 million and RUB 43,788 million as of 30 June 2015 and 31 December 2014, respectively.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatisation with a net book value of RUB 301 million and RUB 336 million as of 30 June 2015 and 31 December 2014, respectively.

(in millions of Russian Rubles)

10 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES

Notes			Carrying value as of 30 June 2015	Carrying value as of 31 December 2014	Share of net income (loss) of associated undertakings and joint ventures for the six months ended 30 June 2015	Share of net income (loss) of associated undertakings and joint ventures for the six months ended 30 June 2014
22, 23	Sakhalin Energy Investment Company Ltd.	Associate	178,964	153,418	29,722	30,171
22	OJSC NGK Slavneft and its subsidiaries	Joint venture	119,224	113,676	5,548	3,864
22	Gazprombank (Joint-stock Company) and its subsidiaries	Associate	85,278	95,999	(11,252)	1,025
22	LLC Yamal razvitie and its subsidiaries	Joint venture	66,969	60,215	6,754	(2,018)
22	Nord Stream AG	Joint venture	57,153	52,944	6,546	4,350
22	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries [1]	Associate	35,428	39,139	3,467	-
22, 23	SGT EuRoPol GAZ S.A.	Associate	25,880	27,857	223	(6)
22	KazRosGaz LLP		24,048	19,215	4,946	2,966
22	JSC Achimgaz[2]	Joint venture	22,303	16,844	5,459	3,464
22	Wintershall AG	Associate	16,142	17,640	107	25
22	W & G Beteiligungs-GmbH & Co. KG and its subsidiaries[1]	Associate	13,775	6,249	3,964	1,945
22	Gasum OY	Associate	8,041	6,915	1,763	530
22	JSC Latvijas Gaze	Associate	7,070	7,611	214	179
22	CJSC Northgas	Joint venture	6,530	4,730	1,800	2,328
	Shtokman Development AG[3]	Joint venture	-	-	-	(146)
22	AB Lietuvos dujos[4]	Associate	-	-	-	491
	AB Amber Grid[4]	Associate	-	-	-	60
	South Stream Transport B.V. and its subsidiaries[5]	Joint venture	-	-	-	(1,896)
	Other (net of provision for impairment of RUB 2,304 million and RUB 1,929 million as of 30 June 2015 and 31 December 2014)		45,233	54,764	2,154	552
			712,038	**677,216**	**61,415**	**47,884**

[1] In May 2014 the shares in all gas transportation companies that belonged to W&G Beteiligungs-GmbH & Co. KG were transferred to WIGA Transport Beteiligungs-GmbH & Co. KG. As of 30 June 2015 WIGA Transport Beteiligungs-GmbH & Co. KG forms an independent subgroup of associated undertakings.

[2] In July 2015 CJSC Achimgaz was renamed into JSC Achimgaz with a view to bring the name of the company in line with the provisions of Chapter IV of the Civil Code of the Russian Federation.

[3] As of 31 December 2014 an impairment provision was created for investment in Shtokman Development AG in the amount of RUB 27,378 million. Respective expense is included in share of net income of associated undertakings and joint ventures in the consolidated statement of comprehensive income for the year ended 31 December 2014.

[4] In accordance with the provisions of the Third Energy Package of the European Union regarding the split between the gas transmission and distribution activities in August 2013 AB Lietuvos dujos transferred assets, liabilities and rights related to gas transportation to AB Amber Grid, an associate of the Group. In June 2014 the Group sold its 37 % interests in associates, AB Lietuvos dujos and AB Amber Grid, to companies controlled by the Republic of Lithuania for Euro 121 million.

[5] In December 2014 the Group became the owner of 100 % interest in South Stream Transport B.V., the company responsible for the offshore part of the South Stream project, by acquiring shares of EDF International S.A.S., Wintershall Holding GmbH and ENI International B.V.

Summarized financial information on the Group's principal associated undertakings and joint ventures is presented in tables below.

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

The differences between the carrying value of investments in associated undertakings and joint ventures and the calculated Group's share in their net assets are mostly attributable to translation differences.

(in millions of Russian Rubles)

10 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES (continued)

	Percent of share capital held	Country of primary operations	30 June 2015		For the six months ended 30 June 2015	
			Assets	Liabilities	Revenues	Income (loss)
Gazprombank (Joint-stock Company) and its subsidiaries[1]	37 %	Russia	4,472,731	4,177,753	85,399	(30,295)
Sakhalin Energy Investment Company Ltd.[2]	50 %	Russia	1,074,567	746,525	188,541	59,444
Nord Stream AG[3]	51 %	Russia, Germany	440,898	326,814	34,943	12,834
LLC Yamal razvitie and its subsidiaries	50 %	Russia	405,859	303,634	54,915	12,621
OJSC NGK Slavneft and its subsidiaries	50 %	Russia	404,837	172,873	119,682	11,681
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	213,220	146,165	22,133	6,936
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	169,464	136,747	481,863	8,189
Gasum OY	25 %	Finland	97,952	62,582	40,549	7,175
SGT EuRoPol GAZ S.A.	48 %	Poland	66,381	12,464	10,094	471
Wintershall AG[4]	49 %	Libya	65,558	39,718	4,677	218
JSC Achimgaz	50 %	Russia	58,799	13,083	15,001	10,916
CJSC Northgas	50 %	Russia	54,282	41,180	14,618	1,994
KazRosGaz LLP	50 %	Kazakhstan	53,261	5,170	27,599	9,890
JSC Latvijas Gaze	34 %	Latvia	35,829	9,859	15,733	629

[1] Presented revenue of Gazprombank (Joint-stock Company) and its subsidiaries includes revenue of media business, machinery business and other non-banking companies.
[2] Country of incorporation is Bermuda Islands.
[3] Country of incorporation is Switzerland.
[4] Country of incorporation is Germany.

	Percent of share capital held	Country of primary operations	30 June 2014		For the six months ended 30 June 2014	
			Assets	Liabilities	Revenues	Income (loss)
Gazprombank (Joint-stock Company) and its subsidiaries[1]	37 %	Russia	3,688,612	3,412,423	79,925	2 ,779
Sakhalin Energy Investment Company Ltd.[2]	50 %	Russia	610,336	442,580	150,405	60,341
LLC Yamal razvitie and its subsidiaries	50 %	Russia	452,608	320,722	9,763	(5,666)
OJSC NGK Slavneft and its subsidiaries	50 %	Russia	379,305	138,361	106,870	7,755
Nord Stream AG[3]	51 %	Russia, Germany	353,294	262,236	25,913	8,530
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	162,766	85,368	301,362	4,598
South Stream Transport B.V. and its subsidiaries[4]	50 %	Russia, Bulgaria	63,110	19,556	13	(900)
Gasum OY	25 %	Finland	62,754	40,365	27,311	1,030
SGT EuRoPol GAZ S.A.	48 %	Poland	49,538	9,712	6,986	(11)
Wintershall AG[5]	49 %	Libya	47,560	26,133	2,339	51
CJSC Northgas	50 %	Russia	47,213	36,392	14,375	4,656
JSC Achimgaz	50 %	Russia	39,630	11,677	9,826	6,926
KazRosGaz LLP	50 %	Kazakhstan	30,671	4,921	19,602	5,930
Shtokman Development AG[3]	75 %	Russia	34,837	1,987	-	(194)
JSC Latvijas Gaze	34 %	Latvia	25,257	8,418	12,823	529
AB Amber Grid[6]	37 %	Lithuania	-	-	1,059	163
AB Lietuvos dujos[6]	37 %	Lithuania	-	-	8,917	1,325

[1] Presented revenue of Gazprombank (Joint-stock Company) and its subsidiaries includes revenue of media business, machinery business and other non-banking companies.
[2] Country of incorporation is Bermuda Islands.
[3] Country of incorporation is Switzerland.
[4] Country of incorporation is Netherlands.
[5] Country of incorporation is Germany.
[6] The revenue and profit of AB Lietuvos dujos and AB Amber Grid for the six months ended 30 June 2014 are disclosed until the date of disposal of interests in these associates.

(in millions of Russian Rubles)

10 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES (continued)

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

	30 June 2015	31 December 2014
JSC Latvijas Gaze	8,306	8,479

11 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2015	31 December 2014
Long-term accounts receivable and prepayments	188,600	182,817
Advances for assets under construction	358,241	253,651
	546,841	**436,468**

Long-term accounts receivable and prepayments and advances for assets under construction are presented net of impairment provision of RUB 8,059 million and RUB 33,015 million as of 30 June 2015 and 31 December 2014, respectively.

12 OTHER NON-CURRENT ASSETS

Included within other non-current assets is VAT recoverable related to assets under construction totalling RUB 54,620 million and RUB 49,543 million as of 30 June 2015 and 31 December 2014, respectively. Other non-current assets include net pension assets in the amount of RUB 29,309 million and RUB 111,742 million as of 30 June 2015 and 31 December 2014, respectively (see Note 20).

13 LONG-TERM BORROWINGS, PROMISSORY NOTES

	Currency	Final Maturity	30 June 2015	31 December 2014
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009[1]	US Dollar	2019	127,112	128,793
Mizuho Bank Ltd.[2]	US Dollar	2019	119,454	121,037
Loan participation notes issued in July 2012[1]	Euro	2017	87,086	98,554
Loan participation notes issued in September 2012[3]	US Dollar	2022	84,309	85,424
Loan participation notes issued in November 2013[3]	US Dollar	2023	83,744	84,851
Loan participation notes issued in October 2007[1]	Euro	2018	75,668	86,790
Loan participation notes issued in November 2006[1]	US Dollar	2016	75,462	76,460
Loan participation notes issued in March 2007[1]	US Dollar	2022	73,669	74,644
Loan participation notes issued in August 2007[1]	US Dollar	2037	71,302	72,245
Loan participation notes issued in April 2004[1]	US Dollar	2034	67,634	68,528
Loan participation notes issued in April 2008[1]	US Dollar	2018	62,182	63,004
Loan participation notes issued in March 2013[1]	Euro	2020	62,109	70,164
Loan participation notes issued in July 2013[1]	Euro	2018	57,282	62,506
Loan participation notes issued in July 2012[1]	US Dollar	2022	56,761	57,512
Loan participation notes issued in November 2011[1]	US Dollar	2016	55,814	56,552
Loan participation notes issued in November 2010[1]	US Dollar	2015	55,775	56,513
Loan participation notes issued in February 2013[1]	US Dollar	2028	50,968	51,642
Loan participation notes issued in February 2014[1]	Euro	2021	46,709	52,819
Loan participation notes issued in April 2013[3]	Euro	2018	46,378	52,277
Loan participation notes issued in February 2013[1]	US Dollar	2020	45,108	45,705
Loan participation notes issued in November 2014[1]	US Dollar	2015	39,094	39,621
Commerzbank International S.A.	US Dollar	2018	38,867	39,381
Loan participation notes issued in September 2013[1]	British Pound Sterling	2020	37,208	41,334
Loan participation notes issued in November 2011[1]	US Dollar	2021	34,192	34,644
Loan participation notes issued in March 2007[1]	Euro	2017	31,865	34,477
Loan participation notes issued in November 2006[1]	Euro	2017	31,197	35,542
Loan participation notes issued in March 2013[1]	Euro	2025	31,135	35,340
Loan participation notes issued in October 2013[1]	Swiss Franc	2019	30,154	28,637

(in millions of Russian Rubles)

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final Maturity	30 June 2015	31 December 2014
Sumitomo Mitsui Banking Corporation Europe Limited[2]	US Dollar	2016	29,166	39,396
J.P. Morgan Europe Limited[2]	US Dollar	2018	27,950	-
The Royal Bank of Scotland AG[2]	US Dollar	2015	26,016	26,939
Deutsche Bank AG	US Dollar	2016	22,598	22,901
JSC Rosselkhozbank[4]	Russian Ruble	2019	22,515	10,010
Alfa-Bank (Joint-stock Company)	US Dollar	2016	22,219	22,513
Intesa Sanpaolo S.p.A.	Euro	2016	21,634	-
PJSC Sberbank[5]	Russian Ruble	2017	19,806	19,802
BNP Paribas SA[2]	Euro	2022	18,860	22,352
Sumitomo Mitsui Finance Dublin Limited	US Dollar	2016	17,818	18,056
Banc of America Securities Limited	US Dollar	2018	16,785	17,005
Bank of Tokyo-Mitsubishi UFJ Ltd.	US Dollar	2015	16,751	16,970
Bank of Tokyo-Mitsubishi UFJ Ltd.	US Dollar	2016	16,675	16,896
Bank of Tokyo-Mitsubishi UFJ Ltd.[2]	US Dollar	2016	15,717	21,232
Russian bonds issued in February 2013[6]	Russian Ruble	2016	15,404	15,407
Russian bonds issued in November 2013[7]	Russian Ruble	2043	15,243	15,134
Russian bonds issued in November 2013[7]	Russian Ruble	2043	15,243	15,134
Credit Agricole CIB	Euro	2015	14,789	16,431
PJSC Sberbank[5]	Euro	2017	13,876	15,416
Russian bonds issued in October 2014[7]	Russian Ruble	2044	13,504	13,821
PJSC Sberbank[5]	Russian Ruble	2019	12,509	-
PJSC Sberbank[5]	Russian Ruble	2019	12,509	-
PJSC Sberbank[5]	Russian Ruble	2016	12,400	12,400
Citibank International plc[2]	US Dollar	2021	12,242	13,436
HSBC Bank plc	Euro	2022	11,905	14,108
Bank of America Securities Limited	Euro	2017	11,135	12,372
UniCredit Bank AG	US Dollar	2018	11,106	11,253
Gazprombank (Joint-stock Company)	US Dollar	2016	11,105	11,252
UniCredit Bank AG[2, 8]	US Dollar	2018	10,950	14,421
Russian bonds issued in February 2011[3]	Russian Ruble	2021	10,358	10,361
Russian bonds issued in February 2011[3]	Russian Ruble	2021	10,342	10,345
Russian bonds issued in February 2011[3]	Russian Ruble	2016	10,342	10,345
Russian bonds issued in February 2013[6]	Russian Ruble	2017	10,271	10,273
Russian bonds issued in April 2009[3]	Russian Ruble	2019	10,173	10,175
Russian bonds issued in December 2012[3]	Russian Ruble	2022	10,065	10,068
PJSC Sberbank[5]	Russian Ruble	2019	10,007	10,010
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2017	10,000	10,000
Banc of America Securities Limited	US Dollar	2016	9,999	10,132
Gazprombank (Joint-stock Company)	US Dollar	2015	9,495	9,620
Intesa Sanpaolo S.p.A.	Euro	2019	9,229	-
PJSC VTB Bank[9]	US Dollar	2016	9,219	9,307
UniCredit Bank AG[2, 8]	Euro	2018	8,720	12,631
Banca Intesa a.d. Beograd	US Dollar	2019	8,339	8,450
PJSC Sberbank[5]	US Dollar	2018	8,338	8,449
PJSC Sberbank[5]	Russian Ruble	2016	8,300	8,300
PJSC VTB Bank[9]	Russian Ruble	2018	8,250	8,250
GC Vnesheconombank	Russian Ruble	2025	7,852	8,979
BNP Paribas SA[2]	Euro	2023	7,050	8,384
Credit Agricole CIB	Euro	2024	6,467	7,579
Gazprombank (Joint-stock Company)	Russian Ruble	2016	6,350	-
PJSC Sberbank[5]	Russian Ruble	2015	5,504	5,504
Russian bonds issued in February 2013[6]	Russian Ruble	2018	5,135	5,136
Alfa-Bank (Joint-stock Company)	Russian Ruble	2017	5,013	-

(in millions of Russian Rubles)

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final Maturity	30 June 2015	31 December 2014
Sberbank Serbia a.d.	US Dollar	2019	5,005	5,071
OJSC Bank ROSSIYA	Russian Ruble	2016	5,000	5,000
OJSC Bank ROSSIYA	Russian Ruble	2017	5,000	5,000
Sberbank Serbia a.d.	US Dollar	2017	4,176	4,231
UniCredit Bank AG[2, 8]	Russian Ruble	2018	1,893	2,352
Russian bonds issued in February 2012[3]	Russian Ruble	2022	452	10,335
Russian bonds issued in May 2005[1]	Euro	2015	-	70,685
Russian bonds issued in July 2009[1]	Euro	2015	-	62,372
Gazprombank (Joint-stock Company)	US Dollar	2015	-	3,584
Other long-term borrowings, promissory notes	Various	Various	75,922	75,323
Total long-term borrowings, promissory notes			**2,478,934**	**2,635,904**
Less: current portion of long-term borrowings			(432,944)	(411,862)
			2,045,990	**2,224,042**

[1] Issuer of these bonds is Gaz Capital S.A.
[2] Loans received from consortiums of banks, named lender is the bank-agent.
[3] Issuer of these bonds is JSC Gazprom Neft.
[4] On 14 August 2015 OJSC Rosselkhozbank was renamed into JSC Rosselkhozbank with a view to bring the name of the company in line with the provisions of Chapter IV of the Civil Code of the Russian Federation.
[5] On 24 July 2015 OJSC Sberbank of Russia was renamed into PJSC Sberbank.
[6] Issuer of these bonds is Gazprom capital LLC.
[7] Issuer of these bonds is PJSC Gazprom.
[8] Loans were obtained for development of Yuzhno-Russkoye oil and gas field.
[9] On 2 July 2015 OJSC VTB Bank was renamed into PJSC VTB Bank with a view to bring the name of the company in line with the provisions of Chapter IV of the Civil Code of the Russian Federation.

Due for repayment:	30 June 2015	31 December 2014
Between one and two years	456,488	404,096
Between two and five years	879,706	970,608
After five years	709,796	849,338
	2,045,990	**2,224,042**

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 1,869,938 million and RUB 2,044,351 million and fair value of RUB 1,875,753 million and RUB 1,893,394 million as of 30 June 2015 and 31 December 2014, respectively.

All other long-term liabilities have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 608,996 million and RUB 591,553 million and fair value is RUB 590,023 million and RUB 534,708 million as of 30 June 2015 and 31 December 2014, respectively.

As of 30 June 2015 and 31 December 2014 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoe oil and gas field with the group of international financial institutions with UniCredit Bank AG acting as a facility agent, ordinary shares of OJSC Severneftegazprom with the pledge value of RUB 16,968 million and fixed assets with the pledge value of RUB 26,210 million were pledged to ING Bank N.V. (London branch) up to the date of full redemption of the liabilities on this agreement. As of 30 June 2015 and 31 December 2014 carrying amount of these fixed assets is RUB 22,384 million and RUB 24,044 million, respectively. Management of the Group does not expect any substantial consequences to occur which relate to respective pledge agreement.

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

Under the terms of the Russian bonds with the nominal value of RUB 10,000 million issued by JSC Gazprom Neft in February 2011 due in 2021 bondholders can execute the right of early redemption in February 2016 at par, including interest accrued.

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

(in millions of Russian Rubles)

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

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

The Group has no subordinated debt and no debt that may be converted into an equity interest in PJSC Gazprom.

14 PROFIT TAX

Profit tax is recognised based on the estimated average annual effective profit tax rate applied to the profit before tax for the six months ended 30 June 2015. Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the applicable statutory rates, including the prevailing rate of 20 % in the Russian Federation.

	30 June 2015	Differences recognition and reversals	31 December 2014	30 June 2014	Differences recognition and reversals	31 December 2013
Tax effects of taxable temporary differences:						
Property, plant and equipment	(664,127)	(43,373)	(620,754)	(615,513)	(49,530)	(565,983)
Financial assets	1,115	8,443	(7,328)	(8,457)	1,216	(9,673)
Inventories	(11,542)	(3,165)	(8,377)	(6,732)	(1,120)	(5,612)
	(674,554)	**(38,095)**	**(636,459)**	**(630,702)**	**(49,434)**	**(581,268)**
Tax effects of deductible temporary differences:						
Tax losses carried forward	19,245	(876)	20,121	10,240	(461)	10,701
Retroactive gas price adjustments	12,180	509	11,671	2,480	(2,232)	4,712
Other deductible temporary differences	6,558	(4,011)	10,569	11,054	4,068	6,986
	37,983	**(4,378)**	**42,361**	**23,774**	**1,375**	**22,399**
Total net deferred tax liabilities	**(636,571)**	**(42,473)**	**(594,098)**	**(606,928)**	**(48,059)**	**(558,869)**

Taxable temporary differences recognized for the six months ended 30 June 2015 include the effect of depreciation premium on certain property, plant and equipment. As a result a deferred tax liability related to property, plant and equipment was recognized in the amount of RUB 30,466 million with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the six months ended 30 June 2015.

Taxable temporary differences recognized for the six months ended 30 June 2014 include the effect of depreciation premium on certain property, plant and equipment. As a result a deferred tax liability related to property, plant and equipment was recognized in the amount of RUB 23,121 million with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the six months ended 30 June 2014.

(in millions of Russian Rubles)

15 EQUITY

Share capital

Share capital authorised, issued and paid totals RUB 325,194 million as of 30 June 2015 and 31 December 2014 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Russian Rubles.

Treasury shares

As of 30 June 2015 and 31 December 2014, subsidiaries of PJSC Gazprom held 723 million of the ordinary shares of PJSC Gazprom, which are accounted for as treasury shares. The management of the Group controls the voting rights of these shares.

16 SALES

	Three months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
Gas sales gross of excise tax and customs duties to customers in:				
Russian Federation	138,731	141,714	425,284	440,528
Former Soviet Union (excluding Russian Federation)	80,890	182,316	254,698	320,337
Europe and other countries	547,110	492,783	1,249,813	1,104,040
	766,731	816,813	1,929,795	1,864,905
Customs duties	(133,654)	(140,094)	(283,322)	(278,234)
Excise tax[1]	(16,719)	-	(44,931)	-
Retroactive gas price adjustments[2]	795	-	17,220	-
Sales of gas	617,153	676,719	1,618,762	1,586,671
Sales of refined products to customers in:				
Russian Federation	247,414	240,845	461,269	449,793
Former Soviet Union (excluding Russian Federation)	25,807	17,393	47,835	35,200
Europe and other countries	123,701	154,736	252,499	308,639
Total sales of refined products	396,922	412,974	761,603	793,632
Sales of crude oil and gas condensate to customers in:				
Russian Federation	20,021	12,686	39,577	22,762
Former Soviet Union (excluding Russian Federation)	8,510	2,964	16,838	8,391
Europe and other countries	42,610	39,809	74,237	73,645
Total sales of crude oil and gas condensate	71,141	55,459	130,652	104,798
Electric and heat energy sales	84,524	84,069	217,728	218,683
Gas transportation sales	46,114	42,420	90,621	82,721
Other revenues	49,345	43,554	94,086	87,427
Total sales	**1,265,199**	**1,315,195**	**2,913,452**	**2,873,932**

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

[2] Retroactive gas price adjustments relate to gas deliveries in 2013-2014 for which a discount has been agreed or is in the process of negotiations. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made. The effect of retroactive gas price adjustments on sales for the three and six months ended 30 June 2015 was a credit of RUB 795 million and RUB 17,220 million reflecting a decrease in a related accrual following estimates made and agreements reached prior to the issuance of this consolidated interim condensed financial information.

(in millions of Russian Rubles)

17 OPERATING EXPENSES

Note		Three months ended 30 June 2015	Three months ended 30 June 2014	Six months ended 30 June 2015	Six months ended 30 June 2014
23	Taxes other than on income	194,924	188,679	429,063	394,392
	Purchased gas and oil	184,715	202,457	391,851	382,928
	Staff costs	144,584	130,288	289,681	259,288
	Depreciation	126,364	114,036	250,635	228,784
	Transit of gas, oil and refined products	118,222	95,892	242,826	191,409
	Materials	71,198	73,207	128,941	133,393
	Cost of goods for resale, including refined products	50,434	62,110	92,273	123,311
	Repairs and maintenance	34,569	46,361	54,595	72,208
	Electricity and heating expenses	19,784	20,515	45,295	44,461
	Charge for impairment provisions	(140)	144,744	29,573	219,449
	Rental expenses	11,286	9,153	20,449	17,580
	Transportation services	11,961	7,176	20,205	16,034
	Social expenses	7,904	10,232	13,367	16,215
	Research and development expenses	7,725	3,824	13,335	8,558
	Insurance expenses	5,210	6,098	12,475	12,410
	Processing services	4,370	4,360	9,073	8,717
	Foreign exchange rate differences on operating items	32,734	41,522	50,178	(3,566)
	Derivatives (gains) losses	(1,756)	4,481	(16,046)	9,454
	Other	80,868	55,671	171,201	132,443
		1,104,956	**1,220,806**	**2,248,970**	**2,267,468**
	Changes in inventories of finished goods, work in progress and other effects	(52,326)	(61,896)	(24,755)	(18,809)
	Total operating expenses	**1,052,630**	**1,158,910**	**2,224,215**	**2,248,659**

Staff costs include RUB 8,506 million and RUB 17,042 million of expenses associated with post-employment benefit obligations for the three and six months ended 30 June 2015, respectively, and RUB 8,814 million and RUB 17,617 for the three and six months ended 30 June 2014, respectively (see Note 20).

18 FINANCE INCOME AND EXPENSES

	Three months ended 30 June 2015	Three months ended 30 June 2014	Six month ended 30 June 2015	Six month ended 30 June 2014
Foreign exchange gains	352,746	130,120	1,007,461	149,754
Interest income	26,882	8,166	55,842	15,842
Total finance income	**379,628**	**138,286**	**1,063,303**	**165,596**
Foreign exchange losses	252,582	6,131	922,390	197,741
Interest expense	13,252	9,322	27,032	20,799
Total finance expenses	**265,834**	**15,453**	**949,422**	**218,540**

Total interest paid amounted to RUB 37,368 million and RUB 87,404 million for the three and six months ended 30 June 2015, respectively, and RUB 27,205 million and RUB 63,105 million for the three and six months ended 30 June 2014, respectively.

Foreign exchange gains and losses for the six months ended 30 June 2015 were recognized as a result of the depreciation of EUR against the Russian Ruble and appreciation of US Dollar against the Russian Ruble. Gains and losses primarily relate to revaluation of borrowings denominated in foreign currencies.

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

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

There were 23.0 billion weighted average shares outstanding for the three and six months ended 30 June 2015 and 2014, respectively.

There are no dilutive financial instruments outstanding in the Group.

(in millions of Russian Rubles)

20 PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2015	31 December 2014
Provision for post-employment benefit obligations	212,632	171,275
Provision for decommissioning and site restoration costs	109,724	104,168
Other	20,863	21,663
	343,219	**297,106**

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

The net pension assets related to benefits, provided by the pension plan NPF Gazfund in the amount of RUB 29,309 million and RUB 111,742 million as of 30 June 2015 and 31 December 2014, respectively, are presented within other non-current assets in the consolidated interim condensed balance sheet. In accordance with IAS 19 Employee benefits, pension assets are recorded at estimated fair value subject to certain limitations. As of 30 June 2015 and 31 December 2014 management estimated the fair value of these assets at RUB 373,455 million and RUB 391,227 million, respectively. The pension assets comprise shares of PJSC Gazprom, shares of Gazprombank (Joint-stock Company) and other assets held by NPF Gazfund.

Provision for post-employment benefit obligations recognized in the consolidated interim condensed balance sheet is as follows:

	30 June 2015		31 December 2014	
	Funded benefits - provided through NPF Gazfund	**Unfunded liabilities - other benefits**	**Funded benefits - provided through NPF Gazfund**	**Unfunded liabilities - other benefits**
Present value of benefit obligations	(344,146)	(212,632)	(279,485)	(171,275)
Fair value of plan assets	373,455	-	391,227	-
Net balance asset (liability)	**29,309**	**(212,632)**	**111,742**	**(171,275)**

The amounts associated with post-employment benefit obligations recognized in operating expenses are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2015	**2014**	**2015**	**2014**
Current service cost	6,612	7,010	13,224	14,020
Net interest expense	1,894	1,804	3,818	3,597
Total expenses included in staff costs	**8,506**	**8,814**	**17,042**	**17,617**

The principal assumptions used for post-employment benefit obligations for the six months ended 30 June 2015 were the same as those applied for the year ended 31 December 2014 with exception of the discount rate based on interest rates of government securities. The decrease in the discount rate from 12.50 % to 11.80 % resulted in recognition of an actuarial loss of RUB 73,883 million in other comprehensive income for the six months ended 30 June 2015.

Remeasurements to be recognized in other comprehensive income are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2015	**2014**	**2015**	**2014**
Actuarial losses (gains)	(44,528)	1,279	(73,883)	51,727
Return on assets excluding amounts included in net interest expense	(19,552)	(1,583)	(44,545)	(58,190)
	(64,080)	**(304)**	**(118,428)**	**(6,463)**

(in millions of Russian Rubles)

21 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

a) Financial instruments in Level 1

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

b) Financial instruments in Level 2

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

c) Financial instruments in Level 3

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

As of 30 June 2015 and 31 December 2014 the Group had the following assets and liabilities that are measured at fair value:

	30 June 2015			
	Quoted price in an active market (Level 1)	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**	**Total**
Financial assets held for trading:				
Equity securities	220	-	-	220
Bonds	7,183	-	-	7,183
Available-for-sale financial assets:				
Equity securities	2,185	-	-	2,185
Promissory notes	-	661	-	661
Bonds	132	-	-	132
Total short-term financial assets	**9,720**	**661**	**-**	**10,381**
Available-for-sale financial assets:				
Equity securities	178,616	53,700	6,408	238,724
Promissory notes	-	849	-	849
Total available-for-sale long-term financial assets	**178,616**	**54,549**	**6,408**	**239,573**
Derivatives	4,393	48,166	1,176	53,735
Total assets	**192,729**	**103,376**	**7,584**	**303,689**
Derivatives	6,126	87,153	412	93,691
Total liabilities	**6,126**	**87,153**	**412**	**93,691**

(in millions of Russian Rubles)

21 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the period. For the three and six months ended 30 June 2015 the Group has not reclassified losses arising from decrease in fair value of available-for-sale financial assets from other comprehensive income to profit or loss. For the three and six months ended 30 June 2014 the Group has reclassified losses arising from decrease in fair value of available-for-sale financial assets from other comprehensive income to profit or loss in the amount of RUB 572 million and RUB 2,216 million, respectively.

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

Available-for-sale long-term financial assets in total amount of RUB 239,573 million and RUB 201,824 million are shown net of provision for impairment of RUB 1,709 million and RUB 1,797 million as of 30 June 2015 and 31 December 2014, respectively.

As of 30 June 2015 and 31 December 2014 long-term available-for-sale financial assets include OJSC NOVATEK shares in the amount of RUB 171,451 million and RUB 133,787 million, respectively.

Carrying value of financial assets and liabilities not measured at fair value approximate their fair value.

(in millions of Russian Rubles)

22 RELATED PARTIES

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

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

Government

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

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

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

Parties under control of the Government

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

As of 30 June 2015 prices of natural gas sales, gas transportation and electricity tariffs in Russia were regulated by the Federal Tariffs Service ("FTS"). According to the Presidential Edict 21 July 2015 the functions of the FTS were transferred to the Federal Antimonopoly Service ("FAS").

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

As of 30 June 2015 and 31 December 2014 and for the three and six months ended 30 June 2015 and 2014, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	30 June 2015		Three months ended 30 June 2015		Six months ended 30 June 2015	
	Assets	**Liabilities**	**Income**	**Expenses**	**Income**	**Expenses**
Transactions and balances with the Government						
Current profit tax	40,015	2,487	-	45,020	-	114,095
Insurance contributions to non-budget funds	259	8,538	-	28,287	-	59,839
VAT recoverable / payable	428,155	60,507	-	-	-	-
Customs duties	48,948	-	-	-	-	-
Other taxes	5,961	87,307	-	193,237	-	426,708
Transactions and balances with other parties under control of the Government						
Gas sales	-	-	12,013	-	36,888	-
Electricity and heating sales	-	-	47,029	-	118,701	-
Gas transportation sales	-	-	10,707	-	21,230	-
Other services sales	-	-	1,183	-	1,757	-
Accounts receivable	46,447	-	-	-	-	-
Oil and refined products transportation expenses	-	-	-	30,509	-	57,491
Accounts payable	-	12,909	-	-	-	-
Loans	-	173,953	-	-	-	-
Interest expense	-	-	-	3,801	-	6,925
Short-term financial assets	7,994	-	-	-	-	-
Available-for-sale long-term financial assets	7,175	-	-	-	-	-

(in millions of Russian Rubles)

22 RELATED PARTIES (continued)

	31 December 2014		Three months ended 30 June 2014		Six months ended 30 June 2014	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	74,744	3,926	-	59,149	-	120,147
Insurance contributions to non-budget funds	621	5,649	-	23,216	-	50,515
VAT recoverable / payable	451,406	57,058	-	-	-	-
Customs duties	85,432	-	-	-	-	-
Other taxes	4,788	91,569	-	177,794	-	374,493
Transactions and balances with other parties under control of the Government						
Gas sales	-	-	12,819	-	35,809	-
Electricity and heating sales	-	-	47,430	-	127,888	-
Gas transportation sales	-	-	7,628	-	15,168	-
Other services sales	-	-	1,182	-	1,244	-
Accounts receivable	46,630	-	-	-	-	-
Oil and refined products transportation expenses	-	-	-	24,734	-	50,336
Accounts payable	-	14,442	-	-	-	-
Loans	-	140,168	-	-	-	-
Interest expense	-	-	-	2,230	-	4,089
Short-term financial assets	7,444	-	-	-	-	-
Available-for-sale long-term financial assets	5,308	-	-	-	-	-

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

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

See the consolidated interim condensed statement of changes in equity for returns of social assets to government during the six months ended 30 June 2015 and 2014. See Note 9 for net book values as of 30 June 2015 and 31 December 2014 of social assets vested to the Group at privatisation.

Compensation for key management personnel

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

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

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

Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and a one-time retirement payment from the Group. Employees of the majority of Group companies are eligible for such benefits.

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

Associated undertakings and joint ventures

For the three and six months ended 30 June 2015 and 2014 and as of 30 June 2015 and 31 December 2014 the Group had the following significant transactions and balances with associated undertakings and joint ventures:

(in millions of Russian Rubles)

22 RELATED PARTIES (continued)

	Three months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
	Revenues		Revenues	
Gas sales				
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries[1]	36,982	26,850	75,529	58,069
Wintershall Erdgas Handelshaus GmbH & Co. KG	28,618	22,512	69,175	61,204
Panrusgaz Gas Trading Plc	13,382	16,879	30,029	32,561
JSV Moldovagaz	4,727	4,445	18,791	13,472
Gasum OY	4,285	5,535	14,422	15,152
Bosphorus Gaz Corporation A.S.	2,718	6,594	8,198	11,980
CJSC Gazprom YRGM Trading[2]	3,380	3,133	7,068	6,491
CJSC Gazprom YRGM Development[2]	2,414	2,237	5,048	4,636
JSC Latvijas Gaze	2,001	635	3,936	3,192
Overgaz Inc. AD	662	584	2,809	1,752
SGT EuRoPol GAZ S.A.	1,336	1,068	2,757	2,152
VEMEX s r.o.	711	-	1,787	-
Wintershall Erdgas Handelshaus Zug AG[3]	-	-	1,344	2,432
AB Lietuvos dujos[4]	-	1,038	-	4,152
Gas transportation sales				
CJSC Gazprom YRGM Trading[2]	5,287	5,390	11,058	11,169
CJSC Gazprom YRGM Development[2]	3,776	3,850	7,898	7,978
Gas condensate, crude oil and refined products sales				
OJSC NGK Slavneft and its subsidiaries	13,154	8,073	25,769	14,526
JSC SOVEKS	1,251	1,524	2,084	2,717
LLC Gazpromneft – Aero Sheremetyevo[5]	-	-	-	3,022
Operator services sales				
CJSC Messoyakhaneftegas	8,826	4,484	13,223	4,484
Gas refining services sales				
KazRosGaz LLP	1,384	1,390	2,969	2,897
	Expenses		Expenses	
Purchased gas				
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries[1]	14,430	13,781	36,772	31,923
CJSC Gazprom YRGM Trading[2]	13,764	14,807	31,542	31,320
KazRosGaz LLP	10,809	8,065	23,306	15,448
CJSC Gazprom YRGM Development[2]	9,838	10,580	22,546	22,381
LLC SeverEnergiya and its subsidiaries	11,552	2,974	20,057	5,646
Sakhalin Energy Investment Company Ltd.	3,418	4,277	9,126	6,187
CJSC Northgas	2,150	2,167	4,298	5,819
Purchased transit of gas				
Nord Stream AG	15,887	12,800	34,822	25,949
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries[1]	6,102	1,526	13,356	1,526
SGT EuRoPol GAZ S.A.	3,689	2,858	7,953	5,548
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries[1]	-	3,241	-	7,949
Purchased crude oil				
OJSC NGK Slavneft and its subsidiaries	26,846	24,069	51,887	46,155
Sakhalin Energy Investment Company Ltd.	29	2,852	2,387	8,562
Purchased services of gas and gas condensate extraction				
JSC Achimgaz	6,155	5,155	15,001	9,826
Purchased processing services				
OJSC NGK Slavneft and its subsidiaries	3,149	3,945	6,720	7,010

(in millions of Russian Rubles)

22 RELATED PARTIES (continued)

[1] In May 2014 the shares in all gas transportation companies that belonged to W&G Beteiligungs-GmbH & Co. KG were transferred to WIGA Transport Beteiligungs-GmbH & Co. KG. As of 30 June 2015 WIGA Transport Beteiligungs-GmbH & Co. KG forms an independent subgroup of associated undertakings.
[2] CJSC Gazprom YRGM Trading and CJSC Gazprom YRGM Development are not associated undertakings and joint ventures.
[3] Wintershall Erdgas Handelshaus Zug AG is the subsidiary of Wintershall Erdgas Handelshaus GmbH &Co.KG.
[4] In accordance with the provisions of the Third Energy Package of the European Union regarding the split between the gas transmission and distribution activities in August 2013 AB Lietuvos dujos transferred assets, liabilities and rights related to gas transportation to AB Amber Grid, an associate of the Group. In June 2014 the Group sold its 37 % interests in associates, AB Lietuvos dujos and AB Amber Grid, to companies controlled by the Republic of Lithuania for Euro 121 million.
[5] In March 2014 the Group acquired 100 % share in LLC Aero TO the only asset of which is 50 % share in LLC Gazpromneft-Aero Sheremetyevo. As a result the Group's effective share in LLC Gazpromneft-Aero Sheremetyevo increased from 47.84 % to 95.68 % and the Group obtained control over LLC Gazpromneft-Aero Sheremetyevo.

Gas is sold to associated undertakings in the Russian Federation mainly at the rates established by the FAS. Gas is sold outside the Russian Federation mainly under long-term contracts at prices indexed mainly to world oil product prices.

	30 June 2015		December 2014	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Short-term accounts receivable and prepayments				
Gazprombank (Joint-stock Company) and its subsidiaries	20,010	-	2,125	-
Wintershall Erdgas Handelshaus GmbH & Co.KG	15,690	-	20,739	-
CJSC Messoyakhaneftegaz	15,603	-	1,869	-
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	14,071	-	17,448	-
OJSC NGK Slavneft and its subsidiaries	11,210	-	10,701	-
Overgaz Inc. AD	8,102	-	9,246	-
Panrusgas Gas Trading Plc	6,091	-	3,523	-
CJSC Gazprom YRGM Trading	3,078	-	2,082	-
Wintershall AG	2,338	-	2,567	-
JSV Moldovagaz[1]	2,243	-	1,281	-
LLC Yamal razvitie	2,107	-	1,272	-
Gasum OY	1,902	-	5,353	-
CJSC Gazprom YRGM Development	1,228	-	1,492	-
Bosphorus Gaz Corporation A.S.	1,222	-	1,349	-
CJSC Northgas	-	-	1,952	-
Wintershall Erdgas Handelshaus Zug AG	-	-	1,081	-
Cash balances				
Gazprombank (Joint-stock Company) and its subsidiaries	669,836	-	637,788	-
Long-term accounts receivable and prepayments				
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	23,550	-	26,161	-
LLC Yamal razvitie	14,889	-	10,395	-
CJSC Messoyakhaneftegaz	12,601	-	10,672	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	12,299	-	13,663	-
Etzel-Kavernenbetriebsgesellschaft mbH & Co. KG	4,876	-	5,293	-
Erdgasspeicher Peissen GmbH	4,848	-	3,745	-
Gazprombank (Joint-stock Company) and its subsidiaries	657	-	4,119	-

(in millions of Russian Rubles)

22 RELATED PARTIES (continued)

	30 June 2015		December 2014	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Short-term accounts payable				
CJSC Gazprom YRGM Trading	-	6,803	-	7,988
Nord Stream AG	-	5,543	-	6,098
CJSC Gazprom YRGM Development	-	4,410	-	5,260
KazRosGaz LLP	-	4,300	-	2,925
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	-	5,914	-	6,464
JSC Latvijas Gaze	-	2,877	-	214
JSC Achimgaz	-	2,420	-	3,188
OJSC NGK Slavneft and its subsidiaries	-	2,366	-	1,926
Sakhalin Energy Investment Company Ltd.	-	1,748	-	1,440
SGT EuRoPol GAZ S.A.	-	1,247	-	2,272
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint-stock Company) and its subsidiaries	-	22,591	-	24,397
Long-term borrowings				
Gazprombank (Joint-stock Company) and its subsidiaries	-	43,532	-	36,490

[1] Net of impairment provision on accounts receivable in the amount of RUB 286,325 million and RUB 273,143 million as of 30 June 2015 and 31 December 2014.

Investments in associated undertakings and joint ventures are disclosed in Note 10.

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

23 COMMITMENTS AND CONTINGENCIES

Taxation

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 30 June 2015 is appropriate and all of the Group’s material tax, currency and customs positions will be sustainable.

Legal proceedings

On 16 June 2014, PJSC Gazprom submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against NJSC Naftogaz Ukraine to recover more than USD 4,500 million unpaid debt for gas supplies and related interest charged. On 12 June 2015, PJSC Gazprom submitted to arbitration a review on the claim from NJSC Naftogaz Ukraine and new counter-claim, in which clarified its claims totalling to USD 29,200 million.

On 16 June 2014, NJSC Naftogaz Ukraine submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce against PJSC Gazprom seeking a retroactive revision of the price, compensation of all overpaid amounts starting from 20 May 2011, which according to the claim amounted to not less than USD 6,000 million and cancellation of the contractual prohibition on reexport of natural gas.

On 21 July 2014, both cases were consolidated. Oral hearings will start not earlier than in February - March 2016. Decision of the arbitration panel is scheduled for late June 2016.

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

(1) to acknowledge that rights and obligations of NJSC Naftogaz Ukraine under Contract on volumes and terms of gas transportation contract through Ukraine in 2009-2019 years should be transferred to PJSC Ukrtransgaz;

(2) to acknowledge that certain provisions of Contract, which will be subsequently updated, are invalid and / or inoperative and should be supplemented with or substituted by provisions which will be updated in line with the energy and anti-monopoly legislation of Ukraine and the European Union (“EU”);

23 COMMITMENTS AND CONTINGENCIES (continued)

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

(4) to acknowledge that the transit tariff stipulated in Contract should be revised in such a way as provided in further written statements of NJSC Naftogaz Ukraine in line with key principles of the Swedish contractual law.

The claim amounts to approximately USD 6,200 million. On 28 November 2014 PJSC Gazprom filed its response to the request of arbitration. On 11 December 2014 the arbitration panel was formed. On 28 January 2015 the arbitration court made a decision not to combine the case with the above ones. On 30 April 2015 NJSC Naftogaz Ukraine filed a claim, significantly increasing the amount of the claims, according to various estimates, up to USD 11,000-16,000 million. Verbal hearing of the case is expected late September 2016 and decision of the arbitration panel is expected by the end of January 2017.

On 3 October 2012, the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders' agreement with AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5 billion compensation (as of 30 June 2015 – RUB 89,088 million). PJSC Gazprom did not agree to the claims and on 9 November 2012, filed with the Arbitration Institute of the Stockholm Chamber of Commerce response to the request for arbitration. Arbitration panel was formed and hearing on the merits took place from 1 to 9 July 2015. As a result of the hearing the parties have until 30 September 2015 to submit further written statements on the basis of the analysis of materials of hearings, including testimony of witnesses and experts.

In August 2012 the European Commission initiated an investigation into a potential breach of the EU antimonopoly law by PJSC Gazprom. In April 2015 the European Commission adopted a Statement of Objections in the course of the ongoing antitrust investigation of PJSC Gazprom activity in the EU. The deadline for providing a formal response to the Statement of objections, the European Commission extended until 11 September 2015. The adoption of the Statement of Objections is just one of the stages of the antitrust investigation and does not imply holding PJSC Gazprom liable for any violation of the EU antitrust legislation. PJSC Gazprom considers the claims brought by the European Commission to be unsubstantiated and expects the situation to be resolved in accordance with the agreement reached earlier between the Government of the Russian Federation and the European Commission.

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

Sanctions

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

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

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

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

3) providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of potential exploration and production of oil in deep water, Arctic offshore, or shale formations in the Russian Federation, or in territorial waters claimed by the Russian Federation with participation of Russian companies, including PJSC Gazprom and JSC Gazprom Neft.

23 COMMITMENTS AND CONTINGENCIES (continued)

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

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

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

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

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

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

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

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

Canada and some other countries have also introduced sanctions against some Russian individuals and legal entities, including PJSC Gazprom and JSC Gazprom Neft.

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

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

The Group continues to assess and monitor the impact of the ongoing sanctions but currently does not believe they have a significant impact on the financial position and results of operations of the Group.

(in millions of Russian Rubles)

23 COMMITMENTS AND CONTINGENCIES (continued)

Financial guarantees

	30 June 2015	31 December 2014
Outstanding guarantees issued for:		
Sakhalin Energy Investment Company Ltd.	124,265	136,490
Ostchem Holding Limited	46,779	47,407
Blackrock Capital Investments Limited	7,573	7,675
EM Interfinance Limited	1,509	3,065
LLC Production Company VIS	-	7,016
Other	83,902	75,104
Total financial guarantees	**264,028**	**276,757**

For the six months ended 30 June 2015 and for 2014 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 3,618 million and USD 3,814 million as of 30 June 2015 and 31 December 2014, respectively, as well as amounts denominated in Euros of EUR 315 million and EUR 356 million as of 30 June 2015 and 31 December 2014, respectively.

In June 2008 the Group provided a guarantee to the Bank of Tokyo-Mitsubishi UFJ Ltd. for Sakhalin Energy Investment Company Ltd. under the credit facility up to the amount of the Group's share (50 %) in the obligations of Sakhalin Energy Investment Company Ltd. toward the Bank of Tokyo-Mitsubishi UFJ Ltd. As of 30 June 2015 and 31 December 2014 the above guarantee amounted to RUB 124,265 million (USD 2,238 million) and RUB 136,490 million (USD 2,426 million), respectively.

In December 2014 the Group provided a guarantee to Gazprombank (Joint-stock Company) related to debts from Ostchem Holding Limited under the credit facility for financing of operating activities. As of 30 June 2015 and 31 December 2014 the above guarantee amounted to RUB 46,779 million (USD 843 million) and RUB 47,407 million (USD 843 million), respectively, and was fully provided. Change in the value of guarantee is mainly attributed to the exchange difference between US Dollar and Russian Ruble.

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) in regard to bonds issued with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by SGT EuRoPol GAZ S.A. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. As a result as of 30 June 2015 and 31 December 2014 the guarantees issued for Blackrock Capital Investments Limited and EM Interfinance Limited amounted to RUB 9,082 million (USD 163 million) and RUB 10,740 million (USD 191 million), respectively.

In July 2012 the Group provided a guarantee to PJSC Sberbank for LLC Production company VIS as a security of credit facility for financing of construction projects for Gazprom Group. As of 31 December 2014 the above guarantee amounted to RUB 7,016 million. As of 30 June 2015 the debt liabilities were redeemed.

Capital commitments

The total investment program related to gas, oil and power assets for 2015 is RUB 1,690,488 million.

24 POST BALANCE SHEET EVENTS

Investments

In July 2015 PJSC Gazprom acquired a 25 % interest in Shtokman Development AG from Total Shtokman B.V. As a result of this transaction the share of PJSC Gazprom in Shtokman Development AG increased to 100 %.

24 POST BALANCE SHEET EVENTS (continued)

In August 2015 according to the procedures that aim to simplify the ownership structure and achieve parity shareholdings in LLC SeverEnergia the Group contributed RUB 14,992 million as the additional contribution to the share capital of LLC Yamal razvitie. The settlement was made through conversion of loans granted to the entity. Accordingly OJSC Novatek contributed 6.4 % share in the share capital of Artic Russia B.V. and RUB 2,512 million as additional contribution to the share capital of LLC Yamal razvitie. As a result of these transactions the Group increased its effective share in LLC SeverEnergia from 43.15 % to 44.65 %.

Borrowings and loans

In July 2015 the Group obtained a long-term loan from UniCredit Bank Austria AG in the amount of EUR 300 million at an interest rate of EURIBOR + 3.6 % due in 2019.

In July 2015 the Group obtained long-term loans from PJSC Sberbank in the amount of USD 760 million at an interest rate of LIBOR + 5.9 % due in 2018 and in the amount of EUR 240 million at an interest rate of EURIBOR + 5.45 % due in 2018.

In July 2015 the Group signed agreements to obtain long-term loans from Gazprombank (Joint-stock Company) in the amount of USD 310 million and USD 330 million at an interest rate of 6.95 % and 6.98 %, respectively, due in 2018.

In August 2015 the Group obtained a long-term loan from a consortium of banks in the amount of USD 1,500 million at an interest rate of LIBOR + 3.5 % due in 2020. China Construction Bank Corporation, Beijing branch was appointed as a bank agent.

Sanctions

On 7 August 2015 the U.S. imposed sanctions against Yuzhno-Kirinskoye field located in the Sea of Okhotsk. The U.S. sanctions prohibit supply in any way (by export, reexport or in-country transfers) by any persons whether they are the U.S. residents or from other jurisdictions, goods or technologies of the U.S. origin which are the subject to the U.S. Export Administration Regulations, for exploitation of the field.

Independent Auditor's Report

To the Shareholders and Board of Directors of OAO Gazprom

We have audited the accompanying consolidated financial statements of OAO Gazprom and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2014 and the consolidated statements of comprehensive income, cash flows and changes in equity for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

ZAO PricewaterhouseCoopers Audit, 10 Butyrsky Val, Moscow, Russian Federation, 125047
T: +7 (495) 967 6000, F:+7 (495) 967 6001, www.pwc.ru

Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

28 April 2015

Moscow, Russian Federation

M.E. Timchenko, Director (licence no. 01-000267), ZAO PricewaterhouseCoopers Audit

Audited entity: OAO Gazprom

State registration certificate № 022.726, issued by the Moscow Registration Chamber on 25 February 1993

Certificate of inclusion in the Unified State Register of Legal Entities issued on 2 August 2002 under registration № 1027700070518

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

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

OAO GAZPROM
IFRS CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2014
(In millions of Russian Roubles)

Notes		31 December 2014	31 December 2013
	Assets		
	Current assets		
8	Cash and cash equivalents	1,038,191	689,130
	Restricted cash	2,085	401
9	Short-term financial assets	10,735	24,502
10	Accounts receivable and prepayments	1,045,936	1,032,026
11	Inventories	671,916	569,724
	VAT recoverable	289,287	341,315
12	Other current assets	403,005	205,572
		3,461,155	**2,862,670**
	Non-current assets		
13	Property, plant and equipment	9,950,209	8,940,088
14	Goodwill	104,221	151,189
15	Investments in associated undertakings and joint ventures	677,216	549,684
16	Long-term accounts receivable and prepayments	436,468	437,349
17	Available-for-sale long-term financial assets	201,824	168,904
12	Other non-current assets	346,377	326,352
		11,716,315	**10,573,566**
	Total assets	**15,177,470**	**13,436,236**
	Liabilities and equity		
	Current liabilities		
18	Accounts payable and accrued charges	1,217,141	895,694
	Current profit tax payable	8,402	17,750
19	Other taxes payable	165,622	146,095
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	464,782	331,926
		1,855,947	**1,391,465**
	Non-current liabilities		
21	Long-term borrowings and promissory notes	2,224,042	1,470,002
24	Provisions for liabilities and charges	297,106	330,580
22	Deferred tax liabilities	594,098	558,869
	Other non-current liabilities	86,256	50,966
		3,201,502	**2,410,417**
	Total liabilities	**5,057,449**	**3,801,882**
	Equity		
25	Share capital	325,194	325,194
25	Treasury shares	(103,919)	(103,919)
25	Retained earnings and other reserves	9,595,283	9,098,315
		9,816,558	**9,319,590**
33	Non-controlling interest	303,463	314,764
	Total equity	**10,120,021**	**9,634,354**
	Total liabilities and equity	**15,177,470**	**13,436,236**

A.B. Miller
Chairman of the Management Committee
28 April 2015

E.A. Vasilieva
Chief Accountant
28 April 2015

The accompanying notes on pages 6 to 64 are an integral part of these consolidated financial statements.

OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014
(In millions of Russian Roubles)

Notes		Year ended 31 December 2014	2013
26	Sales	5,589,811	5,249,965
	Net (loss) gain from trading activity	(22,510)	5,850
27	Operating expenses	(3,943,669)	(3,600,908)
27	Charge for impairment and other provisions, net	(313,208)	(67,698)
	Operating profit	**1,310,424**	**1,587,209**
28	Finance income	389,804	129,523
28	Finance expense	(1,438,541)	(284,107)
15	Share of net income of associated undertakings and joint ventures	46,051	56,670
	Losses on disposal of available-for-sale financial assets	(915)	(3,212)
	Profit before profit tax	**306,823**	**1,486,083**
	Current profit tax expense	(121,343)	(201,872)
	Deferred profit tax expense	(28,288)	(118,506)
22	Profit tax expense	(149,631)	(320,378)
	Profit for the year	**157,192**	**1,165,705**
	Other comprehensive income (loss):		
	Items that will not be reclassified to profit or loss:		
24	Remeasurements of post-employment benefit obligations	34,438	55,424
	Total items that will not be reclassified to profit or loss	**34,438**	**55,424**
	Items that will be reclassified to profit or loss:		
	(Losses) gains arising from change in fair value of available-for-sale financial assets, net of tax	(2,933)	12,578
	Share of other comprehensive (loss) income of associated undertakings and joint ventures	(14,769)	10,100
	Translation differences	570,402	56,847
	Losses from cash flow hedges, net of tax	(60,550)	(2,305)
	Total items that will be reclassified to profit or loss	**492,150**	**77,220**
	Other comprehensive income for the year, net of tax	**526,588**	**132,644**
	Total comprehensive income for the year	**683,780**	**1,298,349**
	Profit (loss) attributable to:		
	Owners of OAO Gazprom	159,004	1,139,261
33	Non-controlling interest	(1,812)	26,444
		157,192	**1,165,705**
	Total comprehensive income attributable to:		
	Owners of OAO Gazprom	667,609	1,267,383
	Non-controlling interest	16,171	30,966
		683,780	**1,298,349**
30	**Basic and diluted earnings per share for profit attributable to the owners of OAO Gazprom (in Roubles)**	**6.93**	**49.64**

A.B. Miller
Chairman of the Management Committee
28 April 2015

E.A. Vasilieva
Chief Accountant
28 April 2015

The accompanying notes on pages 6 to 64 are an integral part of these consolidated financial statements.

(In millions of Russian Roubles)

Notes		Year ended 31 December 2014	2013
	Cash flows from operating activities		
31	**Net cash from operating activities**	**1,915,769**	**1,741,804**
	Cash flows from investing activities		
13	Capital expenditures	(1,262,140)	(1,397,195)
	Net change in loans issued	(50,780)	(4,043)
	Interest received	51,825	31,565
13, 28	Interest paid and capitalised	(94,016)	(64,148)
34, 35	Acquisition of subsidiaries, net of cash acquired	(77,496)	(124,380)
15	Investments in associated undertakings and joint ventures	(84,570)	(14,679)
15	Proceeds from associated undertakings and joint ventures	99,679	103,636
	Change in available-for-sale long-term financial assets	(3,257)	(1,693)
	Placement of long-term bank deposits	(20,467)	(547)
	Repayment of long-term bank deposits	771	6,059
	Change in other long-term financial assets	(854)	(1,087)
	Net cash used in investing activities	**(1,441,305)**	**(1,466,512)**
	Cash flows from financing activities		
21	Proceeds from long-term borrowings	293,940	506,172
21	Repayment of long-term borrowings (including current portion)	(352,885)	(332,814)
20	Proceeds from short-term borrowings	69,885	61,313
20	Repayment of short-term borrowings	(54,190)	(105,230)
25	Dividends paid	(178,947)	(137,227)
28	Interest paid	(27,803)	(27,876)
	Acquisition of non-controlling interest in subsidiaries	(10,903)	(2,904)
25	Sales of treasury shares	-	175
	Change in restricted cash	(1,684)	5,129
	Net cash used in financing activities	**(262,587)**	**(33,262)**
	Effect of foreign exchange rate changes on cash and cash equivalents	137,184	21,380
	Increase in cash and cash equivalents	**349,061**	**263,410**
8	Cash and cash equivalents at the beginning of the reporting year	689,130	425,720
8	**Cash and cash equivalents at the end of the reporting year**	**1,038,191**	**689,130**

A.B. Miller	E.A. Vasilieva
Chairman of the Management Committee	Chief Accountant
28 April 2015	28 April 2015

The accompanying notes on pages 6 to 64 are an integral part of these consolidated financial statements.

(In millions of Russian Roubles)

Notes		Number of shares outstanding (billions)	Attributable to owners of OAO Gazprom: Share capital	Treasury shares	Retained earnings and other reserves	Total	Non-controlling interest	Total equity
	Balance as of 31 December 2012	22.9	325,194	(104,094)	7,949,633	8,170,733	309,212	8,479,945
	Profit for the year		-	-	1,139,261	1,139,261	26,444	1,165,705
	Other comprehensive income (loss):							
24, 33	Remeasurements of post-employment benefit obligations		-	-	55,296	55,296	128	55,424
	Gains arising from change in fair value of available-for-sale financial assets, net of tax		-	-	12,578	12,578	-	12,578
	Share of other comprehensive income of associated undertakings and joint ventures		-	-	10,100	10,100	-	10,100
25, 33	Translation differences		-	-	52,314	52,314	4,533	56,847
33	Losses from cash flow hedges, net of tax		-	-	(2,166)	(2,166)	(139)	(2,305)
	Total comprehensive income for the year ended 31 December 2013		-	-	**1,267,383**	**1,267,383**	**30,966**	**1,298,349**
33	Changes in non-controlling interest in subsidiaries		-	-	(597)	(597)	4,905	4,308
25	Return of social assets to governmental authorities		-	-	(240)	(240)	-	(240)
25	Net treasury shares transactions	0.1	-	175	-	175	-	175
25, 33	Dividends declared		-	-	(137,464)	(137,464)	(10,719)	(148,183)
33	Acquisition of shares in subsidiaries		-	-	19,600	19,600	(19,600)	-
	Balance as of 31 December 2013	**23.0**	**325,194**	**(103,919)**	**9,098,315**	**9,319,590**	**314,764**	**9,634,354**
	Profit (loss) for the year		-	-	159,004	159,004	(1,812)	157,192
	Other comprehensive income (loss):		-	-				
24, 33	Remeasurements of post-employment benefit obligations		-	-	34,272	34,272	166	34,438
33	Losses arising from change in fair value of available-for-sale financial assets, net of tax		-	-	(2,927)	(2,927)	(6)	(2,933)
	Share of other comprehensive loss of associated undertakings and joint ventures		-	-	(14,769)	(14,769)	-	(14,769)
25, 33	Translation differences		-	-	550,191	550,191	20,211	570,402
33	Losses from cash flow hedges, net of tax		-	-	(58,162)	(58,162)	(2,388)	(60,550)
	Total comprehensive income for the year ended 31 December 2014		-	-	**667,609**	**667,609**	**16,171**	**683,780**
33	Changes in non-controlling interest in subsidiaries		-	-	(5,300)	(5,300)	(16,028)	(21,328)
25	Return of social assets to governmental authorities		-	-	(94)	(94)	-	(94)
25, 33	Dividends declared		-	-	(165,247)	(165,247)	(11,444)	(176,691)
	Balance as of 31 December 2014	**23.0**	**325,194**	**(103,919)**	**9,595,283**	**9,816,558**	**303,463**	**10,120,021**

A.B. Miller
Chairman of the Management Committee
28 April 2015

E.A. Vasilieva
Chief Accountant
28 April 2015

The accompanying notes on pages 6 to 64 are an integral part of these consolidated financial statements.

1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

- Exploration and production of gas;
- Transportation of gas;
- Sales of gas within 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; and
- Electric and heat energy generation and sales.

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

The weighted average number of employees during 2014 and 2013 was 450 thousand and 429 thousand, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation (see Note 38).

The political and economic instability, the current impact and ongoing situation with sanctions, uncertainty and volatility of the financial and commodities markets and other risks have had and may continue to have effects on the Russian economy. During 2014 the official Russian Rouble to US dollar and Euro foreign exchange rates depreciated and fluctuated between 32.73 and 56.26 Russian Roubles and 44.97 and 68.34 Russian Roubles per US dollar and Euro, respectively. In addition during 2014 the key interest rate determined by the Central Bank of the Russian Federation increased to 17% and actual inflation increased to 11.4%.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2014 Russia's credit rating was downgraded by Fitch Ratings in January 2015 from BBB to BBB-, whilst Standard & Poor's cut it from BBB- to BB+. At the same time as of date of issuance of these consolidated financial statements the key interest rate determined by the Central Bank of the Russian Federation decreased from 17% to 14% and the official Russian Rouble to US dollar and Euro foreign exchange rates were 51.47 and 55.87, respectively.

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

3 BASIS OF PRESENTATION

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

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

4 SCOPE OF CONSOLIDATION

As described in Note 5, these consolidated financial statements include consolidated subsidiaries, associated undertakings and joint arrangements of the Group. Significant changes in the Group's structure in 2013 and 2014 are described below.

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

In September 2013 the Group acquired 89.98% interest in the ordinary shares of OAO Moscow Integrated Power Company (OAO MIPC) and heat assets from the Moscow Government for cash consideration of RR 99,866 including VAT in the amount of RR 1,246 related to acquired heat assets. As a result of the acquisition, the Group obtained control over OAO MIPC. Considering treasury shares of OAO MIPC, the Group's effective interest is 98.77% (see Note 35).

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Group accounting

Subsidiary undertakings

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

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

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

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

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

Goodwill and non-controlling interest

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 interests as transactions with equity owners of the group. In accordance with IFRS 3 "Business Combinations", the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date, and any non-controlling interest in the acquiree is stated at the non-controlling interest proportion of the net fair value of those items.

Joint arrangements

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

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

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

Associated undertakings

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

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

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

5.2 Financial instruments

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

Accounting for financial guarantee contracts

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value disclosure

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

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

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

5.3 Derivative financial instruments

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

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

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

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

5.4 Hedge accounting

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

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

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

5.5 Non-derivative financial assets

The Group classifies its financial assets in the following categories:

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

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

(c) loans and receivables.

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

There were no material financial assets designated at fair value through profit or loss at inception as of 31 December 2014 and 2013.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the balance sheet date.

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

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

(c) Loans and receivables

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

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

Impairment of financial assets

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

The provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 12 months overdue) are considered indicators that the receivable is

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the financial asset's original effective interest rate at the date of origination of the receivable. The amount of the provision is recognized in the consolidated statement of comprehensive income within operating expenses.

5.6 Options on purchase or sale of financial assets

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

5.7 Cash and cash equivalents and restricted cash

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

5.8 Value added tax

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

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

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

5.9 Natural resources production tax

Natural resources production tax (NRPT) on hydrocarbons, including natural gas and crude oil, is due on the basis of quantities of natural resources extracted.

In the Russian Federation NRPT for natural gas and gas condensate is defined as an amount of volume produced per fixed tax rate: for natural gas – RR 700 per mcm from 1 January 2014 to 30 June 2014 and RR 35 per mcm (the tax rate is multiplied by the base amount of hard coal equivalent and by the rate reflecting the complexity of producing gas and/or gas condensate in a raw hydrocarbon deposit, the obtained amount should be summarised with the indicator of expenses for transporting gas) from 1 July 2014 to 31 December 2014 (RR 622 per mcm effective since 1 July 2013, RR 582 per mcm from 1 January 2013 to 30 June 2013); for gas condensate – RR 647 per ton from 1 January 2014 to 30 June 2014 and RR 42 per ton (the tax rate is multiplied by the base amount of hard coal equivalent and by the rate reflecting the complexity of producing gas and/or gas condensate in a raw hydrocarbon deposit) from 1 July 2014 to 31 December 2014 (RR 590 per ton in 2013). Significant changes of tax rates are related to enforcement of Russian Federal Law #263-FZ dated 30 September 2013, which stipulate that starting 1 July 2014 a new formula to calculate NRPT for natural gas and gas condensate.

In the Russian Federation NRPT for crude oil is defined monthly as an amount of volume produced per fixed tax rate (RR 493 per ton effective since 1 January 2014 and RR 470 per ton in 2013) adjusted for coefficients that take into account volatility of crude oil prices on the global market, relative size of the field and degree of depletion of the specific field. Since 1 September 2013 in accordance with Federal Law No. 213-FZ dated 23 July 2013 NRPT for crude oil shall also take account of coefficients that reduce the tax rate in respect to hard-to-recover reserves. Also a 0% tax rate is applied to oil extracted in a number of regions of the Russian Federation shall the specific criteria determined by respective tax legislation be fulfilled.

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.10 Customs duties

The export of hydrocarbons, including natural gas and crude oil, outside of the Customs union, which includes the Russian Federation, Belarus and Kazakhstan, is subject to export customs duties. According to the Decree of the Government of the Russian Federation No.754 dated 30 August 2013 export of natural gas outside the boundaries of the Customs union is subject to a fixed 30% export customs duty rate levied on the customs value of the exported natural gas.

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

Revenues are recognized net of the amount of custom duties.

5.11 Excise tax on oil products

Excise tax is applicable to certain transactions with oil products. Currently only gasoline, motor oil and diesel are subject to excise tax. Oil, gas condensate and natural gas are excluded. Within the Group, excise tax is imposed on the transfers of excisable oil products produced at group-owned refineries under a tolling arrangement to the Group company owning the product. The Group considers the excise tax on refining of oil products on a tolling basis as an operating expense. These taxes are not netted from revenue presented in the consolidated statement of comprehensive income.

5.12 Inventories

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

5.13 Property, plant and equipment

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

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

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

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

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

(In millions of Russian Roubles)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	Years
Pipelines	25-33
Wells	7-40
Machinery and equipment	10-18
Buildings	30-40
Roads	20-40
Social assets	10-40

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

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

5.14 Impairment of non-current non-financial assets

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

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

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

5.15 Borrowings

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

5.16 Deferred tax

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5.17 Foreign currency transactions

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

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

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

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 56.26 and 32.73 as of 31 December 2014 and 2013, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 68.34 and 44.97 as of 31 December 2014 and 2013, respectively.

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

5.18 Provisions for liabilities and charges

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

5.19 Equity

Treasury shares

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

Dividends

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

5.20 Revenue recognition

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Natural gas prices and gas transportation tariffs to the final consumers in the Russian Federation are established mainly by the Federal Tariffs Service. Export gas prices for sales to European countries are generally indexed to oil products prices, as stipulated in long-term contracts. Export gas prices for sales to Former Soviet Union countries are determined in various ways including using formulas, similar to those used in contracts with European customers.

Trading activity

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

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

5.21 Interest

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

5.22 Research and development

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

5.23 Employee benefits

Pension and other post-retirement benefits

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

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Social expenses

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

5.24 Recent accounting pronouncements

Application of new IFRS

A number of amendments to current IFRS and new IFRIC became effective for the periods beginning on or after 1 January 2014 and have been endorsed for application in the Russian Federation:

- Amendments to IAS 32 "Financial Instruments: Presentation" regarding offsetting rules.
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other entities" and IAS 27 "Separate Financial Statements" in respect of investment entities.
- Amendments to IAS 36 "Impairment of Assets" regarding additional disclosure.
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") regarding novation of derivatives and hedge accounting.
- IFRIC 21 "Levies", Annual improvements 2013.

The Group has applied amended standards and new IFRIC while preparing these consolidated financial statements. It has no significant impact on the Group's consolidated financial statements.

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

Certain new standards and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2015. In particular the Group has not early adopted the following standards and amendments:

a) that have been endorsed for application in the Russian Federation:

- The amendments to IFRS 11 "Joint Arrangements" (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016) on accounting for acquisitions of interests in joint operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.
- The amendment to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016) on clarification of acceptable methods of depreciation and amortization. In this amendment the IASB clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
- IFRS 15 "Revenue from Contracts with Customers" (issued in May 2014 and effective for annual periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognized when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognized as an asset and amortized over the period when the benefits of the contract are consumed.

b) that have not been endorsed for application in the Russian Federation:

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

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

6.1 Consolidation of subsidiaries

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

6.2 Tax legislation and uncertain tax positions

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 38).

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

6.3 Assumptions to determine amount of provisions

Impairment provision for accounts receivable

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

Impairment of Property, plant and equipment and Goodwill

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

In addition, judgement is applied in determining the cash-generating units assessed for impairment. For the purposes of the goodwill impairment test, management considers gas production, transportation and distribution activities as part of one Gas cash-generating unit and monitors associated goodwill at this level. The pipelines that are part of the Gas cash-generating unit are utilized primarily for the Group activities and represent the only transit route for the gas produced. Operationally, the gas produced is transported through the Group's Russian

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

and Belorussian pipelines and distributed to meet demands of customers in Russia and then in the Former Soviet Union and Europe and underground storage facilities. The interrelationship of these activities forming the Gas cash-generating unit provides the basis for capturing the benefits from synergies.

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

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

Accounting for provisions

Accounting for impairment includes provisions against capital construction projects, financial assets, other non-current assets and inventory obsolescence. Because of the Group's operating cycle, the year end carrying values are assessed in light of forward looking plans finalised on or around year end. Accordingly, the Group typically has larger impairment charges or releases in the fourth quarter of the fiscal year as compared to other quarters.

6.4 Site restoration and environmental costs

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

6.5 Useful lives of Property, plant and equipment

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

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2014 would be an increase by RR 51,940 or a decrease by RR 42,497 (2013: increase by RR 46,462 or decrease by RR 38,014).

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

6.6 Fair value estimation for financial instruments

The fair values of energy trading contracts, commodity futures and swaps are based on market quotes on measurement date (Level 1 in accordance with the valuation hierarchy). Customary valuation models are used to value financial instruments which are not traded in active markets. The fair values are based on inputs that are observable either directly or indirectly (Level 2 in accordance with the valuation hierarchy). Contracts that are valued based on non-observable market data belong to Level 3 in accordance with the valuation hierarchy. Management's best estimates based on internally developed models are used for the valuation. Where the valuation technique employed incorporates significant unobservable input data such as these long-term price assumptions, contracts have been categorised as Level 3 in accordance with the valuation hierarchy (see Note 40).

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

6.7 Fair value estimation for acquisitions

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

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

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

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

6.8 Accounting for plan assets and pension liabilities

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

6.9 Joint Arrangements

Upon adopting of IFRS 11 the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures, except for its investments in OAO Tomskneft VNK, Salym Petroleum Development N.V. and Blue Stream Pipeline company B.V., which were determined to be joint operations.

7 SEGMENT INFORMATION

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

The Board of Directors and Management Committee of OAO Gazprom (chief operating decision maker (CODM)) 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;
- Transport – transportation of gas;
- Distribution – sales of gas within Russian Federation and abroad;
- Gas storage – storage of extracted and purchased gas in underground gas storages;
- Production of crude oil and gas condensate – exploration and production of oil and gas condensate, sales of crude oil and gas condensate;
- Refining – processing of oil, gas condensate and other hydrocarbons, and sales of refined products; and
- Electric and heat energy generation and sales.

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

The inter-segment sales mainly consist of:

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

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

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

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

	Production of gas	Trans-port	Distribu-tion	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 2014									
Total segment revenues	**701,406**	**965,057**	**3,203,357**	**44,264**	**706,311**	**1,629,779**	**426,951**	**209,632**	**7,886,757**
Inter-segment sales	682,338	792,215	237,040	41,461	497,077	10,565	-	-	2,260,696
External sales	19,068	172,842	2,966,317	2,803	209,234	1,619,214	426,951	209,632	5,626,061
Segment result	**47,193**	**43,327**	**727,604**	**6,314**	**75,720**	**246,647**	**(14,752)**	**(18,774)**	**1,113,279**
Depreciation	141,544	381,004	14,592	18,962	81,905	35,425	37,343	24,937	735,712
Share of net (loss) income of associated undertakings and joint ventures	(22,277)	9,895	10,934	(2,724)	55,396	602	(14)	(5,761)	46,051
Year ended 31 December 2013									
Total segment revenues	**662,593**	**949,287**	**3,210,204**	**37,640**	**698,535**	**1,362,414**	**375,589**	**234,037**	**7,530,299**
Inter-segment sales	653,921	786,022	247,053	35,679	488,319	10,701	-	-	2,221,695
External sales	8,672	163,265	2,963,151	1,961	210,216	1,351,713	375,589	234,037	5,308,604
Segment result	**62,594**	**55,109**	**917,896**	**4,882**	**109,581**	**149,994**	**39,218**	**12,059**	**1,351,333**
Depreciation	132,185	366,861	14,241	15,220	75,872	34,696	26,409	19,384	684,868
Share of net income (loss) of associated undertakings and joint ventures	852	2,446	12,442	374	28,271	(937)	(9)	13,231	56,670

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

Notes		For the year ended 31 December 2014	2013
	Segment result for reportable segments	1,132,053	1,339,274
	Other segments' result	(18,774)	12,059
	Total segment result	**1,113,279**	**1,351,333**
	Difference in depreciation*	263,561	265,849
	Expenses associated with pension obligations	(3,387)	(28,063)
28	Net finance expense	(1,048,737)	(154,584)
	Losses on disposal of available-for-sale financial assets	(915)	(3,212)
15	Share of net income of associated undertakings and joint ventures	46,051	56,670
27	Derivatives (losses) gains	(7,141)	8,512
14, 27	Impairment of goodwill	(47,620)	-
	Other	(8,268)	(10,422)
	Profit before profit tax	**306,823**	**1,486,083**

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

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

	For the year ended 31 December 2014	2013
External sales for reportable segments	5,416,429	5,074,567
External sales for other segments	209,632	234,037
Total external segment sales	**5,626,061**	**5,308,604**
Differences in external sales*	(36,250)	(58,639)
Total sales per the consolidated statement of comprehensive income	**5,589,811**	**5,249,965**

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

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

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

	Production of gas	Trans-port	Distribu-tion	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
31 December 2014									
Segment assets	2,276,369	6,088,335	1,454,300	280,762	1,896,609	1,378,295	799,914	661,507	14,836,091
Investments in associated undertakings and joint ventures	13,178	123,594	54,083	7,017	346,373	20,063	414	112,494	677,216
Capital additions	254,881	434,433	23,709	15,530	227,421	135,158	82,019	48,177	1,221,328
31 December 2013									
Segment assets	2,051,204	5,271,761	1,394,112	242,198	1,585,429	1,121,301	798,781	669,682	13,134,468
Investments in associated undertakings and joint ventures	31,032	74,292	73,339	6,090	228,612	17,575	439	118,305	549,684
Capital additions	257,407	380,547	36,085	23,524	223,557	113,254	77,191	102,285	1,213,850

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

Notes		31 December 2014	31 December 2013
	Segment assets for reportable segments	14,174,584	12,464,786
	Other segments' assets	661,507	669,682
	Total segment assets	**14,836,091**	**13,134,468**
	Differences in property, plant and equipment, net*	(2,070,873)	(1,600,509)
13	Loan interest capitalized	467,373	378,792
	Decommissioning costs	47,287	75,886
8	Cash and cash equivalents	1,038,191	689,130
	Restricted cash	2,085	401
9	Short-term financial assets	10,735	24,502
	VAT recoverable	289,287	341,315
	Other current assets	403,005	205,572
17	Available-for-sale long-term financial assets	201,824	168,904
14	Goodwill	104,221	151,189
	Other non-current assets	346,377	326,352
	Inter-segment assets	(757,684)	(671,612)
	Other	259,551	211,846
	Total assets per the consolidated balance sheet	**15,177,470**	**13,436,236**

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

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

	Production of gas	Trans-port	Distri-bution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Segment liabilities									
31 December 2014	146,755	351,566	686,824	18,352	323,068	247,737	78,438	130,044	1,982,784
31 December 2013	155,578	290,678	534,370	9,599	225,777	287,677	49,088	125,339	1,678,106

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

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

Notes		31 December 2014	31 December 2013
	Segment liabilities for reportable segments	1,852,740	1,552,767
	Other segments' liabilities	130,044	125,339
	Total segments liabilities	**1,982,784**	**1,678,106**
	Current profit tax payable	8,402	17,750
20	Short-term borrowings, promissory notes and current portion of long- term borrowings	464,782	331,926
21	Long-term borrowings and promissory notes	2,224,042	1,470,002
24	Provisions for liabilities and charges	297,106	330,580
22	Deferred tax liabilities	594,098	558,869
	Other non-current liabilities	86,256	50,966
	Dividends	4,759	3,791
	Inter-segment liabilities	(757,684)	(671,612)
	Other	152,904	31,504
	Total liabilities per the consolidated balance sheet	**5,057,449**	**3,801,882**

8 CASH AND CASH EQUIVALENTS

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

	31 December 2014	31 December 2013
Cash on hand and bank balances payable on demand	969,440	568,663
Term deposits with original maturity of three months or less	68,751	120,467
	1,038,191	**689,130**

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

	31 December 2014	31 December 2013
Cash on hand	852	570
External credit rating of A-3 and above	129,630	592,621
External credit rating of B	810,478	8,061
No external credit rating	97,231	87,878
Total cash and cash equivalents	**1,038,191**	**689,130**

The sovereign credit ratings of the Russian Federation published by Standard & Poor's are BBB- (negative outlook) and BBB (stable outlook) as of 31 December 2014 and 2013, respectively.

9 SHORT-TERM FINANCIAL ASSETS

	31 December 2014	31 December 2013
Financial assets held for trading:	**6,718**	**22,355**
Bonds	6,498	5,681
Equity securities	220	16,674
Available-for-sale financial assets:	**4,017**	**2,147**
Equity securities	2,863	-
Promissory notes	1,154	2,147
Total short-term financial assets	**10,735**	**24,502**

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

	31 December 2014	31 December 2013
External credit rating of A-3 and above	5,123	4,725
External credit rating of B	1,778	2,296
No external credit rating	751	807
	7,652	**7,828**

(In millions of Russian Roubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2014	31 December 2013
Financial assets		
Trade receivables (net of impairment provision of RR 616,919 and RR 315,332 as of 31 December 2014 and 2013, respectively)	683,967	751,219
Short-term loans (net of impairment provision of RR 1,250 and RR nil as of 31 December 2014 and 2013, respectively)	121,063	79,082
Other receivables (net of impairment provision of RR 26,837 and RR 18,139 as of 31 December 2014 and 2013, respectively)	108,429	95,984
	913,459	926,285
Non-financial assets		
Advances and prepayments (net of impairment provision of RR 1,116 and RR 670 as of 31 December 2014 and 2013, respectively)	132,477	105,741
Total accounts receivable and prepayments	**1,045,936**	**1,032,026**

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

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

Accounts receivable due from NAK Naftogaz Ukraine in relation to gas sales are RR nil and RR 90,267 net of impairment provision of RR 123,874 and nil as of 31 December 2014 and 2013, respectively.

	31 December 2014	31 December 2013
Short-term trade accounts receivable neither past due nor impaired	604,199	687,407
Short-term trade accounts receivable impaired and provided for	647,006	340,576
Impairment provision at the end of the year	(616,919)	(315,332)
Short-term trade accounts receivable past due but not impaired	49,681	38,568
Total short-term trade accounts receivable	**683,967**	**751,219**

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

	31 December 2014	31 December 2013
Europe and other countries gas, crude oil, gas condensate and refined products debtors	338,363	326,093
Domestic gas, crude oil, gas condensate and refined products debtors	129,375	126,183
Former Soviet Union countries (excluding Russian Federation) gas, crude oil, gas condensate and refined products debtors	30,255	157,360
Electricity and heat sales debtors	45,943	36,850
Transportation services debtors	3,953	1,687
Other trade debtors	56,310	39,234
Total trade receivables neither past due nor impaired	**604,199**	**687,407**

As of 31 December 2014 and 2013, the individually impaired receivables mainly relate to gas sales to certain Russian regions and Former Soviet Union countries. In management's view the receivables will be ultimately recovered. The ageing analysis of these receivables is as follows:

Ageing from the due date	Gross book value 31 December 2014	Gross book value 31 December 2013	Provision 31 December 2014	Provision 31 December 2013	Net book value 31 December 2014	Net book value 31 December 2013
Up to 6 months	124,549	53,956	(104,788)	(38,077)	19,761	15,879
From 6 to 12 months	123,951	29,322	(121,310)	(25,279)	2,641	4,043
From 1 to 3 years	146,053	108,828	(139,017)	(103,687)	7,036	5,141
More than 3 years	252,453	148,470	(251,804)	(148,289)	649	181
	647,006	**340,576**	**(616,919)**	**(315,332)**	**30,087**	**25,244**

(In millions of Russian Roubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

	Trade receivables Year ended 31 December		Other receivables Year ended 31 December	
	2014	2013	2014	2013
Impairment provision at the beginning of the year	315,332	256,334	18,139	16,664
Impairment provision accrued*	287,720	75,263	11,545	6,351
Write-off of receivables during the year**	(6,320)	(1,302)	(755)	(4,326)
Release of previously created provision*	(172,607)	(12,547)	(2,092)	(550)
Foreign exchange rate differences	192,794	(2,416)	-	-
Impairment provision at the end of the year	**616,919**	**315,332**	**26,837**	**18,139**

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

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

Ageing from the due date	31 December	
	2014	2013
Up to 6 months	30,324	24,835
From 6 to 12 months	16,266	8,471
From 1 to 3 years	2,868	5,004
More than 3 years	223	258
	49,681	**38,568**

11 INVENTORIES

	31 December	
	2014	2013
Gas in pipelines and storage	429,062	350,537
Materials and supplies (net of an obsolescence provision of RR 5,414 and RR 4,306 as of 31 December 2014 and 2013, respectively)	132,322	110,323
Goods for resale (net of an obsolescence provision of RR 1,474 and RR 589 as of 31 December 2014 and 2013, respectively)	27,233	24,693
Crude oil and refined products	83,299	84,171
	671,916	**569,724**

12 OTHER CURRENT AND NON-CURRENT ASSETS

Included within other current assets are prepaid taxes, predominantly VAT in the amount of RR 117,012 and RR 103,805 and profit tax in the amount of RR 92,122 and RR 12,089 as of 31 December 2014 and 2013, respectively.

Included within other non-current assets is VAT recoverable related to assets under construction totaling RR 49,543 and RR 74,711 as of 31 December 2014 and 2013, respectively.

Other non-current assets include net pension assets in the amount of RR 111,742 and RR 111,160 as of 31 December 2014 and 2013 respectively (see Note 24).

(In millions of Russian Roubles)

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 2012								
	Cost	2,978,567	1,183,507	2,767,829	2,402,697	456,046	93,181	1,578,379	11,460,206
	Accumulated depreciation	(1,082,253)	(415,780)	(1,066,682)	(742,849)	(171,294)	(32,178)	-	(3,511,036)
	Net book value as of 31 December 2012	**1,896,314**	**767,727**	**1,701,147**	**1,659,848**	**284,752**	**61,003**	**1,578,379**	**7,949,170**
	Depreciation	(76,672)	(46,717)	(183,432)	(87,682)	(21,037)	(2,616)	-	(418,156)
	Additions	358	45,611	10,045	3,242	41,202	410	1,212,280	1,313,148
	Acquisition of subsidiaries	19	21	98,418	13,655	-	-	18,960	131,073
	Translation differences	799	3,595	4,692	5,583	2,590	2	1,455	18,716
	Transfers	109,193	132,309	364,491	359,766	609	2,691	(969,059)	-
	Disposals and other	(613)	(19,029)	(5,275)	(7,417)	(2,048)	(260)	(19,175)	(53,817)
27	Charge for impairment provision	-	-	-	-	-	-	(46)	(46)
	Net book value as of 31 December 2013	**1,929,398**	**883,517**	**1,990,086**	**1,946,995**	**306,068**	**61,230**	**1,822,794**	**8,940,088**
	As of 31 December 2013								
	Cost	3,089,096	1,344,235	3,233,208	2,777,460	498,399	94,737	1,822,794	12,859,929
	Accumulated depreciation	(1,159,698)	(460,718)	(1,243,122)	(830,465)	(192,331)	(33,507)	-	(3,919,841)
	Net book value as of 31 December 2013	**1,929,398**	**883,517**	**1,990,086**	**1,946,995**	**306,068**	**61,230**	**1,822,794**	**8,940,088**
	Depreciation	(79,240)	(54,714)	(215,927)	(99,840)	(15,121)	(2,620)	-	(467,462)
	Additions	917	371	49,689	32,990	48,328	1,364	1,220,432	1,354,091
	Acquisition of subsidiaries	-	-	1,115	15,243	-	-	128,117	144,475
	Translation differences	8,556	64,279	33,578	29,482	24,820	22	18,246	178,983
	Transfers	307,472	161,030	374,276	208,858	-	1,496	(1,053,132)	-
	Disposals and other	(383)	(72,673)	(11,079)	(9,955)	(2,286)	(2,123)	(25,003)	(123,502)
27	Charge for impairment provision	-	(18,702)	(35,207)	(19,167)	(2,356)	-	(1,032)	(76,464)
	Net book value as of 31 December 2014	**2,166,720**	**963,108**	**2,186,531**	**2,104,606**	**359,453**	**59,369**	**2,110,422**	**9,950,209**
	As of 31 December 2014								
	Cost	3,415,966	1,478,790	3,652,413	3,036,673	566,905	94,965	2,110,422	14,356,134
	Accumulated depreciation	(1,249,246)	(515,682)	(1,465,882)	(932,067)	(207,452)	(35,596)	-	(4,405,925)
	Net book value as of 31 December 2014	**2,166,720**	**963,108**	**2,186,531**	**2,104,606**	**359,453**	**59,369**	**2,110,422**	**9,950,209**

Operating assets are shown net of provision for impairment of RR 129,479 and RR 54,047 as of 31 December 2014 and 2013, respectively.

Assets under construction are presented net of a provision for impairment of RR 43,788 and RR 42,873 as of 31 December 2014 and 2013, respectively. Charges for impairment provision of assets under construction primarily relate to assets for which it is not yet probable that there will be future economic benefit.

At the each balance sheet date management assess whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. As of 31 December 2014 the Group determined indicators of impairment. The impairment was primarily triggered by changes in the Russian economy (see Note 2), which unfavorably affected discount rates applied by the Group.

The Group conducted impairment tests assessing whether the carrying amount of each cash-generating unit is compared with the recoverable amount of the respective cash-generating unit. The recoverable amount used in the impairment tests has been determined on the basis of the values in use of such assets. The values in use of cash-generating units have been calculated as the present values of projected future cash flows discounted using the rates derived from the weighted average cost of capital of the Group, as adjusted, where applicable, to take into account any specific risks of business operations related to the cash-generating units. The Group used discount rates ranging from 12.5% to 17.5%. Cash flows are projected based on actual operating results, business plans and investment programs. The cash flow projections cover periods commensurate with the production cycles and expected lives of the respective assets. The Group used estimated growth rates to extrapolate cash flows beyond the period, for which the Group usually prepares its budgets and investment programs. Based on the results of the impairment test the Group recognized in 2014 an impairment loss of RR 42,630 for power generating assets and RR 33,752 for oil production assets. The impairments were primarily due to increases in discount rates. Impairment of property, plant and equipment is sensitive to the key valuation inputs used to

(In millions of Russian Roubles)

13 PROPERTY, PLANT AND EQUIPMENT (continued)

calculate the present value of projected future cash flows of cash-generating units. For certain oil production assets the increase in discount rate by 1% could result in an additional impairment of approximately RR 30 billion. For certain refining assets the change in key assumptions (such as increase in discount rate and decrease in EBITDA margin) by 1-2% could result in an additional impairment of approximately RR 30 billion to RR 40 billion. For certain electricity and heat generation assets the change in key assumptions (such as increase in discount rate by 1% and decrease in tariffs by 5%) could result in an additional impairment of approximately RR 20 billion to RR 40 billion.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RR 336 and RR 463 as of 31 December 2014 and 2013, respectively.

Included in additions above are capitalized borrowing costs of RR 119,364 and RR 66,357 for the years ended 31 December 2014 and 2013, respectively. Capitalization rates of 6.16% and 6.09% were used representing the weighted average borrowing cost for the years ended 31 December 2014 and 2013, respectively.

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

	Year ended 31 December	
	2014	**2013**
Balance at the beginning of the year	184,372	111,290
Additions	115,703	75,718
Translation differences	14,355	3,074
Transfers	(17,230)	-
Disposals	(20,350)	(5,710)
Balance at the end of the year	**276,850**	**184,372**

14 GOODWILL

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

Note		**Year ended 31 December**	
	Movements in goodwill on subsidiaries	**2014**	**2013**
	Balance at the beginning of the year	151,189	146,587
	Additions	3,735	4,602
27	Charge for impairment	(47,620)	-
	Disposals	(3,083)	-
	Balance at the end of the year	**104,221**	**151,189**

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

	31 December	
	2014	**2013**
Gas production, transportation and distribution	70,475	70,638
Refining	-	43,469
Production of crude oil and gas condensate	31,299	27,564
Electric and heat energy generation and sales	2,447	9,518
Total goodwill on subsidiaries	**104,221**	**151,189**

In assessing whether goodwill has been impaired, the carrying values of the cash-generating units (including goodwill) were compared with their estimated value in use. Value in use is calculated as the present values of projected future cash flows discounted by the rates reflecting the time value of money as at 31 December 2014 and the risks specific to the particular cash-generated units, for which the future cash flow estimates have not been adjusted. The Group applied discount rates ranging from 12.5% to 17.5%.

The estimates of future cash flows are based on the Group’s managerial information, including forecast of commodity prices and expected production volumes, and available market information, and cover periods commensurate with the expected lives of the respective assets. The Group applied either steady or declining growth rates to cash flows beyond the explicit period of the forecast for related cash-generating units.

Based on the results of the impairment test conducted as at 31 December 2014 the Group recognized an impairment loss in relation to goodwill in refining and electric and heat energy generation and sale segments in the amount of RR 47,620.

(In millions of Russian Roubles)

15 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES

Notes			Carrying value as of 31 December		Share of the income (loss) of associated undertakings and joint ventures for the year ended 31 December	
			2014	**2013**	**2014**	**2013**
36, 37	Sakhalin Energy Investment Company Ltd.	Associate	153,418	67,868	58,888	41,338
36	OAO NGK Slavneft and its subsidiaries	Joint venture	113,676	126,976	(7,534)	(18,949)
36	Gazprombank Group	Associate	95,999	100,612	(6,145)	11,997
36	OOO Yamal razvitie and its subsidiaries	Joint venture	60,215	24,165	(1,809)	(130)
36, 37	Nord Stream AG	Joint venture	52,944	43,851	8,888	2,538
36	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries*	Associate	39,139	-	4,876	-
36,37	SGT EuRoPol GAZ S.A.	Associate	27,857	18,802	188	(240)
36	TOO KazRosGaz	Joint venture	19,215	9,819	6,268	4,659
36	Wintershall AG	Associate	17,640	11,528	186	1,492
36	ZAO Achimgaz	Joint venture	16,844	9,956	6,888	4,023
36	AO Latvijas Gaze	Associate	7,611	4,959	594	470
36	AO Gasum	Associate	6,915	4,515	229	369
36	W & G Beteiligungs-GmbH & Co. KG and its subsidiaries*	Associate	6,249	40,302	2,320	4,809
36	ZAO Nortgaz	Joint venture	4,730	2,258	4,322	1,130
	Shtokman Development AG**	Joint venture	-	23,216	(27,888)	(248)
34	South Stream Transport B.V. and its subsidiaries***	Joint venture	-	7,081	(4,237)	-
36	AO Lietuvos dujos****	Associate	-	1,359	491	281
	AO Amber Grid****	Associate	-	1,206	60	25
	Other (net of provision for impairment of RR 1,929 as of 31 December 2014 and 2013)		54,764	51,211	(534)	3,106
			677,216	**549,684**	**46,051**	**56,670**

* In May 2014 the shares in all gas transportation companies that belonged to W&G Beteiligungs-GmbH & Co. KG were transferred to WIGA Transport Beteiligungs-GmbH & Co. KG. As of 31 December 2014 WIGA Transport Beteiligungs-GmbH & Co. KG forms an independent subgroup of associated undertakings.
** As of 31 December 2014 an impairment provision was created for investment in Shtokman Development AG in the amount of RR 27,378. Respective expense is included in share of net income of associated undertakings and joint ventures in the consolidated statement of comprehensive income for the year ended 31 December 2014.
*** In December 2014 the Group became the owner of 100% interest in South Stream Transport B.V., the company responsible for the offshore part of the South Stream project, by acquiring shares of EDF International S.A.S., Wintershall Holding GmbH and ENI International B.V. (see Note 34).
**** In accordance with the provisions of the Third Energy Package of the European Union regarding the split between the gas transmission and distribution activities in August 2013 AO Lietuvos dujos transferred assets, liabilities and rights related to gas transportation to AO Amber Grid, an associate of the Group. In June 2014 the Group sold its 37% interests in associates, AO Lietuvos dujos and AO Amber Grid, to companies controlled by the Republic of Lithuania for Euro 121 million.

The Group's share of income of associated undertakings and joint ventures for the year ended 31 December 2013 includes additional expense of RR 25,961 recognized for OAO NGK Slavneft and its subsidiaries as a result of a one-time adjustment in the first quarter of 2013 to correct the prior understatement of depreciation on the basis difference for property, plant and equipment since the Group’s acquisition of interest in OAO NGK Slavneft.

Movements in the carrying amount of the Group’s investment in associated undertakings and joint ventures are as follows:

	Year ended 31 December	
	2014	**2013**
Balance at the beginning of the reporting year	**549,684**	**541,113**
Share of net income of associated undertakings and joint ventures	73,429	56,670
Impairment of investment in Shtokman Development AG	(27,378)	-
Distributions from associated undertakings and joint ventures	(86,907)	(95,574)
Share of other comprehensive (loss) income of associated undertakings and joint ventures	(14,769)	10,100
Translation differences	150,871	15,879
Other acquisitions and disposals	32,286	21,496
Balance at the end of the reporting year	**677,216**	**549,684**

(In millions of Russian Roubles)

15 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES (continued)

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

	31 December 2014	31 December 2013
AO Latvijas Gaze	8,479	5,702
AO Lietuvos dujos	-	3,065
AO Amber Grid	-	2,170

Significant associated undertakings and joint ventures

	Country of primary operations	Country of incorporation	Nature of operations	% of ordinary shares held as of 31 December* 2014	2013
ZAO Achimgaz	Russia	Russia	Exploration and production of gas and gas condensate	50	50
AO Amber Grid	Lithuania	Lithuania	Gas transportation	-	37
Bosphorus Gaz Corporation A.S.**	Turkey	Turkey	Gas distribution	71	71
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	Germany	Germany	Gas distribution	50	50
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Germany	Germany	Gas transportation	50	-
Wintershall AG	Libya	Germany	Production of oil and gas distribution	49	49
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	Germany	Germany	Gas distribution	50	50
Gaz Project Development Central Asia AG	Uzbekistan	Switzerland	Gas production	50	50
Gazprombank (Joint-stock Company)	Russia	Russia	Banking	37	37
AO Gasum	Finland	Finland	Gas distribution	25	25
SGT EuRoPol GAZ S.A.	Poland	Poland	Transportation and gas distribution	48	48
TOO KazRosGaz	Kazakhstan	Kazakhstan	Gas processing and sales of gas and refined products	50	50
AO Latvijas Gaze	Latvia	Latvia	Transportation and gas distribution	34	34
AO Lietuvos dujos	Lithuania	Lithuania	Gas distribution	-	37
AO Moldovagaz	Moldova	Moldova	Transportation and gas distribution	50	50
Nord Stream AG**	Russia, Germany	Switzerland	Construction, gas transportation	51	51
ZAO Nortgaz	Russia	Russia	Exploration and sales of gas and gas condensate	50	50
AO Overgaz Inc.	Bulgaria	Bulgaria	Gas distribution	50	50
ZAO Panrusgaz	Hungary	Hungary	Gas distribution	40	40
AO Prometheus Gas	Greece	Greece	Gas distribution, construction	50	50
RosUkrEnergo AG	Ukraine	Switzerland	Gas distribution	50	50
Sakhalin Energy Investment Company Ltd.	Russia	Bermuda Islands	Oil production, production of LNG	50	50
OAO NGK Slavneft	Russia	Russia	Production of oil, sales of oil and refined products	50	50
AO Turusgaz	Turkey	Turkey	Gas distribution	45	45
Shtokman Development AG**	Russia	Switzerland	Exploration and production of gas	75	75
OOO Yamal razvitie***	Russia	Russia	Investment activities, assets management	50	50

*Cumulative share of Group companies in charter capital of investees.

** Investments in companies continue to be accounted under the equity method of accounting, as the Group did not obtain control due to its corporate governance structure.

*** OOO Yamal razvitie is a holder of 51% share in OOO SeverEnergiya. Artic Russia B.V. owns the remaining 49% interest in OOO SeverEnergiya. In March 2014 OOO Yamal razvitie acquired additional 20% interest in Artic Russia B.V. for USD 980 million. As a result of the transaction, the Group's effective interest in OOO SeverEnergiya increased from 38.46% to 43.15%. In April 2014 the Group provided loans to OOO Yamal razvitie in the amount of USD 980 million to finance this acquisition. The loans will form the Group's contribution in equity of OOO Yamal razvitie upon completion of the restructuring of this joint venture.

(In millions of Russian Roubles)

15 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES (continued)

Summarised financial information on the Group's significant associated undertakings and joint ventures is presented in tables below.

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

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

	OAO NGK Slavneft and its subsidiaries	Gazprom-bank Group*	Sakhalin Energy Investment Company Ltd.
As of and for the year ended 31 December 2014			
Cash and cash equivalents	13,709	870,857	28,115
Other current assets (excluding cash and cash equivalents)	17,568	2,061,271	161,437
Non-current assets	368,437	1,714,631	972,798
Total assets	**399,714**	**4,646,759**	**1,162,350**
Current financial liabilities (excluding trade payables)	44,221	2,942,067	136,283
Other current liabilities (including trade payables)	44,855	152,126	184,803
Non-current financial liabilities	46,592	1,204,013	269,108
Other non-current liabilities	44,727	31,331	295,207
Total liabilities	**180,395**	**4,329,537**	**885,401**
Net assets (including non-controlling interest)	**219,319**	**317,222**	**276,949**
Percent of ordinary shares held	50%	37%	50%
Carrying value	**113,676**	**95,999**	**153,418**
Revenue	197,453	172,438	308,384
Depreciation	(35,571)	(35,831)	(65,012)
Interest income	1,472	269,623	523
Interest expense	(1,530)	(173,004)	(10,050)
Profit tax income (expense)	1,999	(9,906)	(84,095)
(Loss) profit for the year	**(15,216)**	**(16,546)**	**117,776**
Other comprehensive income for the year	**406**	**8,362**	**514**
Total comprehensive (loss) income for the year	**(14,810)**	**(8,184)**	**118,290**
Dividends received from associated undertakings and joint ventures	**(5,901)**	**(2,354)**	**(50,045)**
As of and for the year ended 31 December 2013			
Cash and cash equivalents	28,208	555,362	2,320
Other current assets (excluding cash and cash equivalents)	18,630	1,642,781	99,143
Non-current assets	340,358	1,325,951	561,909
Total assets	**387,196**	**3,524,094**	**663,372**
Current financial liabilities (excluding trade payables)	24,010	2,486,052	94,222
Other current liabilities (including trade payables)	40,365	85,117	83,675
Non-current financial liabilities	33,271	646,366	181,573
Other non-current liabilities	44,804	26,380	153,014
Total liabilities	**142,450**	**3,243,915**	**512,484**
Net assets (including non-controlling interest)	**244,746**	**280,179**	**150,888**
Percent of ordinary shares held	50%	37%	50%
Carrying value	**126,976**	**100,612**	**67,868**
Revenue	193,038	154,537	238,294
Depreciation	(83,110)	(28,823)	(52,852)
Interest income	1,623	213,196	412
Interest expense	(1,478)	(128,476)	(9,852)
Profit tax expense	(4,731)	(10,539)	(64,423)
(Loss) profit for the year	**(40,001)**	**32,062**	**82,675**
Other comprehensive income for the year	**-**	**791**	**3,493**
Total comprehensive (loss) income for the year	**(40,001)**	**32,853**	**86,168**
Dividends received from associated undertakings and joint ventures	**(3,354)**	**(2,197)**	**(62,236)**

* Presented revenue of Gazprombank Group includes revenue of media business, machinery business and other non-banking companies.

(In millions of Russian Roubles)

15 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES (continued)

	Assets	Liabilities	Revenues	Profit (loss)
As of and for the year ended 31 December 2014				
Nord Stream AG	489,767	383,935	54,646	17,567
OOO Yamal razvitie and its subsidiaries	379,613	290,004	32,110	(4,341)
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	241,203	162,894	17,145	3,231
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	208,835	188,070	657,725	8,916
AO Gasum	110,791	79,333	55,385	(237)
SGT EuRoPol GAZ S.A.	71,910	13,873	14,436	395
Wintershall AG	69,833	42,455	10,802	380
ZAO Nortgaz	57,564	46,456	28,125	8,643
ZAO Achimgaz	47,850	13,050	20,513	13,773
TOO KazRosGaz	41,268	2,838	37,199	12,536
AO Latvijas Gaze	38,905	9,417	26,108	1,748
AO Lietuvos dujos	-	-	8,917	1,325
AO Amber Grid	-	-	1,059	163
South Stream Transport B.V. and its subsidiaries	-	-	13	(5,581)
Shtokman Development AG	-	-	-	(680)
As of and for the year ended 31 December 2013				
Nord Stream AG	347,736	259,696	36,829	5,080
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	278,127	197,070	539,801	19,934
OOO Yamal razvitie and its subsidiaries	228,280	168,198	15,832	(501)
SGT EuRoPol GAZ S.A.	49,122	9,952	11,259	(107)
Wintershall AG	45,700	24,533	54,395	3,045
ZAO Nortgaz	42,691	36,527	11,360	2,424
AO Gasum	34,563	16,501	48,240	1,416
Shtokman Development AG	33,773	1,997	-	(330)
ZAO Achimgaz	31,917	10,891	12,757	8,257
AO Latvijas Gaze	31,087	11,686	24,123	1,382
TOO KazRosGaz	21,361	1,722	29,436	9,318
AO Amber Grid	12,705	7,043	944	65
AO Lietuvos dujos	10,434	4,555	18,694	759

16 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2014	31 December 2013
Long-term accounts receivable and prepayments (net of impairment provision of RR 29,147 and RR 14,083 as of 31 December 2014 and 2013, respectively)	182,817	160,957
Advances for assets under construction (net of impairment provision of RR 3,868 and RR 587 as of 31 December 2014 and 2013, respectively)	253,651	276,392
	436,468	**437,349**

As of 31 December 2014 and 2013, long-term accounts receivable and prepayments with carrying value RR 182,817 and RR 160,957 have an estimated fair value RR 169 979 and RR 146,648, respectively.

	31 December 2014	31 December 2013
Long-term accounts receivable neither past due nor impaired	152,870	120,834
Long-term accounts receivable impaired and provided for	59,072	54,185
Impairment provision at the end of the year	(29,147)	(14,083)
Long-term accounts receivable past due but not impaired	22	21
Total long-term accounts receivable and prepayments	**182,817**	**160,957**

	31 December 2014	31 December 2013
Long-term loans	96,043	66,808
Long-term trade receivables	9,912	8,133
Other long-term receivables*	46,915	45,893
Total long-term accounts receivable neither past due nor impaired	**152,870**	**120,834**

*Long-term accounts receivable and prepayments include prepayments in amount of RR 1,567 and RR 2,450 as of 31 December 2014 and 2013, respectively.

(In millions of Russian Roubles)

16 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

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

	Year ended 31 December	
	2014	2013
Impairment provision at the beginning of the year	14,083	12,797
Impairment provision accrued*	15,979	2,833
Release of previously created provision*	(915)	(1,547)
Impairment provision at the end of the year	**29,147**	**14,083**

* The accrual and release of provision for impaired receivables have been included in Charge for impairment and other provisions in the consolidated statement of comprehensive income.

17 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

	31 December	
	2014	2013
Equity securities*	200,987	167,985
Debt instruments	837	919
	201,824	**168,904**

* As of 31 December 2014 and 2013 equity securities include OAO NOVATEK shares in the amount of RR 133,787 and RR 135,910, respectively.

Available-for-sale long-term financial assets in total amount of RR 201,824 and RR 168,904 are shown net of provision for impairment of RR 1,797 and RR 1,629 as of 31 December 2014 and 2013, respectively.

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

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

	Year ended 31 December	
	2014	2013
Balance at the beginning of the year	168,904	161,704
(Decrease) increase in fair value of long-term available-for-sale financial assets	(8,811)	6,991
Purchased long-term available-for-sale financial assets	47,393	10,033
Disposal of long-term available-for-sale financial assets	(5,494)	(10,254)
Impairment (charge) release of long-term available-for-sale financial assets	(168)	430
Balance at the end of the year	**201,824**	**168,904**

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

(In millions of Russian Roubles)

18 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December	
	2014	**2013**
Financial liabilities		
Trade payables	362,931	282,285
Accounts payable for acquisition of property, plant and equipment	347,379	315,511
Derivative financial instruments	66,820	10,361
Provision under financial guarantees*	47,407	-
Other payables**	239,054	151,831
	1,063,591	759,988
Non-financial liabilities		
Advances received	152,122	133,411
Accruals and deferred income	1,428	2,295
	153,550	135,706
	1,217,141	**895,694**

* As of 31 December 2014 provision under financial guarantees includes accrual related to financial guarantee contract issued to Gazprombank (Joint-stock Company) for Ostchem Holding Limited (see Notes 27 and 37).
** As of 31 December 2014 and 2013 other payables include RR 58,164 and RR 8,430 of accruals for probable price adjustments related to natural gas deliveries made from 2012 to 2014, respectively (see Note 26).

Fair values of these liabilities approximate the carrying values.

19 OTHER TAXES PAYABLE

	31 December	
	2014	**2013**
VAT	63,731	58,411
Natural resources production tax	52,203	49,625
Property tax	21,537	17,724
Excise tax	13,241	8,866
Other taxes	14,910	11,469
	165,622	**146,095**

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

	31 December	
	2014	**2013**
Short-term borrowings and promissory notes:		
RR-denominated borrowings and promissory notes	14,718	25,742
Foreign currency denominated borrowings	38,202	13,843
	52,920	39,585
Current portion of long-term borrowings (see Note 21)	411,862	292,341
	464,782	**331,926**

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

	31 December	
	2014	**2013**
Fixed rate RR-denominated short-term borrowings	14.19%	8.39%
Fixed rate foreign currency denominated short-term borrowings	7.78%	4.08%
Variable rate RR-denominated short-term borrowings	7.23%	6.01%
Variable rate foreign currency denominated short-term borrowings	3.10%	1.58%

Fair values of these liabilities approximate the carrying values.

(In millions of Russian Roubles)

21 LONG-TERM BORROWINGS AND PROMISSORY NOTES

	Currency	Final maturity	31 December 2014	31 December 2013
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009[2]	US dollar	2019	128,793	74,927
Mizuho Bank Ltd.[1]	US dollar	2019	121,037	-
Loan participation notes issued in July 2012[2]	Euro	2017	98,554	64,849
Loan participation notes issued in October 2007[2]	Euro	2018	86,790	57,108
Loan participation notes issued in September 2012[7]	US dollar	2022	85,424	49,697
Loan participation notes issued in November 2013[7]	US dollar	2023	84,851	49,364
Loan participation notes issued in November 2006[2]	US dollar	2016	76,460	44,482
Loan participation notes issued in March 2007[2]	US dollar	2022	74,644	43,425
Loan participation notes issued in August 2007[2]	US dollar	2037	72,245	42,030
Loan participation notes issued in May 2005[2]	Euro	2015	70,685	46,511
Loan participation notes issued in March 2013[2]	Euro	2020	70,164	46,164
Loan participation notes issued in April 2004[2]	US dollar	2034	68,528	39,868
Loan participation notes issued in April 2008[2]	US dollar	2018	63,004	36,654
Loan participation notes issued in July 2013[2]	Euro	2018	62,506	41,129
Loan participation notes issued in July 2009[2]	Euro	2015	62,372	41,041
Loan participation notes issued in July 2012[2]	US dollar	2022	57,512	33,458
Loan participation notes issued in November 2011[2]	US dollar	2016	56,552	32,900
Loan participation notes issued in November 2010[2]	US dollar	2015	56,513	32,877
Loan participation notes issued in February 2014[2]	Euro	2021	52,819	-
Loan participation notes issued in April 2013[7]	Euro	2018	52,277	34,398
Loan participation notes issued in February 2013[2]	US dollar	2028	51,642	30,044
Loan participation notes issued in February 2013[2]	US dollar	2020	45,705	26,589
Loan participation notes issued in September 2013[2]	GBP	2020	41,334	27,198
Loan participation notes issued in November 2014[2]	US dollar	2015	39,621	-
ZAO Mizuho Corporate Bank (Moscow)[1]	US dollar	2016	39,396	28,606
Commerzbank International S.A.[10]	US dollar	2018	39,381	23,026
Loan participation notes issued in November 2006[2]	Euro	2017	35,542	23,387
Loan participation notes issued in March 2013[2]	Euro	2025	35,340	23,254
Loan participation notes issued in November 2011[2]	US dollar	2021	34,644	20,155
Loan participation notes issued in March 2007[2]	Euro	2017	34,477	22,686
Loan participation notes issued in October 2013[2]	CHF	2019	28,637	18,444
The Royal Bank of Scotland AG[1]	US dollar	2015	26,939	16,339
Deutsche Bank AG	US dollar	2016	22,901	13,327
Alfa-Bank (Joint-stock Company)[12]	US dollar	2016	22,513	-
BNP Paribas SA[1]	Euro	2022	22,352	16,550
Bank of Tokyo-Mitsubishi UFJ Ltd.[1]	US dollar	2016	21,232	18,528
OAO Sberbank of Russia	Rouble	2017	19,802	-
Sumitomo Mitsui Finance Dublin Limited	US dollar	2016	18,056	10,504
Banc of America Securities Limited	US dollar	2018	17,005	9,894
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2015	16,970	9,874
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2016	16,896	9,830
Credit Agricole CIB	Euro	2015	16,431	10,813
OAO Sberbank of Russia	Euro	2017	15,416	10,145
Russian bonds issued in February 2013[9]	Rouble	2016	15,407	15,404
Russian bonds issued in November 2013[3]	Rouble	2043	15,134	15,102
Russian bonds issued in November 2013[3]	Rouble	2043	15,134	15,102
UniCredit Bank AG[1,6]	US dollar	2018	14,421	11,220
HSBC Bank plc	Euro	2022	14,108	10,443
Russian bonds issued in October 2014[3]	Rouble	2044	13,821	-
Citibank International plc[1]	US dollar	2021	13,436	9,020
UniCredit Bank AG[1,6]	Euro	2018	12,631	11,116
OAO Sberbank of Russia	Rouble	2016	12,400	7,400
Bank of America Securities Limited	Euro	2017	12,372	8,143
UniCredit Bank AG	US dollar	2018	11,253	6,548
Gazprombank (Joint-stock Company)[11]	US dollar	2016	11,252	-
Russian bonds issued in February 2011[7]	Rouble	2021	10,361	10,358
Russian bonds issued in February 2011[7]	Rouble	2021	10,345	10,342
Russian bonds issued in February 2011[7]	Rouble	2016	10,345	10,342
Russian bonds issued in February 2012[7]	Rouble	2022	10,335	10,332
Russian bonds issued in February 2013[9]	Rouble	2017	10,273	10,271
Russian bonds issued in April 2009[7]	Rouble	2019	10,175	10,173
Banc of America Securities Limited	US dollar	2016	10,132	5,895

(In millions of Russian Roubles)

21 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	Currency	Final maturity	31 December 2014	31 December 2013
Russian bonds issued in December 2012[7]	Rouble	2022	10,068	10,065
OAO Rosselkhozbank	Rouble	2019	10,010	-
OAO Sberbank of Russia	Rouble	2019	10,010	-
Gazprombank (Joint-stock Company)[11]	Rouble	2018	10,000	10,000
Gazprombank (Joint-stock Company)[11]	Rouble	2017	10,000	10,000
Gazprombank (Joint-stock Company)[11]	US dollar	2015	9,620	-
OAO VTB Bank	US dollar	2016	9,307	-
GK Vnesheconombank	Rouble	2025	8,979	14,698
OAO Sberbank of Russia	US dollar	2018	8,449	4,915
BNP Paribas SA[1]	Euro	2023	8,384	6,536
OAO Sberbank of Russia	Rouble	2016	8,300	-
OAO VTB Bank	Rouble	2018	8,250	3,750
OAO Sberbank of Russia	Rouble	2015	5,504	-
Russian bonds issued in February 2013[9]	Rouble	2018	5,136	5,126
Sberbank Serbia a.d.	US dollar	2019	5,071	-
OAO Bank ROSSIYA	Rouble	2016	5,000	5,000
OAO Bank ROSSIYA	Rouble	2017	5,000	-
Sberbank Serbia a.d.	US dollar	2017	4,231	-
Gazprombank (Joint-stock Company)[11]	US dollar	2015	3,584	2,085
UniCredit Bank AG[1,6]	Rouble	2018	2,352	3,145
White Nights Finance B.V.	US dollar	2014	-	42,682
Loan participation notes issued in July 2009[2]	US dollar	2014	-	42,297
Loan participation notes issued in October 2006[2]	Euro	2014	-	36,575
Loan participation notes issued in June 2007[2]	Euro	2014	-	31,766
Natixis SA[1]	US dollar	2014	-	23,933
OAO VTB Bank	US dollar	2014	-	22,974
Deutsche Bank AG	US dollar	2014	-	9,899
Deutsche Bank AG	US dollar	2014	-	6,566
Russian bonds issued in February 2007[3]	Rouble	2014	-	5,138
Russian bonds issued in December 2009[5]	Rouble	2014	-	5,038
Russian bonds issued in June 2009[3]	Rouble	2014	-	5,013
Eurofert Trading Limited llc[4]	Rouble	2014	-	3,600
Deutsche Bank AG	US dollar	2014	-	2,346
OAO VTB Bank	Rouble	2014	-	708
Russian bonds issued in July 2009[8]	Rouble	2014	-	126
Other long-term borrowings and promissory notes	Various	Various	91,352	91,076
Total long-term borrowings and promissory notes			**2,635,904**	**1,762,343**
Less: current portion of long-term borrowings			(411,862)	(292,341)
			2,224,042	**1,470,002**

[1] Loans received from syndicate of banks, named lender is the bank-agent.
[2] Issuer of these bonds is Gaz Capital S.A.
[3] Issuer of these bonds is OAO Gazprom.
[4] Issuer of these notes is OAO WGC-2.
[5] Issuer of these bonds is OAO Mosenergo.
[6] Loans were obtained for development of Yuzhno-Russkoye oil and gas field.
[7] Issuer of these bonds is OAO Gazprom neft.
[8] Issuer of these bonds is OAO TGC-1.
[9] Issuer of these bonds is OOO Gazprom capital.
[10] In October 2014 Commerzbank International S.A. was appointed as successor agent by Commerzbank AG under facilities agreement.
[11] In December 2014 OAO Gazprombank was renamed into Gazprombank (Joint-stock Company).
[12] In January 2015 OAO Alfa-Bank was renamed into Alfa-Bank (Joint-stock Company).

	31 December 2014	31 December 2013
RR-denominated borrowings and promissory notes (including current portion of RR 26,252 and RR 45,730 as of 31 December 2014 and 2013, respectively)	289,984	245,463
Foreign currency denominated borrowings and promissory notes (including current portion of RR 385,610 and RR 246,611 as of 31 December 2014 and 2013, respectively)	2,345,920	1,516,880
	2,635,904	**1,762,343**

(In millions of Russian Roubles)

21 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	31 December	
Due for repayment:	**2014**	**2013**
Between one and two years	404,096	242,531
Between two and five years	970,608	640,741
More than five years	849,338	586,730
	2,224,042	**1,470,002**

Long-term borrowings include fixed rate loans with a carrying value of RR 2,044,351 and RR 1,427,690 and fair value of RR 1,893,394 and RR 1,500,542 as of 31 December 2014 and 2013, respectively. All other long-term borrowings have variable interest rates generally linked to LIBOR and a carrying value of RR 591,553 and fair value of RR 534,708 as of 31 December 2014. The difference between carrying value of these liabilities and their fair value as of 31 December 2013 is not significant.

In 2014 and 2013 the Group did not have material formal hedging arrangements to mitigate its foreign exchange risk or interest rate risk.

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

	31 December	
	2014	**2013**
Fixed rate RR-denominated long-term borrowings	9.85%	8.56%
Fixed rate foreign currency denominated long-term borrowings	5.65%	5.91%
Variable rate RR-denominated long-term borrowings	9.75%	7.30%
Variable rate foreign currency denominated long-term borrowings	2.43%	2.54%

As of 31 December 2014 and 2013 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoe oil and gas field with the group of international financial institutions with UniCredit Bank AG acting as a facility agent, ordinary shares of OAO Severneftegazprom with the pledge value of RR 16,968 and fixed assets with the pledge value of RR 26,210 were pledged to ING Bank N.V. (London branch) up to the date of full redemption of the liabilities on this agreement. As of 31 December 2014 and 2013 carrying amount of these fixed assets is RR 24,044 and RR 24,614, respectively. Management of the Group does not expect any substantial consequences to occur which relate to respective pledge agreement.

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

Under the terms of the Russian bonds with the nominal value of RR 10,000 issued by OAO Gazprom neft in February 2012 due in 2022 bondholders executed the right of early redemption in February 2015 at par, including interest accrued.

Under the terms of the Russian bonds with the nominal value of RR 10,000 issued by OAO Gazprom neft in February 2011 due in 2021 bondholders can execute the right of early redemption in February 2016 at par, including interest accrued.

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

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

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

(In millions of Russian Roubles)

22 PROFIT TAX

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

Notes		Year ended 31 December 2014	2013
	Profit before profit tax	306,823	1,486,083
	Theoretical tax charge calculated at applicable tax rates	(61,365)	(297,217)
	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	(30,459)	(6,312)
27	Provision for accounts receivable	(26,645)	(12,890)
14, 27	Impairment of goodwill	(9,524)	-
27	Provision under financial guarantees	(9,481)	-
24, 27	Provision for post-employment benefit obligations	(6,263)	(11,563)
	Other non-deductible expenses	(26,952)	(21,093)
15	Non-taxable profits of associated undertakings and joint ventures	9,210	11,334
	Other non-taxable income	11,848	17,363
	Profit tax expense	**(149,631)**	**(320,378)**

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

Tax effects of taxable and deductible temporary differences:

	Property, plant and equipment	Financial assets	Inven-tories	Tax losses carry forward	Retroactive gas price adjustments	Other deductible temporary differences	Total net deferred tax liabilities
31 December 2012	**(465,498)**	**(9,993)**	**143**	**208**	**23,051**	**8,285**	**(443,804)**
Differences recognition and reversals recognised in profit or loss	(99,231)	(1,447)	(5,764)	8,041	(18,339)	(1,766)	(118,506)
Differences recognition and reversals recognised in other comprehensive income	-	1,885	-	-	-	(626)	1,259
Acquisition of subsidiaries	(1,254)	(118)	9	2,452	-	1,093	2,182
31 December 2013	**(565,983)**	**(9,673)**	**(5,612)**	**10,701**	**4,712**	**6,986**	**(558,869)**
Differences recognition and reversals recognised in profit or loss	(54,771)	7,833	(2,765)	9,420	6,959	5,036	(28,288)
Differences recognition and reversals recognised in other comprehensive income	-	(5,488)	-	-	-	(1,453)	(6,941)
31 December 2014	**(620,754)**	**(7,328)**	**(8,377)**	**20,121**	**11,671**	**10,569**	**(594,098)**

Taxable temporary differences recognized for the year ended 31 December 2014 and 2013 include the effect of depreciation premium on certain property, plant and equipment. As a result a deferred tax liability related to property, plant and equipment was recognized in the amount of RR 28,540 and RR 66,812, respectively, with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the year ended 31 December 2014 and 2013.

The temporary differences associated with undistributed earnings of subsidiaries and associated undertakings amount to RR 591,795 and RR 725,876 as of 31 December 2014 and 2013, respectively. A deferred tax liability on these temporary differences was not recognized, because management controls the timing of the reversal of the temporary differences and believes that they will not reversed in the foreseeable future.

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

(In millions of Russian Roubles)

23 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Fair value	**31 December**	
	2014	**2013**
Assets		
Commodity contracts	58,099	17,672
Foreign currency derivatives	6,568	1,629
Other derivatives	591	342
	65,258	**19,643**
Liabilities		
Commodity contracts	72,186	13,922
Foreign currency derivatives	62,116	3,885
Other derivatives	137	-
	134,439	**17,807**

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

As of 31 December 2014 and 2013 the Group had outstanding foreign currency hedge contracts for a total notional value of USD 1,642 million and USD 1,769 million, respectively.

24 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December	
	2014	**2013**
Provision for post-employment benefit obligations	171,275	198,202
Provision for decommissioning and site restoration costs	104,168	120,782
Other	21,663	11,596
	297,106	**330,580**

Provision for decommissioning and site restoration costs decreased due to increase in discount rate from 8.1% to 13.2% as of 31 December 2013 and 2014, respectively.

The Group operates post-employment benefits, which are recorded in the consolidated financial statements under IAS 19 (revised). Defined benefit plan covers the majority employees of the Group. The retirement benefit plan includes benefits of the following types: pension benefits paid to former employees through the non-state pension fund "Gazfund" (hereinafter referred to as the "NPF"), lump sum payment upon retirement, financial aid provided to pensioners, financial aid and compensation to cover funeral expenses in the event of an employee's or pensioner's death.

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

Principal actuarial assumptions used:

	31 December	
	2014	**2013**
Discount rate (nominal)	12.5%	8.0%
Future salary and pension increases (nominal)	8.0%	6.0%
Retirement ages	females 54, males 58	
Turnover ratio p.a.	Age-related curve, 3.8% pa on average	

Weighted-average duration of obligations is around 13 years. The assumptions relating to life expectancy at expected pension age were 19.3 years for a 58 year old man and 29.5 years for a 54 year old woman in 2014 and 2013.

(In millions of Russian Roubles)

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

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

	31 December 2014		31 December 2013	
	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits	Funded benefits - provided through NPF Gazfund	Unfunded liabilities – other benefits
Present value of benefit obligations	(279,485)	(171,275)	(318,208)	(198,202)
Fair value of plan assets	391,227	-	429,368	-
Net balance asset (liability)	**111,742**	**(171,275)**	**111,160**	**(198,202)**

The net pension assets related to benefits provided by the pension plan NPF Gazfund in amount of RR 111,742 and RR 111,160 as of 31 December 2014 and 2013, respectively, are included within other non-current assets. Future economic benefit was determined based on expected contribution reductions allowing for the requirement to fund benefits for new entrants.

Changes in the present value of the defined benefit obligations and fair value of plan assets for the years ended 31 December 2014 and 2013 are as follows:

	Funded benefits - provided through NPF Gazfund	Plan asset	Net liability (asset) –funded benefits	Unfunded liabilities – other benefits
Opening balance at 31 December 2013	**318,208**	**(429,368)**	**(111,160)**	**198,202**
Current service cost	12,796	-	12,796	11,693
Past service cost	34	-	34	11
Net interest expense (income)	25,430	(34,349)	(8,919)	15,702
Total expenses included in staff cost	**38,260**	**(34,349)**	**3,911**	**27,406**
Remeasurements:				
Actuarial gains arising from changes in financial assumptions	(69,125)	-	(69,125)	(43,318)
Actuarial gains arising from changes in demographic assumptions	-	-	-	(99)
Actuarial losses - Experience	3,089	-	3,089	1,256
Return on assets excluding amounts included in net interest expense	-	73,759	73,759	-
Total recognized in other comprehensive (income) loss	**(66,036)**	**73,759**	**7,723**	**(42,161)**
Benefits paid	(10,947)	10,947	-	(12,118)
Contributions by employer	-	(12,216)	(12,216)	-
Business combinations	-	-	-	(54)
Closing balance at 31 December 2014	**279,485**	**(391,227)**	**(111,742)**	**171,275**
Opening balance at 31 December 2012	**323,133**	**(407,512)**	**(84,379)**	**198,256**
Current service cost	13,973	-	13,973	12,480
Past service cost	14,365	-	14,365	8,614
Net interest expense (income)	22,628	(28,520)	(5,892)	14,275
Total expenses included in staff cost	**50,966**	**(28,520)**	**22,446**	**35,369**
Remeasurements:				
Actuarial gains arising from changes in financial assumptions	(35,763)	-	(35,763)	(22,937)
Actuarial losses arising from changes in demographic assumptions	-	-	-	96
Actuarial (gains) losses - Experience	(10,965)	-	(10,965)	4,670
Return on assets excluding amounts included in net interest expense	-	9,475	9,475	-
Total recognized in other comprehensive (income) loss	**(46,728)**	**9,475**	**(37,253)**	**(18,171)**
Benefits paid	(9,163)	9,163	-	(17,663)
Contributions by employer	-	(11,974)	(11,974)	-
Business combinations	-	-	-	411
Closing balance at 31 December 2013	**318,208**	**(429,368)**	**(111,160)**	**198,202**

(In millions of Russian Roubles)

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

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

	31 December 2014		31 December 2013	
	Fair value	**Percentage, %**	**Fair value**	**Percentage, %**
Quoted plan asset, including	**124,194**	**31.7%**	**103,942**	**24.2%**
Mutual funds	40,692	10.4%	42,326	9.9%
Bonds	27,895	7.1%	31,051	7.2%
Shares	55,607	14.2%	28,501	6.6%
Other securities	-	-	2,064	0.5%
Unquoted plan asset, including	**267,033**	**68.3%**	**325,426**	**75.8%**
Shares	186,609	47.7%	239,503	55.8%
Mutual funds	49,310	12.6%	52,011	12.1%
Deposits	31,114	8.0%	28,579	6.7%
Other securities	-	-	5,333	1.2%
Total plan assets	**391,227**	**100%**	**429,368**	**100%**

The amount of ordinary shares of OAO Gazprom included in the fair value of plan assets comprises RR 21,338 and RR 12,004 as of 31 December 2014 and 2013, respectively.

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

For the years ended 31 December 2014 and 2013 actual return on plan assets was a loss of RR 39,410 and income RR 19,045 primarily caused by the change of the fair value of plan assets.

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2014 is presented below:

	Increase (decrease) of defined benefit obligation	**Increase (decrease) of defined benefit obligation, %**
Mortality rates lower by 20%	15,653	3.5%
Mortality rates higher by 20%	(13,343)	(3.0%)
Discount rate lower by 1 pp	40,141	9.0%
Discount rate higher by 1 pp	(34,552)	(7.7%)
Benefit growth lower by 1 pp	(36,197)	(8.1%)
Benefit growth higher by 1 pp	41,535	9.3%
Staff turnover lower by 1 pp for all ages	19,473	4.4%
Staff turnover higher by 1 pp for all ages	(17,248)	(3.9%)
Retirement ages lower by 1 year	23,839	5.3%
Retirement ages higher by 1 year	(23,371)	(5.2%)

The Group expects to contribute RR 24,600 to the defined benefit plans in 2015.

Retirement benefit plan parameters and related risks

As a rule, the above benefits are increase in line with inflation rate or salary growth for benefits that are fixed in monetary terms or depend on salary level respectively, excluding the retirement benefits payable through NPF. Increase in pensions, payable through NPF to current pensioners, depends on amount of investment return on plan assets.

All retirement benefit plans of the Group are exposed to inflation risk. In addition to the inflation risk, the Group is exposed to mortality risk under life pension payable through NPF.

25 EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2014 and 2013 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Russian Roubles.

Dividends

In 2014 OAO Gazprom declared and paid dividends in the nominal amount of 7.20 Russian Roubles per share for the year ended 31 December 2013. In 2013 OAO Gazprom declared and paid dividends in the nominal amount of 5.99 Russian Roubles per share for the year ended 31 December 2012.

Treasury shares

As of 31 December 2014 and 2013 subsidiaries of OAO Gazprom held 723 million of the ordinary shares of OAO Gazprom. Shares of the Group held by the subsidiaries represent 3.1% of OAO Gazprom shares as of 31 December 2014 and 2013. The Group management controls the voting rights of these shares.

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Russian Rouble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29 “Financial Reporting in Hyperinflation Economies”. Also, retained earnings and other reserves include translation gains arising on the translation of the net assets of foreign subsidiaries, associated undertakings and joint arrangements in the amount of RR 628,321 and RR 78,130 as of 31 December 2014 and 2013, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of these assets to governmental authorities and this process may continue. Social assets with a net book value of RR 94 and RR 240 have been transferred to governmental authorities during the years ended 31 December 2014 and 2013, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with Russian Accounting Rules. For the year ended 31 December 2014 the statutory profit of the parent company was RR 188,980. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

(In millions of Russian Roubles)

26 SALES

	Year ended 31 December	
	2014	2013
Gas sales gross of custom duties to customers in:		
Russian Federation	820,567	794,349
Former Soviet Union (excluding Russian Federation)	486,079	504,681
Europe and other countries	2,149,976	2,115,748
	3,456,622	3,414,778
Customs duties	(472,186)	(517,348)
Retroactive gas price adjustments*	949	74,393
Total sales of gas	2,985,385	2,971,823
Sales of refined products to customers in:		
Russian Federation	953,136	821,487
Former Soviet Union (excluding Russian Federation)	79,874	80,557
Europe and other countries	586,204	449,669
Total sales of refined products	1,619,214	1,351,713
Sales of crude oil and gas condensate to customers in:		
Russian Federation	51,603	32,094
Former Soviet Union (excluding Russian Federation)	16,013	50,115
Europe and other countries	141,618	128,007
Total sales of crude oil and gas condensate	209,234	210,216
Electricity and heat sales:		
Russian Federation	409,087	362,415
Former Soviet Union (excluding Russian Federation)	2,481	2,191
Europe and other countries	15,383	10,983
Total electric and heat energy sales	426,951	375,589
Gas transportation sales:		
Russian Federation	171,147	161,825
Former Soviet Union (excluding Russian Federation)	1,687	1,434
Europe and other countries	8	6
Total gas transportation sales	172,842	163,265
Other revenues:		
Russian Federation	152,459	144,529
Former Soviet Union (excluding Russian Federation)	4,757	4,992
Europe and other countries	18,969	27,838
Total other revenues	176,185	177,359
Total sales	**5,589,811**	**5,249,965**

* Retroactive gas price adjustments relate to gas deliveries in 2010 - 2013 for which a discount has been agreed or is in the process of negotiations and where it is probable that a discount will be provided. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made. The effects of retroactive gas price adjustments on sales for the years ended 31 December 2014 and 2013 was a credit of RR 949 and RR 74,393, respectively, reflecting a decrease in a related accruals following estimates made and agreements reached prior to the issuance of respective consolidated financial statements.

(In millions of Russian Roubles)

27 OPERATING EXPENSES

		Year ended 31 December	
Note		**2014**	**2013**
	Purchased oil and gas	792,723	753,829
	Taxes other than profit tax	775,826	706,667
	Staff costs	516,778	497,852
	Depreciation	472,151	419,019
	Transit of gas, oil and refined products	399,561	358,829
	Cost of goods for resale including refined products	292,150	136,776
	Materials	267,552	236,354
	Repairs and maintenance	172,395	200,621
	Electricity and heating expenses	87,228	87,242
	Social expenses	46,429	34,970
	Transportation services	33,431	29,909
	Rental expenses	33,292	27,167
	Insurance expenses	29,096	25,052
	Research and development expenses	19,653	16,738
	Processing services	18,121	14,423
	Derivatives losses (gains)	7,141	(8,512)
	Heat transmission	180	5,075
	Foreign exchange rate differences on operating items	(243,438)	(45,050)
	Other	300,099	233,795
		4,020,368	**3,730,756**
	Changes in inventories of finished goods, work in progress and other effects	(76,699)	(129,848)
	Total operating expenses	**3,943,669**	**3,600,908**

Gas purchase expenses included within purchased oil and gas amounted to RR 575,639 and RR 538,551 for the years ended 31 December 2014 and 2013, respectively.

Staff costs include RR 31,317 and RR 57,815 of expenses associated with post-employment benefit obligations for the years ended 31 December 2014 and 2013, respectively (see Note 24).

Significant foreign exchange rate differences for the year ended 31 December 2014 are primarily related to operating items such as accounts receivable and accounts payable.

Taxes other than profit tax consist of:

	Year ended 31 December	
	2014	**2013**
Natural resources production tax	563,404	512,885
Excise tax	112,533	104,568
Property tax	89,010	75,468
Other taxes	10,879	13,746
	775,826	**706,667**

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

		Year ended 31 December	
Notes		**2014**	**2013**
	Charge for provision for accounts receivable	133,225	64,451
13	Charge for provision for impairment of property, plant and equipment	76,464	46
14	Charge for impairment of goodwill	47,620	-
18, 37	Charge for provision under financial guarantees	47,407	-
	Charge for provision for investments	6,499	2,782
11	Charge for provision for inventory obsolescence	1,993	419
		313,208	**67,698**

(In millions of Russian Roubles)

28 FINANCE INCOME AND EXPENSES

	Year ended 31 December	
	2014	**2013**
Foreign exchange gains	322,821	96,125
Interest income	66,983	33,398
Total finance income	**389,804**	**129,523**
Foreign exchange losses	1,393,792	241,339
Interest expense	44,749	42,768
Total finance expenses	**1,438,541**	**284,107**

Total interest paid amounted to RR 121,819 and RR 92,024 for the years ended 31 December 2014 and 2013, respectively.

Significant foreign exchange gains and losses for year ended 31 December 2014 are primarily related to non-operating items such as foreign denominated borrowings.

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

	Year ended 31 December	
	2014	**2013**
RAR net (loss) profit for the year per consolidated statutory accounts	**(124,704)**	**838,878**
Effects of IFRS adjustments:		
Classification of revaluation of available-for-sale financial assets	8,859	(8,949)
Difference in share of net income of associated undertakings and joint ventures	(15,942)	(16,565)
Differences in depreciation of property, plant and equipment	287,212	269,730
Reversal of goodwill amortization	62,218	58,518
Loan interest and foreign exchange losses capitalized	88,581	55,312
Impairment and other provisions, including provision for pension obligations and unused vacations	(154,441)	(31,311)
Accounting for finance leases	10,850	13,087
Write-off of research and development expenses capitalized for RAR purposes	(6,509)	(4,707)
Fair value adjustment on derivatives	(7,141)	8,512
Differences in fixed assets disposal	1,920	4,952
Other effects	6,289	(21,752)
IFRS profit for the year	**157,192**	**1,165,705**

30 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF OAO GAZPROM

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

There were 23.0 billion and 22.9 billion weighted average shares outstanding for the years ended 31 December 2014 and 2013, respectively.

There are no dilutive financial instruments outstanding.

(In millions of Russian Roubles)

31 NET CASH PROVIDED BY OPERATING ACTIVITIES

Notes		Year ended 31 December 2014	2013
	Profit before profit tax	**306,823**	**1,486,083**
	Adjustments to profit before profit tax for:		
27	Depreciation	472,151	419,019
28	Net finance expense	1,048,737	154,584
15	Share of net income of associated undertakings and joint ventures	(46,051)	(56,670)
27	Charge for provisions	344,525	125,513
27	Derivatives losses (gains)	7,141	(8,512)
	Losses on disposal of available-for-sale financial assets	915	3,212
	Other	5,147	(24,905)
	Total effect of adjustments	1,832,565	612,241
	Cash flows from operating activities before working capital changes	2,139,388	2,098,324
	(Increase) decrease in non-current assets	(4,379)	4,320
	Increase (decrease) in non-current liabilities	5,221	(3,372)
		2,140,230	2,099,272
	Changes in working capital:		
	Increase in accounts receivable and prepayments	(84,076)	(110,748)
	Increase in inventories	(108,161)	(101,823)
	Decrease (increase) in other current assets	149,672	(47,045)
	Decrease in accounts payable and accrued charges, excluding interest, dividends and capital construction	(3,331)	(211,246)
	Settlements on taxes payable (other than profit tax)	17,552	318,390
	Decrease (increase) in available-for-sale financial assets and financial assets held for trading	16,557	(5,539)
	Total effect of working capital changes	(11,787)	(158,011)
	Profit tax paid	(212,674)	(199,457)
	Net cash from operating activities	**1,915,769**	**1,741,804**

Total taxes and other similar payments paid in cash for the years 2014 and 2013:

	Year ended 31 December 2014	2013
Customs duties	803,929	744,933
Natural resources production tax	561,402	503,229
Profit tax	212,674	199,457
Excise	147,586	130,522
VAT	98,250	22,291
Property tax	85,904	72,805
Insurance contributions to non-budget funds	74,686	77,071
Personal income tax	53,050	48,488
Other	25,512	21,776
Total taxes paid	**2,062,993**	**1,820,572**

(In millions of Russian Roubles)

32 SUBSIDIARY UNDERTAKINGS

Significant subsidiaries Subsidiary undertaking	Country of primary operation	% of share capital as of 31 December* 2014	2013
OOO Aviapredpriyatie Gazprom avia	Russia	100	100
OAO Vostokgazprom	Russia	100	100
GAZPROM Schweiz AG	Switzerland	100	100
ZAO Gazprom Armenia**	Armenia	100	80
OOO Gazprom VNIIGAZ	Russia	100	100
OAO Gazprom gazoraspredelenie	Russia	100	100
OAO Gazprom gazoraspredelenie Sever***	Russia	96	91
OOO Gazprom geologorazvedka	Russia	100	100
OOO Gazprom georesurs	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Gerosgaz Holdings B.V.	Netherlands	100	100
Gazprom Global LNG Ltd.	United Kingdom	100	100
OOO Gazprom dobycha Astrakhan	Russia	100	100
OOO Gazprom dobycha Krasnodar	Russia	100	100
OOO Gazprom dobycha Nadym	Russia	100	100
OOO Gazprom dobycha Noyabrsk	Russia	100	100
OOO Gazprom dobycha Orenburg	Russia	100	100
OOO Gazprom dobycha Urengoy	Russia	100	100
OOO Gazprom dobycha shelf Yuzhno-Sakhalinsk (OOO Gazprom dobycha shelf)****	Russia	100	100
OOO Gazprom dobycha Yamburg	Russia	100	100
OOO Gazprom invest	Russia	100	100
OOO Gazprom invest Vostok	Russia	100	100
OOO Gazprom invest RGK (ZAO Gazprom invest RGK)****	Russia	100	100
ZAO Gazprom invest Yug	Russia	100	100
OOO Gazprom investholding	Russia	100	100
Gazprom International Germany GmbH	Germany	100	100
OOO Gazprom inform	Russia	100	100
OOO Gazprom komplektatciya	Russia	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
OOO Gazprom mezhregiongaz	Russia	100	100
OAO Gazprom neftekhim Salavat	Russia	100	100
OAO Gazprom neft	Russia	96	96
ZAO Gazprom neft Orenburg*****	Russia	100	100
Gazprom Neft Trading GmbH*****	Austria	100	100
OOO Gazprom neft shelf*****	Russia	100	100
OOO Gazprom pererabotka	Russia	100	100
OOO Gazprom podzemremont Orenburg	Russia	100	100
OOO Gazprom podzemremont Urengoy	Russia	100	100
OOO Gazprom PKhG	Russia	100	100
Gazprom Sakhalin Holdings B.V.	Netherlands	100	100
OOO Gazprom torgservis	Russia	100	100
OAO Gazprom transgaz Belarus	Belorussia	100	100
OOO Gazprom transgaz Volgograd	Russia	100	100
OOO Gazprom transgaz Ekaterinburg	Russia	100	100
OOO Gazprom transgaz Kazan	Russia	100	100
OOO Gazprom transgaz Krasnodar	Russia	100	100
OOO Gazprom transgaz Makhachkala	Russia	100	100
OOO Gazprom transgaz Moskva	Russia	100	100
OOO Gazprom transgaz Nizhny Novgorod	Russia	100	100
OOO Gazprom transgaz Samara	Russia	100	100
OOO Gazprom transgaz St. Petersburg	Russia	100	100
OOO Gazprom transgaz Saratov	Russia	100	100
OOO Gazprom transgaz Stavropol	Russia	100	100
OOO Gazprom transgaz Surgut	Russia	100	100
OOO Gazprom transgaz Tomsk	Russia	100	100

(In millions of Russian Roubles)

32 SUBSIDIARY UNDERTAKINGS (continued)

Significant subsidiaries Subsidiary undertaking	Country of primary operation	% of share capital as of 31 December* 2014	2013
OOO Gazprom transgaz Ufa	Russia	100	100
OOO Gazprom transgaz Ukhta	Russia	100	100
OOO Gazprom transgaz Tchaikovsky	Russia	100	100
OOO Gazprom transgaz Yugorsk	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
OOO Gazprom tsentrremont	Russia	100	100
OOO Gazprom export	Russia	100	100
OOO Gazprom energo	Russia	100	100
OOO Gazprom energoholding	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
OOO Gazpromneft-Vostok*****	Russia	100	100
ZAO Gazpromneft-Kuzbass*****	Russia	100	100
OAO Gazpromneft-MNPZ******	Russia	100	96
OAO Gazpromneft-Noyabrskneftegaz*****	Russia	100	100
OAO Gazpromneft-Omsk*****	Russia	100	100
OAO Gazpromneft-Omskiy NPZ*****	Russia	100	100
ZAO Gazpromneft-Severo-Zapad*****	Russia	100	100
OOO Gazpromneft-Khantos*****	Russia	100	100
OOO Gazpromneft-Centr*****	Russia	100	100
OOO Gazpromneftfinans*****	Russia	100	100
OOO Gazpromtrans	Russia	100	100
OAO Gazpromtrubinvest	Russia	100	100
OOO Gazprom flot (OOO Gazflot)****	Russia	100	100
OAO Daltransgaz	Russia	100	100
OOO Zapolyarneft*****	Russia	100	100
OAO Krasnoyarskgazprom	Russia	75	75
OAO MIPC	Russia	90	90
OAO Mosenergo	Russia	53	53
Naftna Industrija Srbije a.d.*****	Serbia	56	56
OOO Novourengoysky GCC	Russia	100	100
OAO WGC-2	Russia	77	77
ZAO Purgaz	Russia	51	51
OAO Regiongazholding	Russia	57	57
ZAO Rosshelf	Russia	57	57
South Stream Transport B.V.*******	Russia, Bulgaria	100	-
OAO Severneftegazprom ********	Russia	50	50
Sibir Energy Ltd. *****	United Kingdom	100	100
OOO Sibmetakhim	Russia	100	100
OAO Spetsgazavtotrans	Russia	51	51
OAO TGC-1	Russia	52	52
OAO Teploset Sankt-Peterburga	Russia	75	75
OAO Tomskgazprom	Russia	100	100
OOO Faktoring-Finance	Russia	90	90
OAO Tsentrgaz	Russia	100	100
OAO Tsentrenergogaz	Russia	66	66
OAO Yuzhuralneftegaz*****	Russia	88	88
ZAO Yamalgazinvest	Russia	100	100

* Cumulative share of Group companies in charter capital of investees.
** In January 2014 the Group acquired additional 20% interest in ZAO Gazprom Armenia for the amount of USD 155 million as a settlement of accounts receivable for gas supply. As a result of the transaction, the Group's interest in ZAO Gazprom Armenia increased from 80% to 100%.
*** In May 2014 OAO Sibirskie gazovie seti was reorganized in the form of a merger with OAO Gazprom gazoraspredelenie Sever. As a result of the transaction, the Group's interest in OAO Gazprom gazoraspredelenie Sever increased from 91% to 96%.
**** The indicated subsidiaries were renamed (former name is put in the brackets).
***** Subsidiaries of OAO Gazprom neft.
****** In August 2014 the Group acquired an additional 4% interest in the ordinary shares of OAO Gazpromneft-MNPZ increasing its interest to 100%.
******* In December 2014 the Group acquired additional 50% interest in South Stream Transport B.V. for cash consideration of EUR 883 million. As a result of the transaction, the Group's interest in South Stream Transport B.V. increased from 50% to 100%.
******** Group's portion of voting shares.

(In millions of Russian Roubles)

33 NON-CONTROLLING INTEREST

	Year ended 31 December 2014	2013
Non-controlling interest at the beginning of the year	**314,764**	**309,212**
Non-controlling interest share of net profit of subsidiary undertakings*	(1,812)	26,444
Acquisition of the additional interest in OOO Gazprom Resurs Nortgaz	(8,110)	-
Acquisition of the additional interest in ZAO Gazprom Armenia	(3,467)	-
Acquisition of the additional interest in OAO Gazpromneft-MNPZ and its subsidiaries	(2,440)	(344)
Acquisition of additional interest in OAO WGC-2	(2,750)	(19,600)
Changes in the non-controlling interest as a result of other acquisitions and disposals	739	5,249
Losses from cash flow hedges	(2,388)	(139)
Losses arising from change in fair value of available-for-sale financial assets	(6)	-
Remeasurements of post-employment benefit obligations	166	128
Dividends	(11,444)	(10,719)
Translation differences	20,211	4,533
Non-controlling interest at the end of the year	**303,463**	**314,764**

* Non-controlling interest share of net profit of subsidiary undertakings includes share in impairment of assets in the amount of RR 18,312 and RR nil for the years ended 31 December 2014 and 2013, respectively.

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

	Country of primary operation	% of share capital held by non-controlling interest*	Profit (loss) attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
As of and for the year ended 31 December 2014					
Gazprom neft Group**	Russia	4%	8,609	92,473	4,578
Naftna Industrija Srbije a.d. Group	Serbia	46%	5,081	61,775	2,314
Mosenergo Group	Russia	46%	(1,817)	77,693	734
TGC-1 Group	Russia	48%	(9,912)	55,936	310
WGC-2 Group	Russia	19%	(690)	29,246	-
As of and for the year ended 31 December 2013					
Gazprom neft Group**	Russia	4%	14,276	72,278	5,973
Naftna Industrija Srbije a.d. Group	Serbia	46%	7,734	40,739	2,028
Mosenergo Group	Russia	46%	3,471	80,212	550
TGC-1 Group	Russia	48%	3,505	66,100	226
WGC-2 Group	Russia	21%	886	32,610	-

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

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

	Gazprom neft Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
As of and for the year ended 31 December 2014					
Current assets	463,429	62,066	60,702	20,017	33,171
Non-current assets	1,869,660	192,646	207,771	144,572	186,013
Current liabilities	216,750	42,726	22,812	16,866	18,675
Non-current liabilities	789,078	62,027	59,318	36,023	60,158
Revenue	1,409,010	153,706	164,018	69,064	116,265
Profit (loss) for the year	99,969	11,053	6,179	(23,026)	9,604
Total comprehensive income (loss) for the year	122,310	11,053	6,249	(22,912)	9,997
Net cash from (used in):					
operating activities	373,055	22,715	13,686	11,775	14,643
investing activities	(484,912)	(19,314)	(22,463)	(5,837)	(16,576)
financing activities	42,361	(2,338)	15,738	(3,948)	9,233

(In millions of Russian Roubles)

33 NON-CONTROLLING INTEREST (continued)

	Gazprom neft Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
As of and for the year ended 31 December 2013					
Current assets	426,166	47,418	46,728	18,812	31,347
Non-current assets	1,430,482	128,163	195,000	175,922	173,548
Current liabilities	182,987	42,811	21,154	20,443	9,476
Non-current liabilities	414,815	44,715	33,112	42,478	54,436
Revenue	1,267,603	136,450	156,730	70,362	112,175
Profit for the year	158,901	16,733	10,633	8,379	1,929
Total comprehensive income for the year	166,944	16,733	10,633	8,402	2,487
Net cash from (used in):					
operating activities	207,114	28,632	12,407	11,364	12,530
investing activities	(237,772)	(24,391)	(26,912)	(7,218)	(19,765)
financing activities	39,671	(5,089)	4,513	(4,618)	9,231

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

34 ACQUISITION OF THE CONTROLLING INTEREST IN SOUTH STREAM TRANSPORT B.V.

In December 2014 the Group became the owner of 100% of the interest in South Stream Transport B.V., the company responsible for the offshore part of the South Stream project. Until 29 December 2014, South Stream Transport B.V. was a joint project held by the Group (50%), ENI International B.V. (20%), EDF International S.A.S. (15%) and Wintershall Holding GmbH (15%). On 29 December 2014, the Group acquired the remaining 50% of the shares of South Stream Transport B.V. from the minority shareholders for consideration of Euro 883 million paid in cash. South Stream Transport B.V. was established for the planning, construction, and subsequent operation of the offshore pipeline through the Black Sea and had no notable operating activities up to and as of the purchase date other than the management of construction. Accordingly, this acquisition is outside the definition of business as defined in IFRS 3 “Business Combinations” and was considered by the Group as an acquisition of assets. The cost of the acquisition has been allocated based on the relative fair values of the assets (largely comprised of pipeline under construction), and liabilities acquired. Assets under construction in the amount of RR 127,778 are included in the line “acquisition of subsidiaries” as disclosed in Note 13. Capital expenditure commitments for the construction of the pipeline contracted as of 31 December 2014, but not yet incurred amounts to EUR 4.4 billion.

On 1 December 2014 a decision was announced that the South Stream project would be cancelled and that an alternative pipeline through the Black Sea to Turkey would be pursued ("Turkish Stream"). On 1 December 2014 the Group and Turkish company Botas Petroleum Pipeline Corporation signed a Memorandum of Understanding on constructing Turkish Stream. Assets under construction related to the South Stream project are expected to be utilised for Turkish Stream.

(In millions of Russian Roubles)

35 ACQUISITION OF THE CONTROLLING INTEREST IN OAO MOSCOW INTEGRATED POWER COMPANY (OAO MIPC)

In September 2013 the Group acquired 89.98% interest in the ordinary shares of OAO Moscow Integrated Power Company (OAO MIPC) and heat assets from the Moscow Government for cash consideration of RR 99,866 including VAT in the amount of RR 1,246 related to acquired heat assets. As a result of the acquisition, the Group obtained control over OAO MIPC. Considering treasury shares of OAO MIPC, the Group's effective interest is 98.77%. The primary business activity of OAO MIPC is generation, purchase and supply of heat energy in the form of heating and hot water to commercial and residential customers in the City of Moscow. As of 31 December 2014 the title on the assets acquired in the amount of RR 6,746 excluding VAT was not transferred to the Group.

In accordance with IFRS 3 "Business Combinations", the Group recognized the acquired assets and liabilities based upon their provisional fair values at the date when control of OAO MIPC was obtained. As of 31 December 2014 the Group finalized their assessment of the estimated fair values of assets and liabilities acquired in accordance with IFRS 3 "Business Combinations".

Final fair values of the assets acquired and liabilities assumed are as follows:

	Fair value
Cash and cash equivalents	3,276
Short-term financial assets	2,762
Accounts receivable and prepayments	18,234
Inventories	2,273
VAT recoverable	102
Other current assets	6,026
Current assets	**32,673**
Property, plant and equipment	124,993
Long-term accounts receivable and prepayments	4,477
Available-for-sale long-term financial assets	3,117
Other non-current assets	4,175
Non-current assets	**136,762**
Total assets	**169,435**
Accounts payable and accrued charges	29,112
Other taxes payable	601
Short-term borrowings, promissory notes and current portion of long-term borrowings	30,235
Current liabilities	**59,948**
Long-term borrowings and promissory notes	7,400
Deferred tax liability	196
Provisions for liabilities and charges	372
Other non-current liabilities	444
Non-current liabilities	**8,412**
Total liabilities	**68,360**
Net assets at acquisition date	**101,075**
Non-controlling interest at acquisition date measured at the proportionate share of the net assets	1,209
Purchase consideration	**99,866**

The comparative financial information of consolidated balance sheet as of 31 December 2013 and consolidated statement of comprehensive income for 2013 were not restated due to immaterial difference between provisional and final fair values of assets and liabilities of OAO MIPC. All changes in fair values were recorded in these consolidated financial statements for the year ended 31 December 2014.

If the acquisition had occurred on 1 January 2013, the Group's sales and the Group's profit for the year ended 31 December 2013 would have been RR 5,291,256 and RR 1,160,092, respectively.

(In millions of Russian Roubles)

36 RELATED PARTIES

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

Government of the Russian Federation

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

As of 31 December 2014 38.373% of OAO Gazprom's issued shares were directly owned by the Government. Another 11.859% were owned by Government controlled entities. The Government does not prepare consolidated financial statements. Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

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

Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities under Government control. Prices of natural gas sales and electricity tariffs in Russia are regulated by the Federal Tariffs Service ("FTS"). Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with the applicable statutory rules.

As of and for the years ended 31 December 2014 and 2013, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	As of 31 December 2014		Year ended 31 December 2014	
	Assets	**Liabilities**	**Revenues**	**Expenses**
Transactions and balances with the Government				
Current profit tax	74,744	3,926	-	112,613
Insurance contributions to non-budget funds	621	5,649	-	98,097
VAT recoverable/payable	451,406	57,058	-	-
Customs duties	85,432	-	-	-
Other taxes	4,788	91,569	-	772,972
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	70,072	-
Electricity and heating sales	-	-	231,208	-
Gas transportation sales	-	-	34,296	-
Other services sales	-	-	2,780	-
Accounts receivable	46,630	-	-	-
Oil and refined products transportation expenses	-	-	-	99,102
Accounts payable	-	14,442	-	-
Loans	-	140,168	-	-
Interest expense	-	-	-	8,768
Short-term financial assets	7,444	-	-	-
Available-for-sale long-term financial assets	5,308	-	-	-

(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

	As of 31 December 2013		Year ended 31 December 2013	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
Current profit tax	9,884	14,554	-	194,723
Insurance contributions to non-budget funds	534	5,354	-	84,963
VAT recoverable/payable	518,192	51,638	-	-
Customs duties	57,511	-	-	-
Other taxes	2,698	78,457	-	669,187
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	62,796	-
Electricity and heating sales	-	-	220,160	-
Gas transportation sales	-	-	30,038	-
Other services sales	-	-	2,850	-
Accounts receivable	54,970	-	-	-
Oil and refined products transportation expenses	-	-	-	99,662
Accounts payable	-	11,290	-	-
Loans	-	111,434	-	-
Interest expense	-	-	-	4,781
Short-term financial assets	4,334	-	-	-
Available-for-sale long-term financial assets	13,376	-	-	-

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

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

See consolidated statement of changes in equity for returns of social assets to governmental authorities during years ended 31 December 2014 and 2013. See Note 13 for net book values as of December 2014 and 2013 of social assets vested to the Group at privatisation.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RR 4,393 and RR 2,992 for the years ended 31 December 2014 and 2013, respectively. Such amounts include personal income tax and insurance contributions to non-budget funds. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of the Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

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

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

(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

Associated undertakings and joint ventures

For the years ended 31 December 2014 and 2013 and as of 31 December 2014 and 2013 the Group had the following significant transactions with associated undertakings and joint ventures:

	Year ended 31 December	
	2014	2013
	Revenues	
Gas sales		
Wintershall Erdgas Handelshaus GmbH & Co. KG (WIEH)	132,773	133,070
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries*	130,533	107,558
ZAO Panrusgaz	56,523	61,392
AO Moldovagaz	32,421	20,502
AO Gazum	29,987	29,030
Bosphorus Gaz Corporation A.S.	23,097	17,730
ZAO Gazprom YRGM Trading**	13,025	12,075
ZAO Gazprom YRGM Development**	9,304	8,625
AO Latvijas Gaze	8,715	9,490
SGT EuRoPol GAZ S.A.	4,684	3,911
AO Lietuvos dujos***	4,152	7,608
AO Overgaz Inc.	3,932	3,310
Wintershall Erdgas Handelshaus Zug AG (WIEE)****	3,861	13,586
Russian-Serbian Trading Corporation a.d.	-	7,168
Gas transportation sales		
ZAO Gazprom YRGM Trading**	21,878	21,188
ZAO Gazprom YRGM Development**	15,627	15,135
TOO KazRosGaz	1,682	1,421
Gas condensate, crude oil and refined products sales		
OAO NGK Slavneft and its subsidiaries	29,263	26,063
ZAO SOVEKS	5,631	5,535
OOO Gazpromneft – Aero Sheremetyevo*****	3,022	12,263
Operator services sales		
ZAO Messoyakhaneftegas	9,960	5,980
Gas refining services sales		
TOO KazRosGaz	5,712	5,247
	Expenses	
Purchased gas		
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries*	66,575	73,071
ZAO Gazprom YRGM Trading**	59,151	58,527
ZAO Gazprom YRGM Development**	42,265	41,810
TOO KazRosGaz	28,428	22,724
OOO SeverEnergiya and its subsidiaries	16,486	9,858
Sakhalin Energy Investment Company Ltd.	14,838	5,715
ZAO Nortgaz	8,515	2,222
Purchased transit of gas		
Nord Stream AG	55,471	37,058
SGT EuRoPol GAZ S.A.	13,143	9,757
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries*	11,306	-
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries*	7,949	13,586
Purchased crude oil		
OAO NGK Slavneft and its subsidiaries	83,225	84,091
Sakhalin Energy Investment Company Ltd.	19,243	13,396
Purchased services of gas and gas condensate extraction		
ZAO Achimgaz	20,513	12,757
Purchased processing services		
OAO NGK Slavneft and its subsidiaries	12,838	11,853

* In May 2014 the shares in all gas transportation companies that belonged to W&G Beteiligungs-GmbH & Co. KG were transferred to WIGA Transport Beteiligungs-GmbH & Co. KG. As of 31 December 2014 WIGA Transport Beteiligungs-GmbH & Co. KG forms an independent subgroup of associated undertakings.
** ZAO Gazprom YRGM Trading and ZAO Gazprom YRGM Development are not associated undertakings and joint ventures.
*** In accordance with the provisions of the Third Energy Package of the European Union regarding the split between the gas transmission and distribution activities in August 2013 AO Lietuvos dujos transferred assets, liabilities and rights related to gas transportation to AO Amber Grid, an associate of the Group. In June 2014 the Group sold its 37% interests in associates, AO Lietuvos dujos and AO Amber Grid, to companies controlled by the Republic of Lithuania for Euro 121 million.
**** Wintershall Erdgas Handelshaus Zug AG (WIEE) is the subsidiary of Wintershall Erdgas Handelshaus GmbH & Co. KG (WIEH).

(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

***** In March 2014 the Group acquired 100% share in OOO Aero TO the only asset of which is 50% share in OOO Gazpromneft – Aero Sheremetyevo. As a result the Group's effective share in OOO Gazpromneft – Aero Sheremetyevo increased from 47.84% to 95.68% and the Group obtained control over OOO Gazpromneft – Aero Sheremetyevo.

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

	As of 31 December			
	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	20,739	-	20,501	-
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	17,448	-	8,452	-
OAO NGK Slavneft and its subsidiaries	10,701	-	4,512	-
AO Overgaz Inc.	9,246	-	8,011	-
AO Gasum	5,353	-	4,157	-
ZAO Panrusgaz	3,523	-	5,774	-
Wintershall AG	2,567	-	-	-
Gazprombank Group	2,125	-	8,974	-
ZAO Gazprom YRGM Trading	2,082	-	1,377	-
ZAO Nortgaz	1,952	-	88	-
ZAO Messoyakhaneftegas	1,869	-	2,944	-
ZAO Gazprom YRGM Development	1,492	-	976	-
Bosphorus Gaz Corporation A.S.	1,349	-	2,731	-
AO Moldovagaz*	1,281	-	-	-
OOO Yamal razvitie	1,272	-	-	-
Wintershall Erdgas Handelshaus Zug AG (WIEE)	1,081	-	1,290	-
TOO KazRosGaz	759	-	676	-
Sakhalin Energy Investment Company Ltd.	493	-	84	-
AO Latvijas Gaze	60	-	227	-
AO Lietuvos dujos	-	-	2,000	-
Russian-Serbian Trading Corporation a.d.	-	-	660	-
Short-term promissory notes				
Gazprombank Group	857	-	1,059	-
Cash balances				
Gazprombank Group	637,788	-	366,421	-
Long-term accounts receivable and prepayments				
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	26,161	-	17,214	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	13,663	-	-	-
ZAO Messoyakhaneftegas	10,672	-	2,838	-
OOO Yamal razvitie	10,395	-	2,200	-
Etzel Kavernenbetriebsgesellschaft mbH & Co. KG	5,293	-	3,811	-
Gazprombank Group	4,119	-	330	-
Erdgasspeicher Peissen GmbH	3,745	-	2,060	-
Gas Project Development Central Asia AG	788	-	1,826	-
Long-term promissory notes				
Gazprombank Group	122	-	431	-
Short-term accounts payable				
ZAO Gazprom YRGM Trading	-	7,988	-	8,723
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	-	6,464	-	4,715
Nord Stream AG	-	6,098	-	4,179
ZAO Gazprom YRGM Development	-	5,260	-	5,786
ZAO Achimgaz	-	3,188	-	1,998
TOO KazRosGaz	-	2,925	-	2,992
SGT EuRoPol GAZ S.A.	-	2,272	-	7,702
OAO NGK Slavneft and its subsidiaries	-	1,926	-	2,466
Sakhalin Energy Investment Company Ltd.	-	1,440	-	657
ZAO Nortgaz	-	381	-	501
AO Latvijas Gaze	-	214	-	66
Gazprombank Group	-	48	-	42
AO Lietuvos dujos	-	-	-	3,188

(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

	As of 31 December			
	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Other non-current liabilities				
ZAO Gazprom YRGM Trading	-	-	-	797
ZAO Gazprom YRGM Development	-	-	-	124
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank Group	-	24,397	-	13,614
Long-term borrowings				
Gazprombank Group	-	36,490	-	26,195

* Net of impairment provision on accounts receivable in the amount of RR 273,143 and RR 142,592 as of 31 December 2014 and 2013.

Investments in associated undertakings and joint ventures are disclosed in Note 15.

See Note 37 for financial guarantees issued by the Group for the associated undertakings and joint ventures.

37 COMMITMENTS AND CONTINGENCIES

Financial guarantees

Notes		31 December 2014	31 December 2013
	Outstanding guarantees issued for:		
	Sakhalin Energy Investment Company Ltd.	136,490	89,825
18, 27	Ostchem Holding Limited	47,407	-
	Blackrock Capital Investments Limited	7,675	4,804
	OOO Production Company VIS	7,016	8,164
	EM Interfinance Limited	3,065	3,668
	Nord Stream AG	-	50,830
	Other	75,104	43,752
		276,757	**201,043**

In 2014 and 2013 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in USD of USD 3,814 million and USD 3,404 million as of 31 December 2014 and 2013, respectively, as well as amounts denominated in Euro of Euro 356 million and Euro 1,493 million as of 31 December 2014 and 2013, respectively.

In June 2008 the Group issued a guarantee to the Bank of Tokyo-Mitsubishi UFJ Ltd. for Sakhalin Energy Investment Company Ltd. under the credit facility up to the amount of the Group's share (50%) in the obligations of Sakhalin Energy Investment Company Ltd. toward the Bank of Tokyo-Mitsubishi UFJ Ltd. As of 31 December 2014 and 2013 the above guarantee amounted to RR 136,490 (USD 2,426 million) and RR 89,825 (USD 2,744 million), respectively.

In December 2014 the Group provided a guarantee to Gazprombank (Joint-stock Company) related to debts from Ostchem Holding Limited under the credit facility for financing of operating activities. As of 31 December 2014 the above guarantee amounted to RR 47,407 (USD 843 million) and was fully provided (see Notes 18 and 27).

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) in regard to bonds issued with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by SGT EuRoPol GAZ S.A. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. As a result as of 31 December 2014 and 2013 the guarantees issued for Blackrock Capital Investments Limited and EM Interfinance Limited amounted to RR 10,740 (USD 191 million) and RR 8,472 (USD 259 million), respectively.

In July 2012 the Group issued a guarantee to OAO Sberbank of Russia for OOO Production company VIS as a security of credit facility for financing of construction projects for Gazprom Group. As of 31 December 2014 and 2013 the above guarantee amounted to RR 7,016 and RR 8,164, respectively.

In March 2011 the Group issued a guarantee to Societe Generale for Nord Stream AG under the credit facility for financing of Nord Stream gas pipeline Phase 2 construction completion. According to guarantee agreements

37 COMMITMENTS AND CONTINGENCIES (continued)

the Group has to redeem debt up to the amount of the Group's share (51%) in the obligations of Nord Stream AG toward the Societe Generale in the event that Nord Stream AG fails to repay those amounts. As of 31 December 2013 the above guarantee amounted to RR 50,830 (Euro 1,130 million). As of 31 December 2014 the debt liabilities were redeemed.

Other

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

Capital commitments

The total investment program related to gas, oil and power assets for 2015 is RR 1,608 billion.

Operating lease commitments

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

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2014 no loss is expected to result from these long-term commitments.

38 OPERATING RISKS

Operating environment

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

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

Legal proceedings

On 16 June 2014, OAO Gazprom submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against NAK Naftogaz Ukraine to recover more than USD 4,500 million unpaid debt for gas supplies and related interest charged.

On 16 June 2014, NAK Naftogaz Ukraine submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce against OAO Gazprom seeking a retroactive revision of the price, compensation of all overpaid amounts starting from 20 May 2011, which according to the claim amounted to not less than USD 6,000 million and cancellation of the contractual prohibition on reexport of natural gas.

On 1 July 2014 OAO Gazprom and NAK Naftogaz Ukraine filed its responses to the requests of arbitration. On 21 July 2014, both cases were consolidated; oral hearings will start not earlier than in February-March 2016.

On 13 October 2014 NAK Naftogaz Ukraine submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against OAO Gazprom, seeking (1) to acknowledge that rights and obligations of NAK Naftogaz Ukraine under Contract on volumes and terms of gas transportation contract through Ukraine in 2009-2019 years should be transferred to PAO Ukrtransgaz; (2) to acknowledge that certain provisions of Contract, that will be subsequently updated, are invalid and/or inoperative and should be supplemented with or substituted by provisions that will be updated in line with the energy and anti- monopoly legislation of Ukraine and EU; (3) to oblige OAO Gazprom to pay a compensation of USD 3,200 million (and related interest) to NAK Naftogaz Ukraine for the failure to provide gas for transit; (4) to acknowledge that the transit tariff stipulated in Contract should be revised in such a way as provided in further written statements of NAK Naftogaz Ukraine in line with key principles of the Swedish contractual law. The claim amounts to approximately USD 6,200 million. On 28 November 2014 OAO Gazprom filed its response to the request of arbitration. On 11 December 2014 the arbitration panel was formed. On 28 January 2015 the arbitration court made a decision not to combine the case with the above ones. Verbal hearing of the case is expected late September 2016 and decision of the arbitration panel is expected by the end of January 2017.

38 OPERATING RISKS (continued)

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

Sanctions

In September 2014 the U.S., the EU and certain other countries imposed additional sanctions on the Russian energy sector that partially apply to the Group.

The U.S. sanctions prohibit any U.S. person, and U.S. incorporated entities (including their foreign branches) or any person or entity in the United States from (1) transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity for a number of Russian energy companies, including OAO Gazprom Neft, and (2) from providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deep water, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory to Russian companies, including OAO Gazprom and OAO Gazprom neft. These sanctions also apply to any entity if 50% or more of its capital is owned, directly or indirectly, separately or in the aggregate, by sanctioned entities.

The EU sanctions prohibit (1) provision of drilling, well testing, logging and completion services and supply of specialized floating vessels necessary for deep water oil exploration and production, Arctic oil exploration and production, or shale oil projects in Russia, and (2) purchasing, selling, providing investment services for or assistance in the issuance of, or other dealings with transferable securities and money-market instruments with a maturity exceeding (a) 90 days issued after 1 August 2014 to 12 September 2014 or (b) 30 days, issued after 12 September 2014 by certain Russian companies such as OAO Gazprom neft (including subsidiaries of OAO Gazprom neft or any legal person, entity or body acting on behalf or at the direction of OAO Gazprom neft).

Sanctions imposed by the EU also prohibit EU persons from directly or indirectly making or being part of any arrangement to make new loans or credit with a maturity exceeding 30 days to a number of Russian companies (including OAO Gazprom neft), after 12 September 2014 except for loans or credit that have a specific and documented objective to provide financing for non-prohibited imports or exports of goods and non-financial services between the EU and Russia or for loans that have a specific and documented objective to provide emergency funding to meet solvency and liquidity criteria for legal persons established in the EU, whose proprietary rights are owned for more than 50% by any entity referred to above.

The Group continues to assess and monitor the impact of the ongoing sanctions but currently does not believe they have a significant impact on the financial position and results of operations of the Group.

Taxation

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. As of 31 December 2014 interpretation of the relevant legislation is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

The Russian Law “On Transfer pricing” grants the right to a taxpayer to validate compliance with arm's length principle in respect of prices in controlled transactions through preparation of documentation for tax purposes.

The management of the Group believes that the Group sets market prices in its transactions and internal controls procedures were introduced to comply with tax legislative requirements on transfer pricing. Currently the new regulation practice has not been established yet, consequences of the trials with tax authorities cannot be estimated reliably, however they can have significant impact on financial results and activities of the Group.

The Controlled Foreign Company (CFC) rules introduce Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). Starting from 2015, CFC undistributed profits should be subject to a 20% tax rate. The management is aware about new legislation and is analyzing the impact on the Group and required actions.

38 OPERATING RISKS (continued)

Group changes

The Group is continuing to be subject to reform initiatives in the Russian Federation and in some of its export markets. The future direction and effects of any reforms are the subject of political considerations. Potential reforms in the structure of the Group, tariff setting policies, and other government initiatives could each have a significant, but undeterminable, effect on enterprises operating in the Group.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reliably estimated, but could be material. In the current enforcement climate under existing legislation, the Group management believes that there are no significant liabilities for environmental damage, other than amounts that have been accrued in the consolidated financial statements.

Social commitments

The Group significantly contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees in the areas of its production operations mainly in the northern regions of the Russian Federation, including contributions toward the construction, development and maintenance of housing, hospitals, transport services, recreation and other social needs.

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 focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

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

Market risk

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

(In millions of Russian Roubles)

39 FINANCIAL RISK FACTORS (continued)

(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 Rouble	US dollar	Euro	Other	Total
	31 December 2014					
	Financial assets					
	Current					
8	Cash and cash equivalents	655,021	278,278	63,910	40,982	1,038,191
9	Short-term financial assets (excluding equity securities)	7,364	281	-	7	7,652
10	Trade and other accounts receivable	331,765	335,635	157,876	88,183	913,459
	Non-current					
16	Long-term accounts receivable (excluding prepayments)	170,652	2,914	6,946	738	181,250
17	Available-for-sale long-term financial assets (excluding equity securities)	727	110	-	-	837
	Total financial assets	**1,165,529**	**617,218**	**228,732**	**129,910**	**2,141,389**
	Financial liabilities					
	Current					
18	Accounts payable and accrued charges (excluding derivative financial instruments)	624,890	189,329	134,432	48,120	996,771
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	40,970	219,498	203,729	585	464,782
	Non-current					
21	Long-term borrowings and promissory notes	263,732	1,279,396	652,233	28,681	2,224,042
	Total financial liabilities	**929,592**	**1,688,223**	**990,394**	**77,386**	**3,685,595**
	31 December 2013					
	Financial assets					
	Current					
8	Cash and cash equivalents	511,438	141,980	24,857	10,855	689,130
9	Short-term financial assets (excluding equity securities)	7,741	-	-	87	7,828
10	Trade and other accounts receivable	409,825	336,963	113,792	65,705	926,285
	Non-current					
16	Long-term accounts receivable (excluding prepayments)	135,563	22,034	527	383	158,507
17	Available-for-sale long-term financial assets (excluding equity securities)	870	-	-	49	919
	Total financial assets	**1,065,437**	**500,977**	**139,176**	**77,079**	**1,782,669**
	Financial liabilities					
	Current					
18	Accounts payable and accrued charges (excluding derivative financial instruments)	564,344	115,798	39,167	30,318	749,627
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	71,472	165,812	93,242	1,400	331,926
	Non-current					
21	Long-term borrowings and promissory notes	199,733	757,308	494,479	18,482	1,470,002
	Total financial liabilities	**835,549**	**1,038,918**	**626,888**	**50,200**	**2,551,555**

See discussion of derivative financial instruments in Note 23.

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

(In millions of Russian Roubles)

39 FINANCIAL RISK FACTORS (continued)

As of 31 December 2014, if the Russian Rouble had weakened by 20% against the US dollar with all other variables held constant, profit before profit tax would have been lower by RR 214,201, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. As of 31 December 2013, if the Russian Rouble had weakened by 10% against the US dollar with all other variables held constant, profit before profit tax would have been lower by RR 53,794, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables.

The effect of related Russian Rouble strengthening against the US dollar would have been approximately the same amount with opposite impact.

As of 31 December 2014, if the Russian Rouble had weakened by 20% against the Euro with all other variables held constant, profit before profit tax would have been lower by RR 152,332, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. As of 31 December 2013, if the Russian Rouble had weakened by 10% against the Euro with all other variables held constant, profit before profit tax would have been lower by RR 48,771, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. The effect of related Russian Rouble 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:

Long-term borrowings and promissory notes	**31 December**	
	2014	**2013**
At fixed rate	2,044,351	1,427,690
At variable rate	591,553	334,653
	2,635,904	**1,762,343**

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

During years ended 31 December 2014 and 2013 the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2014, if benchmark interest rates on US dollar- and Euro-denominated borrowings at these dates had been 5% higher with all other variables held constant, profit before profit tax would have been lower by RR 29,578 for 2014, mainly as a result of higher interest expense on floating rate borrowings. As of 31 December 2013, if benchmark interest rates on US dollar- and Euro-denominated borrowings at these dates had been 2% higher with all other variables held constant, profit before profit tax would have been lower by RR 6,692 for 2013, mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in benchmark interest rates is approximately equal and opposite.

(c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in development activities and could cause a decrease in the volume of reserves available for transportation and processing through the Group's systems or facilities and ultimately impact the Group's ability to deliver under its contractual obligations.

(In millions of Russian Roubles)

39 FINANCIAL RISK FACTORS (continued)

The Group's overall strategy in production and sales of natural gas, crude oil and related products is centrally managed. Substantially all the Group's natural gas, gas condensate and other hydrocarbon export sales to Europe and other countries are sold under long-term contracts. Natural gas export prices to Europe and other countries are generally based on a formula linked to oil product prices, which in turn are linked to crude oil prices.

The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2014, if the average gas prices related to the export market had decreased by 10% with all other variables held constant, profit before profit tax would have been lower by RR 216,481 for 2014. As of 31 December 2013, if the average gas prices related to the export market had decreased by 10% with all other variables held constant, profit before profit tax would have been lower by RR 217,747 for 2013.

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

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

(d) Securities price risk

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

As of 31 December 2014 and 2013, if MICEX equity index, which affects the major part of Group's equity securities, had decreased by 20% with all other variables held constant, assuming the Group's equity instruments moved according to the historically high correlation with the index, Group's total comprehensive income for the year would have been RR 41,970 and RR 44,006 lower, respectively.

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

Credit risk

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

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

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

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

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

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

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

	31 December	
	2014	**2013**
Cash and cash equivalents	1,038,191	689,130
Debt securities	8,489	8,747
Long-term and short-term trade and other accounts receivable	1,096,276	1,087,242
Financial guarantees	276,757	201,043
Total maximum exposure to credit risk	**2,419,713**	**1,986,162**

(In millions of Russian Roubles)

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. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of 31 December 2014					
Short-term and long-term loans and borrowings and promissory notes	304,667	293,712	521,201	1,206,995	1,215,224
Accounts payable and accrued charges (excluding derivative financial instruments and provision under financial guarantees)	861,135	88,229	-	-	-
Derivative financial instruments:	46,478	20,342	31,589	34,201	1,829
including foreign currency hedge contracts	8,576	1,345	16,751	29,811	1,829
Financial guarantees	60,276	3,886	4,856	51,939	155,800
As of 31 December 2013					
Short-term and long-term loans and borrowings and promissory notes	208,730	213,566	314,105	783,855	811,962
Accounts payable and accrued charges (excluding derivative financial instruments)	596,128	153,499	-	-	-
Derivative financial instruments:	7,102	3,259	3,540	3,716	190
including foreign currency hedge contracts	17	29	336	2,606	189
Financial guarantees	5,711	9,451	31,349	71,408	83,124

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.

Capital risk management

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

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

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

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

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

(In millions of Russian Roubles)

39 FINANCIAL RISK FACTORS (continued)

The net debt to adjusted EBITDA ratios at 31 December 2014 and 2013 were as follows:

	31 December 2014	31 December 2013
Total debt	2,688,824	1,801,928
Less: cash and cash equivalents	(1,038,191)	(689,130)
Net debt	1,650,633	1,112,798
Adjusted EBITDA	1,962,558	2,009,475
Net debt/Adjusted EBITDA ratio	**0.84**	**0.55**

OAO Gazprom has an investment grade credit rating of BBB- (negative outlook) by Standard & Poor's and BBB (negative outlook) by Fitch Ratings as of 31 December 2014.

40 FAIR VALUE MEASUREMENTS

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

a) *Financial instruments in Level 1*

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

b) *Financial instruments in Level 2*

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

c) *Financial instruments in Level 3*

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

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

As of 31 December 2014 and 2013 the Group had the following assets and liabilities that are measured at fair value:

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

(In millions of Russian Roubles)

40 FAIR VALUE MEASUREMENTS (continued)

Notes		31 December 2013 Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
9	**Financial assets held for trading:**				
	Equity securities	2,200	14,474	-	16,674
	Bonds	5,681	-	-	5,681
	Available-for-sale financial assets:				
	Promissory notes	-	2,147	-	2,147
	Total short-term financial assets	**7,881**	**16,621**	**-**	**24,502**
17	**Available-for-sale financial assets:**				
	Equity securities	150,632	11,395	5,958	167,985
	Bonds	49	-	-	49
	Promissory notes	-	870	-	870
	Total available-for-sale long-term financial assets	**150,681**	**12,265**	**5,958**	**168,904**
23	Derivative financial instruments	527	18,525	591	19,643
	Total assets	**159,089**	**47,411**	**6,549**	**213,049**
23	Derivative financial instruments	439	16,931	437	17,807
	Total liabilities	**439**	**16,931**	**437**	**17,807**

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

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

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the period. For the year ended 31 December 2014 and 2013 the Group has reclassified available-for-sale investments losses from other comprehensive income into the profit or loss in the amount of RR 4,489 and RR 1,492, respectively.

Financial assets held for trading primarily comprise marketable equity and debt securities intended to generate short-term profits 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, in the event of a default by the counterparty (such as bankruptcy or a failure to pay or perform), net counterparty’s rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty.

(In millions of Russian Roubles)

41 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

	Gross amounts before offsetting	Amounts offset	Net amounts after offsetting in the consolidated balance sheet	Amounts subject to netting agreements
31 December 2014				
Financial assets				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,109,964	15,255	1,094,709	40,023
Derivative financial instruments	321,568	256,310	65,258	49,150
Financial liabilities				
Accounts payable and accrued charges (excluding derivative financial instruments)	1,012,026	15,255	996,771	40,023
Derivative financial instruments	390,749	256,310	134,439	49,150
31 December 2013				
Financial assets				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,101,062	16,270	1,084,792	-
Derivative financial instruments	58,998	39,355	19,643	30,942
Financial liabilities				
Accounts payable and accrued charges (excluding derivative financial instruments)	765,897	16,270	749,627	-
Derivative financial instruments	57,162	39,355	17,807	30,942

42 POST BALANCE SHEET EVENTS

Borrowings and loans

In January 2015 the Group obtained a long-term loan from Intesa Sanpaolo S.P.A. bank in the amount of EUR 350 million at an interest rate of EURIBOR + 2.75% due in 2016.

In January and February 2015 the Group obtained long-term loans from OAO Sberbank of Russia in the amount of RR 10,000 and RR 2,500, respectively, at an interest rate of 13.48% due in 2019.

In January and March 2015 the Group obtained loans from a consortium of banks in the amount of EUR 230 million and EUR 130 million at interest rates of EURIBOR + 1.3% and EURIBOR + 1.75%, respectively, due in 2016. Deutsche Bank AG was appointed as bank agent.

In March 2015 the Group obtained a long-term loan from OAO Sberbank of Russia in the amount of RR 12,500 at an interest rate of 13.58% due in 2019.

In March 2015 the Group signed an agreement to obtain a long-term loan from PAO Promsvyazbank in the amount of USD 350 million at an interest rate of 5.4% due in 2018.

In April 2015 the Group obtained a long-term loan from a consortium of banks in the amount of USD 500 million at an interest rate of LIBOR + 3.25% due in 2018. JP Morgan Europe Limited was appointed as bank agent.

Investigation of the European Commission

In August 2012 the European Commission initiated an investigation into a potential breach of European Union antimonopoly law by OAO Gazprom. In April 2015 the European Commission adopted a Statement of Objections in the course of the ongoing antitrust investigation of OAO Gazprom activity in the European Union. The adoption of the Statement of Objections is just one of the stages of the antitrust investigation and does not imply holding OAO Gazprom liable for any violation of the European Union antitrust legislation. OAO Gazprom considers the claims brought by the European Commission to be unsubstantiated and expects the situation to be resolved in accordance with the agreement reached earlier between the Government of the Russian Federation and the European Commission.

Independent Auditor's Report

To the Shareholders and Board of Directors of OAO Gazprom

We have audited the accompanying consolidated financial statements of OAO Gazprom and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2013 and the consolidated statements of comprehensive income, cash flows and changes in equity for 2013, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

ZAO PricewaterhouseCoopers Audit, 10 Butyrsky Val, Moscow, Russian Federation, 125047
T.: +7 495 967 6000, F.: +7 495 967 6001, www.pwc.ru

Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

28 April 2014

Moscow, Russian Federation

M.E. Timchenko, Director (licence no. 01-000267), ZAO PricewaterhouseCoopers Audit

Audited entity: OAO Gazprom

State registration certificate № 022.726, issued by the Moscow Registration Chamber on 25 February 1993

Certificate of inclusion in the Unified State Register of Legal Entities issued on 2 August 2002 under registration № 1027700070518

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

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

OAO GAZPROM
IFRS CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2013
(In millions of Russian Roubles)

Notes		31 December 2013	31 December 2012 (restated)	1 January 2012 (restated)
	Assets			
	Current assets			
8	Cash and cash equivalents	689,130	425,720	504,766
8	Restricted cash	401	5,530	6,290
9	Short-term financial assets	24,502	16,962	23,991
10	Accounts receivable and prepayments	1,032,026	940,732	782,562
11	Inventories	569,724	462,746	411,108
	VAT recoverable	341,315	395,368	303,454
	Other current assets	205,572	173,745	216,122
		2,862,670	**2,420,803**	**2,248,293**
	Non-current assets			
12	Property, plant and equipment	8,940,088	7,949,170	6,852,103
13	Goodwill	151,189	146,587	102,800
14	Investments in associated undertakings and joint ventures	549,684	541,113	608,775
15	Long-term accounts receivable and prepayments	437,349	479,138	504,671
16	Available-for-sale long-term financial assets	168,904	161,704	181,138
17	Other non-current assets	326,352	258,321	288,360
		10,573,566	**9,536,033**	**8,537,847**
	Total assets	**13,436,236**	**11,956,836**	**10,786,140**
	Liabilities and equity			
	Current liabilities			
18	Accounts payable and accrued charges	895,694	1,038,993	804,602
	Current profit tax payable	17,750	7,990	44,115
19	Other taxes payable	146,095	122,450	100,324
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	331,926	322,633	362,536
		1,391,465	**1,492,066**	**1,311,577**
	Non-current liabilities			
21	Long-term borrowings and promissory notes	1,470,002	1,177,959	1,174,283
24	Provisions for liabilities and charges	330,580	336,543	264,466
22	Deferred tax liabilities	558,869	443,804	417,895
	Other non-current liabilities	50,966	26,519	47,699
		2,410,417	**1,984,825**	**1,904,343**
	Total liabilities	**3,801,882**	**3,476,891**	**3,215,920**
	Equity			
25	Share capital	325,194	325,194	325,194
25	Treasury shares	(103,919)	(104,094)	(104,605)
25	Retained earnings and other reserves	9,098,315	7,949,633	7,052,257
		9,319,590	**8,170,733**	**7,272,846**
33	Non-controlling interest	314,764	309,212	297,374
	Total equity	**9,634,354**	**8,479,945**	**7,570,220**
	Total liabilities and equity	**13,436,236**	**11,956,836**	**10,786,140**

A.B. Miller
Chairman of the Management Committee
28 April 2014

E.A. Vasilieva
Chief Accountant
28 April 2014

The accompanying notes on pages 6 to 71 are an integral part of this consolidated financial statements.

OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013
(In millions of Russian Roubles)

Notes		Year ended 31 December 2013	2012 (restated)
26	Sales	5,249,965	4,766,495
	Net gain from trading activity	5,850	2,821
27	Operating expenses	(3,600,908)	(3,421,847)
27	(Charge for) reversal of impairment and other provisions, net	(67,698)	3,208
	Operating profit	**1,587,209**	**1,350,677**
28	Finance income	129,523	308,489
28	Finance expense	(284,107)	(247,168)
14	Share of net income of associated undertakings and joint ventures	56,670	145,192
	(Losses) gains on disposal of available-for-sale financial assets	(3,212)	546
	Profit before profit tax	**1,486,083**	**1,557,736**
	Current profit tax expense	(201,872)	(280,070)
	Deferred profit tax expense	(118,506)	(25,251)
22	Profit tax expense	(320,378)	(305,321)
	Profit for the year	**1,165,705**	**1,252,415**
	Other comprehensive income (loss):		
	Items that will not be reclassified to profit or loss:		
24	Remeasurements of post-employment benefit obligations	55,424	(69,801)
	Total items that will not be reclassified to profit or loss	**55,424**	**(69,801)**
	Items that will be reclassified to profit or loss:		
	Gains (losses) arising from change in fair value of available-for-sale financial assets, net of tax	12,578	(17,499)
	Share of other comprehensive income of associated undertakings and joint ventures	10,100	1,885
	Translation differences	56,847	(34,792)
	(Losses) gains from cash flow hedges, net of tax	(2,305)	806
	Total items that will be reclassified to profit or loss	**77,220**	**(49,600)**
	Other comprehensive income (loss) for the year, net of tax	**132,644**	**(119,401)**
	Total comprehensive income for the year	**1,298,349**	**1,133,014**
	Profit attributable to:		
	Owners of OAO Gazprom	1,139,261	1,224,474
33	Non-controlling interest	26,444	27,941
		1,165,705	**1,252,415**
	Total comprehensive income attributable to:		
	Owners of OAO Gazprom	1,267,383	1,106,984
	Non-controlling interest	30,966	26,030
		1,298,349	**1,133,014**
30	**Basic and diluted earnings per share for profit attributable to the owners of OAO Gazprom (in Roubles)**	**49.64**	**53.35**

A.B. Miller
Chairman of the Management Committee
28 April 2014

E.A. Vasilieva
Chief Accountant
28 April 2014

The accompanying notes on pages 6 to 71 are an integral part of this consolidated financial statements.

OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(In millions of Russian Roubles)

Notes		Year ended 31 December 2013	2012 (restated)
	Cash flows from operating activities		
31	**Net cash from operating activities**	**1,747,863**	**1,472,779**
	Cash flows from investing activities		
12	Capital expenditures	(1,397,195)	(1,349,114)
	Net change in loans issued	(4,043)	(5,566)
	Interest received	31,565	24,379
12, 28	Interest paid and capitalised	(64,148)	(66,873)
34, 35	Acquisition of subsidiaries, net of cash acquired	(127,284)	(55,810)
14	Investments in associated undertakings and joint ventures	(14,679)	(15,063)
14	Proceeds from associated undertakings and joint ventures	103,636	179,020
	Change in available-for-sale long-term financial assets	(1,693)	(1,141)
	Change in other long-term financial assets	(1,634)	2,952
	Net cash used in investing activities	**(1,475,475)**	**(1,287,216)**
	Cash flows from financing activities		
21	Proceeds from long-term borrowings	506,172	233,931
21	Repayment of long-term borrowings (including current portion)	(332,814)	(259,653)
	Net proceeds from (repayment of) promissory notes	52	(2)
20	Proceeds from short-term borrowings	61,261	169,847
20	Repayment of short-term borrowings	(105,230)	(175,408)
25	Dividends paid	(137,227)	(197,037)
28	Interest paid	(27,876)	(26,819)
25	Sales of treasury shares	175	511
	Change in restricted cash	5,129	760
	Net cash used in financing activities	**(30,358)**	**(253,870)**
	Effect of foreign exchange rate changes on cash and cash equivalents	21,380	(10,739)
	Increase (decrease) in cash and cash equivalents	**263,410**	**(79,046)**
8	Cash and cash equivalents at the beginning of the reporting year	425,720	504,766
8	**Cash and cash equivalents at the end of the reporting year**	**689,130**	**425,720**

A.B. Miller
Chairman of the Management Committee
28 April 2014

E.A. Vasilieva
Chief Accountant
28 April 2014

The accompanying notes on pages 6 to 71 are an integral part of this consolidated financial statements.

OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(In millions of Russian Roubles)

Notes		Number of shares outstanding (billions)	Attributable to owners of OAO Gazprom: Share capital	Treasury shares	Retained earnings and other reserves	Total	Non-controlling interest	Total equity
	Balance as of 31 December 2011	22.9	325,194	(104,605)	7,242,982	7,463,571	297,420	7,760,991
5	Effect of changes in accounting policies		-	-	(190,725)	(190,725)	(46)	(190,771)
	Balance as of 1 January 2012 (restated)	22.9	325,194	(104,605)	7,052,257	7,272,846	297,374	7,570,220
	Profit for the year (restated)		-	-	1,224,474	1,224,474	27,941	1,252,415
	Other comprehensive (loss) income:							
24, 33	Remeasurements of post-employment benefit obligations		-	-	(69,801)	(69,801)	-	(69,801)
	Losses arising from change in fair value of available-for-sale financial assets, net of tax		-	-	(17,499)	(17,499)	-	(17,499)
	Share of other comprehensive income of associated undertakings and joint ventures		-	-	1,885	1,885	-	1,885
25, 33	Translation differences		-	-	(32,792)	(32,792)	(2,000)	(34,792)
33	Gains from cash flow hedges, net of tax		-	-	717	717	89	806
	Total comprehensive income for the year ended 31 December 2012 (restated)		-	-	1,106,984	1,106,984	26,030	1,133,014
33	Changes in non-controlling interest in subsidiaries		-	-	(3,726)	(3,726)	(10,869)	(14,595)
25	Return of social assets to governmental authorities		-	-	(16)	(16)	-	(16)
25	Net treasury shares transactions		-	511	-	511	-	511
25, 33	Dividends declared		-	-	(205,866)	(205,866)	(3,323)	(209,189)
	Balance as of 31 December 2012 (restated)	22.9	325,194	(104,094)	7,949,633	8,170,733	309,212	8,479,945
	Profit for the year		-	-	1,139,261	1,139,261	26,444	1,165,705
	Other comprehensive income (loss):							
24, 33	Remeasurements of post-employment benefit obligations		-	-	55,296	55,296	128	55,424
	Gains arising from change in fair value of available-for-sale financial assets, net of tax		-	-	12,578	12,578	-	12,578
	Share of other comprehensive income of associated undertakings and joint ventures		-	-	10,100	10,100	-	10,100
25, 33	Translation differences		-	-	52,314	52,314	4,533	56,847
33	Losses from cash flow hedges, net of tax		-	-	(2,166)	(2,166)	(139)	(2,305)
	Total comprehensive income for the year ended 31 December 2013		-	-	1,267,383	1,267,383	30,966	1,298,349
33	Changes in non-controlling interest in subsidiaries		-	-	(597)	(597)	4,905	4,308
25	Return of social assets to governmental authorities		-	-	(240)	(240)	-	(240)
25	Net treasury shares transactions	0.1	-	175	-	175	-	175
25, 33	Dividends declared		-	-	(137,464)	(137,464)	(10,719)	(148,183)
33	Acquisition of shares in subsidiaries		-	-	19,600	19,600	(19,600)	-
	Balance as of 31 December 2013	23.0	325,194	(103,919)	9,098,315	9,319,590	314,764	9,634,354

A.B. Miller
Chairman of the Management Committee
28 April 2014

E.A. Vasilieva
Chief Accountant
28 April 2014

The accompanying notes on pages 6 to 71 are an integral part of this consolidated financial statements.

1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

- Exploration and production of gas;
- Transportation of gas;
- Sales of gas within 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; and
- Electric and heat energy generation and sales.

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

The weighted average number of employees during 2013 and 2012 was 429 thousand and 422 thousand, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation (see Note 38).

The political and economic instability, ongoing threat of sanctions, uncertainty and volatility of the financial markets and other risks could have negative effects on the Russian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

3 BASIS OF PRESENTATION

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

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

4 SCOPE OF CONSOLIDATION

As described in Note 5, these financial statements include consolidated subsidiaries, associated undertakings and joint arrangements of the Group. Significant changes in the Group's structure in 2013 and 2012 are described below.

In September 2013 the Group acquired 89.98% interest in the ordinary shares of OAO Moscow Integrated Power Company (OAO MIPC) and heat assets from the Moscow Government for cash consideration of RR 99,866 including VAT in the amount of RR 1,246 related to acquired heat assets. As a result of the acquisition, the Group obtained control over OAO MIPC. Considering treasury shares of OAO MIPC, the Group's effective interest is 98.77% (see Note 34).

4 SCOPE OF CONSOLIDATION (continued)

In May 2012 the Group acquired 18.48% interest in OAO Gazprom neftekhim Salavat for cash consideration of RR 18,458 increasing its interest to 87.51% and, as a result, obtained control over OAO Gazprom neftekhim Salavat. During the period from September 2012 to June 2013 as a result of series of transactions, the Group acquired an additional 12.49% interest in the ordinary shares of OAO Gazprom neftekhim Salavat for cash consideration of RR 12,476 increasing its interest to 100%. The difference between consideration paid and the non-controlling interest acquired has been recognized in equity in the amount of RR 9,842 and is included within retained earnings and other reserves (see Note 35).

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Group accounting

Subsidiary undertakings

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

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

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

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

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

Goodwill and non-controlling interest

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements

The group has applied IFRS 11 "Joint Arrangements" ("IFRS 11") to all joint arrangements as of 1 January 2012. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

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

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

The effects of the change in accounting policies on consolidated balance sheet and consolidated statements of comprehensive income and cash flows are shown in note 5.24.***Associated undertakings***

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

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

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

5.2 Financial instruments

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

Accounting for financial guarantee contracts

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

Fair value disclosure

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Derivative financial instruments

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

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

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

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

5.4 Hedge accounting

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

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

5.5 Non-derivative financial assets

The Group classifies its financial assets in the following categories:

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

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

(c) loans and receivables.

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

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

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

There were no material financial assets designated at fair value through profit or loss at inception as of 31 December 2013 and 2012.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the balance sheet date.

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

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

(c) Loans and receivables

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

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

Impairment of financial assets

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

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

5.6 Options on purchase or sale of financial assets

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.7 Cash and cash equivalents and restricted cash

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

5.8 Value added tax

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

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

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

5.9 Natural resources production tax

Natural resources production tax (NRPT) on hydrocarbons, including natural gas and crude oil, is due on the basis of quantities of natural resources extracted.

NRPT for natural gas and gas condensate is defined as an amount of volume produced per fixed tax rate: for natural gas – RR 622 per mcm effective since 1 July 2013, RR 582 per mcm from 1 January 2013 to 30 June 2013 and RR 509 per mcm in 2012; for gas condensate - RR 590 per ton effective since 1 January 2013 and RR 556 per ton in 2012.

NRPT for crude oil is defined monthly as an amount of volume produced per fixed tax rate (RR 470 per ton effective since 1 January 2013 and RR 446 per ton in 2012) adjusted for coefficients that take into account volatility of crude oil prices on the global market, relative size of the field and degree of depletion of the specific field. Since 1 September 2013 in accordance with Federal Law No. 213-FZ dated 23 July 2013 NRPT for crude oil shall also take account of coefficients that reduce the tax rate in respect to hard-to-recover reserves. Also a 0% tax rate is applied to oil extracted in a number of regions of the Russian Federation shall the specific criteria determined by respective tax legislation be fulfilled.

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

5.10 Customs duties

The export of hydrocarbons, including natural gas and crude oil, outside of the Customs union, which includes the Russian Federation, Belarus and Kazakhstan, is subject to export customs duties. According to the Decree of the Government of the Russian Federation No.754 dated 30 August 2013 export of natural gas outside the boundaries of the Customs union is subject to a fixed 30% export customs duty rate levied on the customs value of the exported natural gas.

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

5.11 Excise tax on oil products

Excise tax is applicable to certain transactions with oil products. Currently only gasoline, motor oil and diesel are subject to excise tax. Oil, gas condensate and natural gas are excluded. Within the Group, excise tax is imposed on the transfers of excisable oil products produced at group-owned refineries under a tolling arrangement to the Group company owning the product. The Group considers the excise tax on refining of oil products on a tolling

(In millions of Russian Roubles)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

basis as an operating expense. These taxes are not netted from revenue presented in the consolidated statement of comprehensive income.

5.12 Inventories

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

5.13 Property, plant and equipment

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

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

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

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

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

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

	Years
Pipelines	25-33
Wells	7-40
Machinery and equipment	10-18
Buildings	30-40
Roads	20-40
Social assets	10-40

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.14 Impairment of non-current non-financial assets

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

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

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

5.15 Borrowings

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

5.16 Deferred tax

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

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

5.17 Foreign currency transactions

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

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

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

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 32.73 and 30.37 as of 31 December 2013 and 2012, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 44.97 and 40.23 as of 31 December 2013 and 2012, respectively.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5.18 Provisions for liabilities and charges

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

5.19 Equity

Treasury shares

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

A contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount. When the financial liability is recognised initially its fair value is reclassified from equity. The premium received for a written option is added directly to equity. The Group has no such contracts in current and prior periods.

Dividends

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

5.20 Revenue recognition

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

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

Natural gas prices and gas transportation tariffs to the final consumers in the Russian Federation are established mainly by the Federal Tariffs Service. Export gas prices for sales to European countries are generally indexed to oil products prices, as stipulated in long-term contracts. Export gas prices for sales to Former Soviet Union countries are determined in various ways including using formulas, similar to those used in contracts with European customers.

Trading activity

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

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

5.21 Interest

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.22 Research and development

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

5.23 Employee benefits

Pension and other post-retirement benefits

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

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

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

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

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

Social expenses

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

5.24 Recent accounting pronouncements

In 2013 the Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2013 and which are relevant to its operations.

Standards, Amendments or Interpretations effective in 2013

The Group adopted a set of standards on consolidation: IFRS 10 “Consolidated Financial Statements” (“IFRS 10”), IFRS 11 “Joint Arrangements” (“IFRS 11”), IFRS 12 “Disclosure of Interests in Other Entities” (“IFRS 12”). The set of new standards introduces the new model of control and treatment of joint arrangements and also new disclosure requirements. This change required retrospective revision of the comparative figures of the consolidated financial statements. The nature and the impact of revised standard are described below.

The application of IFRS 12 resulted in additional disclosures in this consolidated financial statements regarding financial information of associated undertakings and joint ventures (see Note 14) and non-controlling interest (see Note 33).

Amendments to IAS 1 “Presentation of Financial Statements” (“IAS 1”) introduced grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The amendment affected presentation only and had no impact on the Group’s financial position or results of operations.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 13 "Fair Value Measurement" ("IFRS 13") established a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements of the Group. IFRS 13 also resulted in additional disclosures in this consolidated financial statements (see Note 40).

IAS 19 (revised) made significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The nature and the impact of revised standard are described below.

Amendments to IFRS 7 "Financial instruments: Disclosures" ("IFRS 7") requires disclosures that enable users of an Group's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off (see Note 41).

Several other new standards and amendments adopted in 2013 are amended IAS 32 "Financial Instruments: Presentation" ("IAS 32"), amendments resulting from Annual Improvements 2009-2011 cycle to IAS 1, IAS 16 "Property, Plant and Equipment" ("IAS 16"), IAS 32, IAS 34 "Interim financial reporting". Application of these standards and amendments had no significant impact on the Group's financial position or results of operations other than those described below.

(a) Adoption of IFRS 11 "Joint Arrangements"

Under IFRS 11 joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures, except for its investments in OAO Tomskneft VNK, Salym Petroleum Development N.V. and Blue Stream Pipeline company B.V., which were determined to be joint operations. The joint arrangements determined to be joint ventures will continue to be accounted for under the equity method of accounting. In accordance with the transition provisions of IFRS 11, the Group has applied the new policy for interests in joint operations. The Group derecognised the investments that were previously accounted for using the equity method and recognised its share of each of the assets and the liabilities in respect of the interest in the joint operations.

The Group measured the initial carrying amount of the assets and liabilities by disaggregating them from the carrying amount of the investment as of 1 January 2012 on the basis of the information used in applying the equity method.

(b) Adoption of IAS 19 (revised) "Employee benefits"

From 1 January 2013 the Group has applied IAS 19 (revised) retrospectively in accordance with the transition provisions of the standard. The standard makes significant changes to the recognition and measurement of defined benefit pension expenses and to disclosures of all employee benefits.

The material impacts of IAS 19 (revised) on the Group's consolidated financial statements are as follows:

- "Actuarial gains and losses" are renamed "remeasurements" and now are recognized immediately in the other comprehensive income and thus, will no longer be deferred using the "corridor approach" or recognised in profit or loss. Before amendments in the standard actuarial gains and losses on assets and liabilities were not recognized unless the cumulative unrecognized gain or loss at the end of the previous reporting period exceeded the greater of 10% of the plan assets and the defined benefit obligations (the "corridor approach"). As the result of application of amended standard, unrecognised actuarial losses in the amount of RR 142,587 and RR 174,447 as of 1 January 2012 and 31 December 2012, respectively, were recorded within retained earnings and other reserves. Correspondingly, the net defined benefit assets/liabilities have changed by those amounts and operating expenses for the year ended 31 December 2012 decreased by RR 164,449.
- Past service costs, which is the change in the present value of defined benefit obligation for employee service in prior periods, are now recognized immediately though profit or loss when they occur, in the period of a plan amendment. This resulted in unrecognised past service costs in the amount of RR 47,124 and RR 43,216 as of 1 January 2012 and 31 December 2012, respectively, being expensed within retained earnings and other reserves. Unvested benefits will no longer be spread over a future-service period. There was no significant impact on profit or loss for the year ended 31 December 2012.

(In millions of Russian Roubles)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The effect of these changes on the consolidated balance sheet is summarized in the following table:

	1 January 2012		31 December 2012	
	Funded benefits - provided through NPF Gazfund	**Unfunded liabilities - other benefits**	**Funded benefits - provided through NPF Gazfund**	**Unfunded liabilities - other benefits**
Net balance asset (liability) (previously reported)	**248,001**	**(95,678)**	**214,838**	**(111,052)**
Recognition of actuarial losses	(136,585)	(6,002)	(130,459)	(43,988)
Recognition of past service costs	-	(47,124)	-	(43,216)
Net balance asset (liability) (restated)	**111,416**	**(148,804)**	**84,379**	**(198,256)**

- In accordance with the transition provisions the standard replaces the interest cost on the defined benefit obligations and the expected return on plan assets with a net interest expense or income based on the net defined benefit assets or liability and the discount rate, measured at the beginning of the year. Previously interest expense on defined benefit obligations and the expected return on plan assets were measured at different rates. This resulted in an increase in operating expenses in the amount of RR 18,858 for the year ended 31 December 2012.
- Changes in the impact of asset ceiling are now recognised immediately in other comprehensive income (net of amounts included in net interest expense). This resulted in an increase of operating expenses in the amount of RR 107,646 for the year ended 31 December 2012.

The total effect of the adoption of IFRS 11 and IAS 19 (revised) on the financial statements is shown below.

All changes in the accounting policies have been made in accordance with IAS 8 “Accounting policies, changes in accounting estimates and errors” (“IAS 8”), which requires retrospective application unless the new standard requires otherwise.

(In millions of Russian Roubles)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Notes	Reconciliation of consolidated balance sheet as of 1 January 2012	Previously reported	Adjustment due to change in accounting policy		Restated
			for joint operations	for post-employment benefits	
	Assets				
	Current assets				
	Cash and cash equivalents	501,344	3,422	-	504,766
	Restricted cash	3,877	2,413	-	6,290
	Short-term financial assets	23,991	-	-	23,991
	Accounts receivable and prepayments	784,053	(1,491)	-	782,562
	Inventories	407,530	3,578	-	411,108
	VAT recoverable	303,454	-	-	303,454
	Other current assets	216,044	78	-	216,122
		2,240,293	**8,000**	**-**	**2,248,293**
	Non-current assets				
12	Property, plant and equipment	6,718,575	133,528	-	6,852,103
	Goodwill	102,800	-	-	102,800
	Investments in associated undertakings and joint ventures	715,966	(107,191)	-	608,775
	Long-term accounts receivable and prepayments	517,097	(12,426)	-	504,671
	Available-for-sale long-term financial assets	181,138	-	-	181,138
	Other non-current assets	424,827	118	(136,585)	288,360
		8,660,403	**14,029**	**(136,585)**	**8,537,847**
	Total assets	**10,900,696**	**22,029**	**(136,585)**	**10,786,140**
	Liabilities and equity				
	Current liabilities				
	Accounts payable and accrued charges	804,644	(42)	-	804,602
	Current profit tax payable	44,036	79	-	44,115
	Other taxes payable	93,707	6,617	-	100,324
	Short-term borrowings, promissory notes and current portion of long-term borrowings	366,868	(4,332)	-	362,536
		1,309,255	**2,322**	**-**	**1,311,577**
	Non-current liabilities				
	Long-term borrowings and promissory notes	1,173,294	989	-	1,174,283
24	Provisions for liabilities and charges	206,734	4,606	53,126	264,466
22	Deferred tax liability	402,728	15,167	-	417,895
	Other non-current liabilities	47,694	5	-	47,699
		1,830,450	**20,767**	**53,126**	**1,904,343**
	Total liabilities	**3,139,705**	**23,089**	**53,126**	**3,215,920**
	Equity				
	Share capital	325,194	-	-	325,194
	Treasury shares	(104,605)	-	-	(104,605)
	Retained earnings and other reserves	7,242,982	(1,014)	(189,711)	7,052,257
		7,463,571	**(1,014)**	**(189,711)**	**7,272,846**
33	Non-controlling interest	297,420	(46)	-	297,374
	Total equity	**7,760,991**	**(1,060)**	**(189,711)**	**7,570,220**
	Total liabilities and equity	**10,900,696**	**22,029**	**(136,585)**	**10,786,140**

(In millions of Russian Roubles)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Notes	Reconciliation of consolidated balance sheet as of 31 December 2012	Previously reported	Adjustment due to change in accounting policy		Restated
			for joint operations	for post-employment benefits	
	Assets				
	Current assets				
8	Cash and cash equivalents	419,536	6,184	-	425,720
8	Restricted cash	3,658	1,872	-	5,530
9	Short-term financial assets	16,962	-	-	16,962
10	Accounts receivable and prepayments	940,106	626	-	940,732
11	Inventories	459,534	3,212	-	462,746
	VAT recoverable	395,250	118	-	395,368
	Other current assets	173,700	45	-	173,745
		2,408,746	**12,057**	**-**	**2,420,803**
	Non-current assets				
12	Property, plant and equipment	7,818,392	130,778	-	7,949,170
13	Goodwill	146,587	-	-	146,587
14	Investments in associated undertakings and joint ventures	653,187	(112,074)	-	541,113
15	Long-term accounts receivable and prepayments	491,018	(11,880)	-	479,138
16	Available-for-sale long-term financial assets	161,701	3	-	161,704
17	Other non-current assets	388,508	272	(130,459)	258,321
		9,659,393	**7,099**	**(130,459)**	**9,536,033**
	Total assets	**12,068,139**	**19,156**	**(130,459)**	**11,956,836**
	Liabilities and equity				
	Current liabilities				
18	Accounts payable and accrued charges	1,040,274	(1,281)	-	1,038,993
	Current profit tax payable	7,463	527	-	7,990
19	Other taxes payable	115,273	7,177	-	122,450
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	326,807	(4,174)	-	322,633
		1,489,817	**2,249**	**-**	**1,492,066**
	Non-current liabilities				
21	Long-term borrowings and promissory notes	1,177,934	25	-	1,177,959
24	Provisions for liabilities and charges	243,506	5,833	87,204	336,543
22	Deferred tax liability	429,305	14,499	-	443,804
	Other non-current liabilities	26,483	36	-	26,519
		1,877,228	**20,393**	**87,204**	**1,984,825**
	Total liabilities	**3,367,045**	**22,642**	**87,204**	**3,476,891**
	Equity				
25	Share capital	325,194	-	-	325,194
25	Treasury shares	(104,094)	-	-	(104,094)
25	Retained earnings and other reserves	8,170,631	(3,335)	(217,663)	7,949,633
		8,391,731	**(3,335)**	**(217,663)**	**8,170,733**
33	Non-controlling interest	309,363	(151)	-	309,212
	Total equity	**8,701,094**	**(3,486)**	**(217,663)**	**8,479,945**
	Total liabilities and equity	**12,068,139**	**19,156**	**(130,459)**	**11,956,836**

(In millions of Russian Roubles)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Notes	Reconciliation of consolidated statement of comprehensive income for the year ended 31 December 2012	Previously reported	Adjustment due to change in accounting policy: for joint operations	Adjustment due to change in accounting policy: for post-employment benefits	Restated
26	Sales	4,764,411	2,084	-	4,766,495
	Net gain from trading activity	2,821	-	-	2,821
27	Operating expenses	(3,481,264)	17,568	41,849	(3,421,847)
27	Reversal of impairment and other provisions, net	3,208	-	-	3,208
	Operating profit	**1,289,176**	**19,652**	**41,849**	**1,350,677**
28	Finance income	307,871	618	-	308,489
28	Finance expense	(247,138)	(30)	-	(247,168)
14	Share of net income (loss) of associated undertakings and joint ventures	161,500	(16,308)	-	145,192
	Gains on disposal of available-for-sale financial assets	546	-	-	546
	Profit before profit tax	**1,511,955**	**3,932**	**41,849**	**1,557,736**
	Current profit tax expense	(276,045)	(4,025)	-	(280,070)
	Deferred profit tax expense	(25,344)	93	-	(25,251)
22	Profit tax expense	(301,389)	(3,932)	-	(305,321)
	Profit for the year	**1,210,566**	**-**	**41,849**	**1,252,415**
	Other comprehensive (loss) income:				
	Items that will not be reclassified to profit or loss:				
24	Remeasurements of post-employment benefit obligations	-	-	(69,801)	(69,801)
	Total items that will not be reclassified to profit or loss	**-**	**-**	**(69,801)**	**(69,801)**
	Items that will be reclassified to profit or loss:				
	Losses arising from change in fair value of available-for-sale financial assets, net of tax	(17,499)	-	-	(17,499)
	Share of other comprehensive income of associated undertakings and joint ventures	1,885	-	-	1,885
	Translation differences	(32,366)	(2,426)	-	(34,792)
	Gains from cash flow hedges, net of tax	806	-	-	806
	Total items that will be reclassified to profit or loss	**(47,174)**	**(2,426)**	**-**	**(49,600)**
	Other comprehensive loss for the year, net of tax	**(47,174)**	**(2,426)**	**(69,801)**	**(119,401)**
	Total comprehensive income (loss) for the year	**1,163,392**	**(2,426)**	**(27,952)**	**1,133,014**
	Profit attributable to:				
	Owners of OAO Gazprom	1,182,625	-	41,849	1,224,474
	Non-controlling interest	27,941	-	-	27,941
		1,210,566	**-**	**41,849**	**1,252,415**
	Total comprehensive income attributable to:				
	Owners of OAO Gazprom	1,137,257	(2,321)	(27,952)	1,106,984
	Non-controlling interest	26,135	(105)	-	26,030
		1,163,392	**(2,426)**	**(27,952)**	**1,133,014**
30	**Basic and diluted earnings per share for profit attributable to the owners of OAO Gazprom (in Roubles)**	**51.53**	**-**	**1.82**	**53.35**

(In millions of Russian Roubles)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reconciliation of consolidated statement of cash flows for the year ended 31 December 2012	Previously reported	Adjustment due to change in accounting policy		Restated
		for joint operations	for post-employment benefits	
Net cash from operating activities	1,445,617	27,162	-	1,472,779
Net cash used in investing activities	(1,267,310)	(19,906)	-	(1,287,216)
Net cash used in financing activities	(249,381)	(4,489)	-	(253,870)
Effect of foreign exchange rate changes on cash and cash equivalents	(10,734)	(5)	-	(10,739)
(Decrease) increase in cash and cash equivalents	**(81,808)**	**2,762**	**-**	**(79,046)**

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

IFRS 9 "Financial Instruments" ("IFRS 9"), issued in November 2009, amended in October 2010, December 2011 and November 2013 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The IASB has published an amendment to IFRS 9 that delays the effective date from annual periods beginning on or after 1 January 2013 to 1 January 2015. This amendment is a result of the Board extending its timeline for completing the remaining phases of its project to replace IAS 39 beyond June 2011. The application of this standard is not expected to materially affect the Group's consolidated financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below) consist of changes to several standards, including the following:

- IFRS 8 "Operating segments" was amended to require (i) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (ii) a reconciliation of segment assets to the entity's assets when segment assets are reported.
- The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014) consist of changes to several standards, including the following:

- IFRS 3 "Business Combinations" was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.
- The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

The Group is currently assessing the impact of the amendments on its consolidated financial statements.

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

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

Management judgment is involved in the assessment of control and the consolidation of subsidiaries in the Group's consolidated financial statements.

6.2 Tax legislation and uncertain tax positions

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 38).

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

6.3 Assumptions to determine amount of provisions

Impairment provision for accounts receivable

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

Impairment of Property, plant and equipment and Goodwill

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

In addition, judgement is applied in determining the cash-generating units assessed for impairment. For the purposes of the goodwill impairment test, management considers gas production, transportation and distribution activities as part of one Gas cash-generating unit and monitors associated goodwill at this level. The pipelines that are part of the Gas cash-generating unit are utilized primarily for the Group activities and represent the only transit route for the gas produced. Operationally, the gas produced is transported through the Group's Russian and Belorussian pipelines and distributed to meet demands of customers in Russia and then in the Former Soviet Union and Europe and underground storage facilities. The interrelationship of these activities forming the Gas cash-generating unit provides the basis for capturing the benefits from synergies.

The value in use of assets or cash-generating units related to oil and gas operations are based on the cash flows expected from oil and gas production volumes, which include both proved reserves as well as certain volumes of those that are expected to constitute proved and probable reserves in the future. Impairment charges are disclosed in Note 12.

Accounting for provisions

Accounting for impairment includes provisions against capital construction projects, financial assets, other non-current assets and inventory obsolescence. Because of the Group's operating cycle, certain significant decisions about capital construction projects are made after the end of the calendar year. Accordingly, the Group typically has larger impairment charges or releases in the fourth quarter of the fiscal year as compared to other quarters.

6.4 Site restoration and environmental costs

Site restoration costs that may be incurred by the Group at the end of the operating life of certain Group's facilities and properties are recognized when the Group has a present legal or constructive obligation as a result

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

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

6.5 Useful lives of Property, plant and equipment

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

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2013 would be an increase by RR 46,462 or a decrease by RR 38,014 (2012: increase by RR 38,272 or decrease by RR 31,313).

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

6.6 Fair value estimation for financial instruments

The fair values of energy trading contracts, commodity futures and swaps are based on market quotes on measurement date (Level 1 in accordance with the valuation hierarchy). Customary valuation models are used to value financial instruments which are not traded in active markets. The fair values are based on inputs that are observable either directly or indirectly (Level 2 in accordance with the valuation hierarchy). Contracts that are valued based on non-observable market data belong to Level 3 in accordance with the valuation hierarchy. Management's best estimates based on internally developed models are used for the valuation. Where the valuation technique employed incorporates significant unobservable input data such as these long-term price assumptions, contracts have been categorised as Level 3 in accordance with the valuation hierarchy (see Note 40).

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

6.7 Fair value estimation for acquisitions

In accounting for business combinations, the purchase price paid to acquire a business is allocated to its assets and liabilities based on the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition. The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. A significant amount of judgment is involved in estimating the individual fair values of property, plant and equipment and identifiable intangible assets.

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

6.8 Accounting for plan assets and pension liabilities

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

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

6.9 Joint Arrangements

Upon adopting of IFRS 11 the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

7 SEGMENT INFORMATION

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

- The Board of Directors and Management Committee of OAO Gazprom (chief operating decision maker (CODM)) 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;
- Transport – transportation of gas;
- Distribution – sales of gas within Russian Federation and abroad;
- Gas storage – storage of extracted and purchased gas in underground gas storages;
- Production of crude oil and gas condensate – exploration and production of oil and gas condensate, sales of crude oil and gas condensate;
- Refining – processing of oil, gas condensate and other hydrocarbons, and sales of refined products; and
- Electric and heat energy generation and sales.

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

The inter-segment sales mainly consist of:

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

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

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

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

	Production of gas	Transport	Distribution	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 2013									
Total segment revenues	**662,593**	**949,287**	**3,210,204**	**37,640**	**698,535**	**1,362,414**	**375,589**	**234,037**	**7,530,299**
Inter-segment sales	653,921	786,022	247,053	35,679	488,319	10,701	-	-	2,221,695
External sales	8,672	163,265	2,963,151	1,961	210,216	1,351,713	375,589	234,037	5,308,604
Segment result	**62,594**	**55,109**	**917,896**	**4,882**	**109,581**	**149,994**	**39,218**	**12,059**	**1,351,333**
Depreciation	132,185	366,861	14,241	15,220	75,872	34,696	26,409	19,384	684,868
Share of net income (loss) of associated undertakings and joint ventures	852	2,446	12,442	374	28,271	(937)	(9)	13,231	56,670
Year ended 31 December 2012 (restated)									
Total segment revenues	**553,945**	**860,029**	**2,883,411**	**33,598**	**715,843**	**1,219,142**	**343,509**	**233,487**	**6,842,964**
Inter-segment sales	544,819	734,643	235,430	32,286	440,283	9,927	-	-	1,997,388
External sales	9,126	125,386	2,647,981	1,312	275,560	1,209,215	343,509	233,487	4,845,576
Segment result	**25,846**	**56,104**	**660,882**	**5,619**	**163,359**	**80,473**	**32,835**	**1,078**	**1,026,196**
Depreciation	110,970	328,157	10,460	13,370	66,889	31,084	20,872	18,453	600,255
Share of net income of associated undertakings and joint ventures	1,026	2,994	35,552	(165)	84,169	7,889	-	13,727	145,192

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

Notes		For the year ended 31 December 2013	2012 (restated)
	Segment result for reportable segments	1,339,274	1,025,118
	Other segments' result	12,059	1,078
	Total segment result	**1,351,333**	**1,026,196**
	Difference in depreciation*	265,849	254,565
	Expenses associated with pension obligations	(28,063)	(4,936)
28	Net finance (expense) income	(154,584)	61,321
	(Losses) gains on disposal of available-for-sale financial assets	(3,212)	546
14	Share of net income of associated undertakings and joint ventures	56,670	145,192
12	Reversal of impairment provision for assets under construction	-	47,574
	Other	(1,910)	27,278
	Profit before profit tax	**1,486,083**	**1,557,736**

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

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

	For the year ended 31 December 2013	2012 (restated)
External sales for reportable segments	5,074,567	4,612,089
External sales for other segments	234,037	233,487
Total external segment sales	**5,308,604**	**4,845,576**
Differences in external sales*	(58,639)	(79,081)
Total sales per the consolidated statement of comprehensive income	**5,249,965**	**4,766,495**

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

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

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

	Production of gas	Transport	Distribution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
31 December 2013									
Segment assets	2,051,204	5,271,761	1,394,112	242,198	1,585,429	1,121,301	798,781	669,682	13,134,468
Investments in associated undertakings and joint ventures	31,032	74,292	73,339	6,090	228,612	17,575	439	118,305	549,684
Capital additions	257,407	380,547	36,085	23,524	223,557	113,254	77,191	102,285	1,213,850
31 December 2012 (restated)									
Segment assets	1,875,535	5,275,864	1,217,828	220,581	1,399,797	1,048,925	592,251	587,508	12,218,289
Investments in associated undertakings and joint ventures	27,699	54,197	74,170	4,025	262,202	17,253	448	101,119	541,113
Capital additions	232,705	563,825	47,166	18,247	121,167	134,163	54,851	61,086	1,233,210

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

Notes		31 December 2013	31 December 2012 (restated)
	Segment assets for reportable segments	12,464,786	11,630,781
	Other segments' assets	669,682	587,508
	Total segment assets	**13,134,468**	**12,218,289**
	Differences in property, plant and equipment, net*	(1,600,509)	(1,850,808)
12	Loan interest capitalized	378,792	323,480
	Decommissioning costs	75,886	91,281
8	Cash and cash equivalents	689,130	425,720
8	Restricted cash	401	5,530
9	Short-term financial assets	24,502	16,962
	VAT recoverable	341,315	395,368
	Other current assets	205,572	173,745
16	Available-for-sale long-term financial assets	168,904	161,704
13	Goodwill	151,189	146,587
	Other non-current assets	326,352	258,321
	Inter-segment assets	(671,612)	(645,226)
	Other	211,846	235,883
	Total assets per the consolidated balance sheet	**13,436,236**	**11,956,836**

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

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

	Production of gas	Transport	Distri-bution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy genera-tion and sales	All other segments	Total
Segment liabilities									
31 December 2013	155,578	290,678	534,370	9,599	225,777	287,677	49,088	125,339	1,678,106
31 December 2012 (restated)	135,554	426,987	599,617	9,844	165,515	260,159	32,360	146,937	1,776,973

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

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

Notes		31 December 2013	31 December 2012 (restated)
	Segment liabilities for reportable segments	1,552,767	1,630,036
	Other segments' liabilities	125,339	146,937
	Total segments liabilities	**1,678,106**	**1,776,973**
	Current profit tax payable	17,750	7,990
20	Short-term borrowings, promissory notes and current portion of long- term borrowings	331,926	322,633
21	Long-term borrowings and promissory notes	1,470,002	1,177,959
24	Provisions for liabilities and charges	330,580	336,543
22	Deferred tax liabilities	558,869	443,804
	Other non-current liabilities	50,966	26,519
	Dividends	3,791	1,779
	Inter-segment liabilities	(671,612)	(645,226)
	Other	31,504	27,917
	Total liabilities per the consolidated balance sheet	**3,801,882**	**3,476,891**

8 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

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

	31 December 2013	31 December 2012 (restated)
Cash on hand and bank balances payable on demand	568,663	315,503
Term deposits with original maturity of three months or less	120,467	110,217
	689,130	**425,720**

Restricted cash balances include cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings of RR nil and RR 3,658 as of 31 December 2013 and 2012, respectively.

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

	31 December 2013	31 December 2012 (restated)
Cash on hand	570	475
External credit rating of A-3 and above	592,621	307,061
External credit rating of B	8,061	93,698
No external credit rating	87,878	24,486
Total cash and cash equivalents	**689,130**	**425,720**

The sovereign credit rating of the Russian Federation published by Standard & Poor's is BBB (stable outlook) as of 31 December 2013.

9 SHORT-TERM FINANCIAL ASSETS

	31 December 2013	31 December 2012
Financial assets held for trading:	**22,355**	**15,021**
Bonds	5,681	1,606
Equity securities	16,674	13,415
Available-for-sale financial assets:	**2,147**	**1,941**
Bonds	-	910
Promissory notes	2,147	1,031
Total short-term financial assets	**24,502**	**16,962**

(In millions of Russian Roubles)

9 SHORT-TERM FINANCIAL ASSETS (continued)

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

	31 December 2013	31 December 2012
External credit rating of A-3 and above	4,725	1,598
External credit rating of B	2,296	1,558
No external credit rating	807	391
	7,828	**3,547**

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2013	31 December 2012 (restated)
Financial assets		
Trade receivables (net of impairment provision of RR 315,332 and RR 256,334 as of 31 December 2013 and 2012, respectively)	751,219	654,262
Other receivables (net of impairment provision of RR 18,139 and RR 16,664 as of 31 December 2013 and 2012, respectively)	175,066	144,637
	926,285	798,899
Non-financial assets		
Advances and prepayments (net of impairment provision of RR 670 and RR 622 as of 31 December 2013 and 2012, respectively)	105,741	141,833
Total accounts receivable and prepayments	**1,032,026**	**940,732**

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

As of 31 December 2013 and 2012 RR 505,462 and RR 415,159 of trade receivables, net of impairment provision, respectively, are denominated in foreign currencies, mainly US dollar and Euro.

Other receivables are mainly represented by accounts receivable from Russian customers.

As of 31 December 2013 and 2012, trade receivables of RR 38,568 and RR 29,409, respectively, were past due but not impaired. These mainly relate to a number of customers for whom there is no recent history of material default. The ageing analysis of these trade receivables is as follows:

Ageing from the due date	31 December 2013	31 December 2012
Up to 6 months	24,835	17,198
From 6 to 12 months	8,471	6,192
From 1 to 3 years	5,004	5,870
More than 3 years	258	149
	38,568	**29,409**

As of 31 December 2013 and 2012, trade receivables of RR 340,576 and RR 261,503, respectively, were impaired and provided for. The amount of the provision was RR 315,332 and RR 256,334 as of 31 December 2013 and 2012, respectively. The individually impaired receivables mainly relate to gas sales to certain Russian regions and Former Soviet Union countries. In management's view the receivables will be ultimately recovered. The ageing analysis of these receivables is as follows:

Ageing from the due date	Gross book value 31 December		Provision 31 December		Net book value 31 December	
	2013	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)
Up to 6 months	53,956	31,742	(38,077)	(29,895)	15,879	1,847
From 6 to 12 months	29,322	33,108	(25,279)	(30,203)	4,043	2,905
From 1 to 3 years	108,828	81,835	(103,687)	(81,466)	5,141	369
More than 3 years	148,470	114,818	(148,289)	(114,770)	181	48
	340,576	**261,503**	**(315,332)**	**(256,334)**	**25,244**	**5,169**

(In millions of Russian Roubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As of 31 December 2013 and 2012, trade receivables of RR 687,407 and RR 619,684, respectively, were neither past due nor impaired. Management's experience indicates customer payment histories vary by geography. The credit quality of these assets can be analysed as follows:

	31 December 2013	31 December 2012 (restated)
Europe and other countries gas, crude oil, gas condensate and refined products debtors	326,093	280,902
Former Soviet Union countries (excluding Russian Federation) gas, crude oil, gas condensate and refined products debtors	157,360	127,569
Domestic gas, crude oil, gas condensate and refined products debtors	126,183	124,656
Electricity and heat sales debtors	36,850	36,994
Transportation services debtors	1,687	5,713
Other trade debtors	39,234	43,850
Total trade receivables neither past due nor impaired	**687,407**	**619,684**

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

	Trade receivables		Other receivables	
	Year ended 31 December		Year ended 31 December	
	2013	2012 (restated)	2013	2012 (restated)
Impairment provision at the beginning of the year	256,334	207,981	16,664	17,474
Impairment provision accrued*	72,847	57,150	6,351	1,314
Write-off of receivables during the year**	(1,302)	(1,320)	(4,326)	(833)
Release of previously created provision*	(12,547)	(7,477)	(550)	(1,291)
Impairment provision at the end of the year	**315,332**	**256,334**	**18,139**	**16,664**

* The accrual and release of provision for impaired receivables have been included in (Charge for) reversal of impairment and other provisions in the consolidated statement of comprehensive income.

** If there is no probability of cash receipt for the impaired accounts receivable which were previously provided for, the amount of respective accounts receivable is written-off by means of that provision.

11 INVENTORIES

	31 December 2013	31 December 2012 (restated)
Gas in pipelines and storage	350,537	257,321
Materials and supplies (net of an obsolescence provision of RR 4,306 and RR 3,805 as of 31 December 2013 and 2012, respectively)	110,323	97,894
Goods for resale (net of an obsolescence provision of RR 589 and RR 671 as of 31 December 2013 and 2012, respectively)	24,693	25,562
Crude oil and refined products	84,171	81,969
	569,724	**462,746**

(In millions of Russian Roubles)

12 PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
As of 1 January 2012 (restated)								
Cost	2,340,105	1,041,422	2,233,925	2,026,471	446,275	89,055	1,835,541	10,012,794
Accumulated depreciation	(1,025,597)	(376,636)	(910,751)	(671,134)	(146,728)	(29,845)	-	(3,160,691)
Net book value as of 1 January 2012 (restated)	**1,314,508**	**664,786**	**1,323,174**	**1,355,337**	**299,547**	**59,210**	**1,835,541**	**6,852,103**
Depreciation	(61,514)	(41,719)	(144,250)	(76,972)	(17,466)	(2,523)	-	(344,444)
Additions	3,047	804	12,205	2,785	4,358	1,273	1,324,642	1,349,114
Acquisition of subsidiaries	282	153	18,270	29,872	1,464	-	50,468	100,509
Translation differences	(1,843)	(1,630)	(3,555)	(3,971)	(2,035)	(34)	(1,599)	(14,667)
Transfers	642,693	148,066	505,902	360,821	308	3,957	(1,661,747)	-
Disposals	(935)	(2,785)	(10,781)	(8,054)	(1,424)	(880)	(18,520)	(43,379)
Release of impairment provision	76	52	182	30	-	-	49,594	49,934
Net book value as of 31 December 2012 (restated)	**1,896,314**	**767,727**	**1,701,147**	**1,659,848**	**284,752**	**61,003**	**1,578,379**	**7,949,170**
As of 31 December 2012 (restated)								
Cost	2,978,567	1,183,507	2,767,829	2,402,697	456,046	93,181	1,578,379	11,460,206
Accumulated depreciation	(1,082,253)	(415,780)	(1,066,682)	(742,849)	(171,294)	(32,178)	-	(3,511,036)
Net book value as of 31 December 2012 (restated)	**1,896,314**	**767,727**	**1,701,147**	**1,659,848**	**284,752**	**61,003**	**1,578,379**	**7,949,170**
Depreciation	(76,672)	(46,717)	(183,432)	(87,682)	(21,037)	(2,616)	-	(418,156)
Additions	358	45,611	10,045	3,242	41,202	410	1,212,280	1,313,148
Acquisition of subsidiaries	19	21	98,418	13,655	-	-	18,960	131,073
Translation differences	799	3,595	4,692	5,583	2,590	2	1,455	18,716
Transfers	109,193	132,309	364,491	359,766	609	2,691	(969,059)	-
Disposals	(613)	(19,029)	(5,275)	(7,417)	(2,048)	(260)	(19,175)	(53,817)
Charge for impairment provision	-	-	-	-	-	-	(46)	(46)
Net book value as of 31 December 2013	**1,929,398**	**883,517**	**1,990,086**	**1,946,995**	**306,068**	**61,230**	**1,822,794**	**8,940,088**
As of 31 December 2013								
Cost	3,089,096	1,344,235	3,233,208	2,777,460	498,399	94,737	1,822,794	12,859,929
Accumulated depreciation	(1,159,698)	(460,718)	(1,243,122)	(830,465)	(192,331)	(33,507)	-	(3,919,841)
Net book value as of 31 December 2013	**1,929,398**	**883,517**	**1,990,086**	**1,946,995**	**306,068**	**61,230**	**1,822,794**	**8,940,088**

At each balance sheet date management assesses whether there is any indication that the recoverable value has declined below the carrying value of the property, plant and equipment. Operating assets are shown net of provision for impairment of RR 54,047 as of 31 December 2013 and 2012, respectively.

Assets under construction are presented net of a provision for impairment of RR 42,873 and RR 43,378 as of 31 December 2013 and 2012, respectively. Charges for impairment provision of assets under construction primarily relate to assets for which it is not yet probable that there will be future economic benefit.

In October 2012, upon commencement of operations at the Bovanenkovskoye field, the Group reversed the previously created impairment provision for assets under construction related to Bovanenkovskoye and Kharasaveyskoye fields and the Obskaya-Bovanenkovo railroad. Total amount of the reversal of the impairment provision included in Reversal of (charge for) impairment and other provisions, net amounted to RR 47,574.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RR 463 and RR 778 as of 31 December 2013 and 2012, respectively.

Included in additions above is capitalized interest of RR 66,357 and RR 66,873 for the years ended 31 December 2013 and 2012, respectively. Capitalization rates of 6.09% and 6.85% were used representing the weighted average borrowing cost for the years ended 31 December 2013 and 2012, respectively.

(In millions of Russian Roubles)

12 PROPERTY, PLANT AND EQUIPMENT (continued)

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

	Year ended 31 December	
	2013	**2012**
Balance at the beginning of the year	111,290	94,929
Additions	78,792	20,060
Disposals	(5,710)	(3,699)
Balance at the end of the year	**184,372**	**111,290**

13 GOODWILL

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

	Year ended 31 December	
Movements in goodwill on subsidiaries	**2013**	**2012**
Balance at the beginning of the year	146,587	102,800
Additions	4,602	44,128
Disposals	-	(341)
Balance at the end of the year	**151,189**	**146,587**

Additions to goodwill on subsidiaries for the year ended 31 December 2012 primarily comprise goodwill attributable to OAO Gazprom neftekhim Salavat (see Note 35).

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

	31 December	
	2013	**2012**
Gas production, transportation and distribution	70,638	70,567
Refining	43,469	43,469
Production of crude oil and gas condensate	27,564	25,952
Electric and heat energy generation and sales	9,518	6,599
Total goodwill on subsidiaries	**151,189**	**146,587**

In assessing whether goodwill has been impaired, the carrying values of the cash-generating units (including goodwill) were compared with their estimated value in use. Value in use is calculated as the present values of projected future cash flows discounted by the rates reflecting the time value of money as at 31 December 2013 and the risks specific to the particular cash-generated units, for which the future cash flow estimates have not been adjusted. The Group applied discount rates ranging from 11 to 14%.

The estimates of future cash flows are based on the Group's managerial information, including forecast of commodity prices and expected production volumes, and available market information, and cover periods commensurate with the expected lives of the respective assets. The Group applied either steady or declining growth rates to cash flows beyond the explicit period of the forecast for related cash-generating units.

(In millions of Russian Roubles)

14 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES

Notes			Carrying value as of 31 December		Share of the income (loss) of associated undertakings and joint ventures for the year ended 31 December	
			2013	**2012 (restated)**	**2013**	**2012 (restated)**
36	OAO NGK Slavneft and its subsidiaries	Joint venture	126,976	149,208	(18,949)	12,303
36	Gazprombank Group	Associate	100,612	86,569	11,997	12,841
36,37	Sakhalin Energy Investment Company Ltd.	Associate	67,868	88,862	41,338	72,013
36,37	Nord Stream AG	Joint venture	43,851	35,870	2,538	2,608
36	W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	Associate	40,302	38,216	4,809	4,710
36	OOO Yamal razvitie and its subsidiaries	Joint venture	24,165	24,328	(130)	(314)
	Shtokman Development AG	Joint venture	23,216	21,783	(248)	(369)
36,37	SGT EuRoPol GAZ S.A.	Associate	18,802	17,347	(240)	386
	Wintershall AG	Associate	11,528	12,198	1,492	3,416
	ZAO Achimgaz	Joint venture	9,956	5,933	4,023	1,413
36	TOO KazRosGaz	Joint venture	9,819	12,819	4,659	8,485
36	AO Latvijas Gaze	Associate	4,959	4,414	470	449
36	AO Gasum	Associate	4,515	4,089	369	425
36	ZAO Nortgaz	Joint venture	2,258	1,128	1,130	554
36	AO Lietuvos dujos*	Associate	1,359	2,937	281	324
	AO Amber Grid*	Associate	1,206	-	25	-
36	RosUkrEnergo AG**	Associate	-	-	-	17,017
35,36	OAO Gazprom neftekhim Salavat***	-	-	-	-	4,269
	Other (net of provision for impairment of RR 1,929 as of 31 December 2013 and 2012)		58,292	35,412	3,106	4,662
			549,684	**541,113**	**56,670**	**145,192**

* In accordance with the provisions of the Third Energy Package of the European Union regarding the split between the gas transmission and distribution activities in August 2013 AO Lietuvos dujos transferred assets, liabilities and rights related to gas transportation to AO Amber Grid, an associate of the Group.

** In June 2012 RosUkrEnergo AG declared dividends related to the results of its operations in 2011. Due to doubts regarding recoverability of these dividends the Group recognized its share of the profit only in July 2012 when cash was received from RosUkrEnergo AG. As of 31 December 2013 OAO Gazprom maintains a 50% interest in RosUkrEnergo AG with a carrying value of zero.

*** During the period from May 2012 to June 2013 as a result of series of transactions, the Group acquired an additional 30.97% interest in the ordinary shares of OAO Gazprom neftekhim Salavat for cash consideration of RR 30,934 increasing its interest to 100% (see Note 35).

The Group's share of income of associated undertakings and joint ventures for the year ended 31 December 2013 includes additional expense of RR 25,961 recognized for OAO NGK Slavneft and its subsidiaries as a result of a one-time adjustment in the first quarter of 2013 to correct the prior understatement of depreciation on the basis difference for property, plant and equipment since the Group’s acquisition of interest in OAO NGK Slavneft.

(In millions of Russian Roubles)

14 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES (continued)

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

	Year ended 31 December 2013	2012 (restated)
Balance at the beginning of the reporting year	**541,113**	**608,775**
Share of net income of associated undertakings and joint ventures	56,670	145,192
Distributions from associated undertakings and joint ventures	(95,574)	(134,670)
Redemption of preference shares of Sakhalin Energy Investment Company Ltd.	-	(49,925)
Share of other comprehensive income of associated undertakings and joint ventures	10,100	1,885
Translation differences	15,879	(5,503)
Acquisition of the controlling interest in OAO Gazprom neftekhim Salavat (see Note 35)	-	(43,650)
Other acquisitions and disposals	21,496	19,009
Balance at the end of the reporting year	**549,684**	**541,113**

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

	31 December 2013	2012
AO Latvijas Gaze	5,702	4,806
AO Lietuvos dujos	3,065	3,924
AO Amber Grid	2,170	-

(In millions of Russian Roubles)

14 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES (continued)

Significant associated undertakings and joint ventures

	Country of primary operations	Country of incorporation	Nature of operations	% of ordinary shares held as of 31 December* 2013	2012
ZAO Achimgaz	Russia	Russia	Exploration and production of gas and gas condensate	50	50
AO Amber Grid	Lithuania	Lithuania	Gas transportation	37	-
Bosphorus Gaz Corporation A.S.**	Turkey	Turkey	Gas distribution	71	71
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	Germany	Germany	Transportation and gas distribution	50	50
Wintershall AG	Libya	Germany	Production of oil and gas distribution	49	49
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	Germany	Germany	Gas distribution	50	50
Gaz Project Development Central Asia AG	Uzbekistan	Switzerland	Gas production	50	50
OAO Gazprombank***	Russia	Russia	Banking	37	38
AO Gasum	Finland	Finland	Gas distribution	25	25
SGT EuRoPol GAZ S.A.	Poland	Poland	Transportation and gas distribution	48	48
TOO KazRosGaz	Kazakhstan	Kazakhstan	Gas processing and sales of gas and refined products	50	50
AO Latvijas Gaze	Latvia	Latvia	Transportation and gas distribution	34	34
AO Lietuvos dujos	Lithuania	Lithuania	Gas distribution	37	37
AO Moldovagaz	Moldova	Moldova	Transportation and gas distribution	50	50
Nord Stream AG	Russia, Germany	Switzerland	Construction, gas transportation	51	51
ZAO Nortgaz****	Russia	Russia	Exploration and sales of gas and gas condensate	50	51
AO Overgaz Inc.	Bulgaria	Bulgaria	Gas distribution	50	50
ZAO Panrusgaz	Hungary	Hungary	Gas distribution	40	40
AO Prometheus Gas	Greece	Greece	Gas distribution, construction	50	50
RosUkrEnergo AG	Ukraine	Switzerland	Gas distribution	50	50
Sakhalin Energy Investment Company Ltd.	Russia	Bermuda Islands	Oil production, production of LNG	50	50
OAO NGK Slavneft	Russia	Russia	Production of oil, sales of oil and refined products	50	50
AO Turusgaz	Turkey	Turkey	Gas distribution	45	45
Shtokman Development AG**	Russia	Switzerland	Exploration and production of gas	75	75
OOO Yamal razvitie*****	Russia	Russia	Investment activities, assets management	50	50

*Cumulative share of Group companies in charter capital of investments.

** Investments in companies continue to be accounted under the equity method of accounting, as the Group did not obtain control due to its corporate governance structure.

*** The effective Group's share in OAO Gazprombank as of 31 December 2013 decreased from 38% to 37% due to decrease of OOO Novfintekh's share in OAO Gazprombank from 6.33% to 3.45%.

**** In June 2013 OAO NOVATEK additionally acquired 1% interest in ZAO Nortgaz through a subscription to the entity's additional share emission. As a result of this transaction, the Group's interest in ZAO Nortgaz decreased from 51% to 50%.

***** OOO Yamal razvitie is a holder of 51% share in OOO SeverEnergiya. In December 2013 OOO Yamal razvitie, a joint venture of the Group, acquired 60% interest in Artic Russia B.V. for cash consideration of USD 2,940 million. Artic Russia B.V. owns 49% interest in OOO SeverEnergiya. As a result of the transaction, the Group's effective interest in OOO SeverEnergiya increased from 24.40% to 38.46%.

(In millions of Russian Roubles)

14 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES (continued)

Summarised financial information on the Group's significant associated undertakings and joint ventures is presented in tables below.

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

The differences between the carrying value of investments in associated undertakings and joint ventures and the calculated Group's share in their net assets are mostly attributable to translation differences.

	OAO NGK Slavneft and its subsidiaries	Gazprombank Group*	Sakhalin Energy Investment Company Ltd.
As of and for the year ended 31 December 2013			
Cash and cash equivalents	28,208	555,362	2,320
Other current assets (excluding cash and cash equivalents)	18,630	1,642,781	99,143
Non-current assets	340,358	1,325,951	561,909
Total assets	**387,196**	**3,524,094**	**663,372**
Current financial liabilities (excluding trade payables)	24,010	2,486,052	94,222
Other current liabilities (including trade payables)	40,365	85,117	83,675
Non-current financial liabilities	33,271	646,366	181,573
Other non-current liabilities	44,804	26,380	153,014
Total liabilities	**142,450**	**3,243,915**	**512,484**
Net assets (including non-controlling interest)	**244,746**	**280,179**	**150,888**
Percent of ordinary shares held	50%	37%	50%
Carrying value	**126,976**	**100,612**	**67,868**
Revenue	193,038	154,537	238,294
Depreciation	(83,110)	(28,823)	(52,852)
Interest income	1,623	213,196	412
Interest expense	(1,478)	(128,476)	(9,852)
Profit tax expense	(4,731)	(10,539)	(64,423)
Profit (loss) for the year	**(40,001)**	**32,062**	**82,675**
Other comprehensive income for the year	**-**	**791**	**3,493**
Total comprehensive income (loss) for the year	**(40,001)**	**32,853**	**86,168**
Dividends received from associated undertakings and joint ventures	**(3,354)**	**(2,197)**	**(62,236)**
As of and for the year ended 31 December 2012			
Cash and cash equivalents	32,117	466,896	3,444
Other current assets (excluding cash and cash equivalents)	17,822	1,251,408	46,471
Non-current assets	395,884	1,003,841	549,426
Total assets	**445,823**	**2,722,145**	**599,341**
Current financial liabilities (excluding trade payables)	21,092	1,922,066	38,958
Other current liabilities (including trade payables)	34,137	76,064	31,231
Non-current financial liabilities	36,956	447,522	206,216
Other non-current liabilities	61,257	31,926	143,945
Total liabilities	**153,442**	**2,477,578**	**420,350**
Net assets (including non-controlling interest)	**292,381**	**244,567**	**178,991**
Percent of ordinary shares held	50%	38%	50%
Carrying value	**149,208**	**86,569**	**88,862**
Revenue	198,682	150,115	294,525
Depreciation	(28,304)	(24,875)	(45,827)
Interest income	1,249	175,716	259
Interest expense	(1,526)	(114,575)	(8,380)
Profit tax expense	(5,835)	(12,146)	(68,672)
Profit for the year	**24,679**	**31,329**	**144,025**
Other comprehensive loss for the year	**-**	**(3,647)**	**(2,471)**
Total comprehensive income for the year	**24,679**	**27,682**	**141,554**
Dividends received from associated undertakings and joint ventures	**(6,544)**	**(2,623)**	**(61,497)**

* Presented revenue of Gazprombank Group includes revenue of media business, machinery business and other non-banking companies.

(In millions of Russian Roubles)

14 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES (continued)

	Assets	Liabilities	Revenues	Profit (loss)
As of and for the year ended 31 December 2013				
Nord Stream AG	347,736	259,696	36,829	5,080
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	278,127	197,070	539,801	19,934
OOO Yamal razvitie and its subsidiaries	228,280	168,198	15,832	(501)
SGT EuRoPol GAZ S.A.	49,122	9,952	11,259	(107)
Wintershall AG	45,700	24,533	54,395	3,045
ZAO Nortgaz	42,691	36,527	11,360	2,424
AO Gasum	34,563	16,501	48,240	1,416
Shtokman Development AG	33,773	1,997	-	(330)
ZAO Achimgaz	31,917	10,891	12,757	8,257
AO Latvijas Gaze	31,087	11,686	24,123	1,382
TOO KazRosGaz	21,361	1,722	29,436	9,318
AO Amber Grid	12,705	7,043	944	65
AO Lietuvos dujos	10,434	4,555	18,694	759
As of and for the year ended 31 December 2012				
Nord Stream AG	313,704	241,346	24,730	5,114
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	292,996	216,498	453,805	23,156
OOO Yamal razvitie and its subsidiaries	175,793	80,558	5,088	1,229
Wintershall AG	53,521	29,512	112,562	6,971
SGT EuRoPol GAZ S.A.	47,890	11,751	11,873	962
AO Gasum	33,639	17,281	51,098	1,700
Shtokman Development AG	30,958	2,160	-	(596)
ZAO Nortgaz	30,044	27,833	8,831	1,458
TOO KazRosGaz	28,186	2,550	45,939	17,013
AO Latvijas Gaze	25,617	9,001	24,411	1,320
AO Lietuvos dujos	20,772	10,145	21,685	875
ZAO Achimgaz	18,626	6,744	5,721	3,293

(In millions of Russian Roubles)

15 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2013	31 December 2012 (restated)
Long-term accounts receivable and prepayments (net of impairment provision of RR 14,083 and RR 12,797 as of 31 December 2013 and 2012, respectively)	160,957	175,878
Advances for assets under construction (net of impairment provision of RR 587 and RR 359 as of 31 December 2013 and 2012, respectively)	276,392	303,260
	437,349	**479,138**

As of 31 December 2013 and 2012, long-term accounts receivable and prepayments with carrying value RR 160,957 and RR 175,878 have an estimated fair value RR 146,648 and RR 165,997, respectively.

	31 December 2013	31 December 2012 (restated)
Long-term accounts receivable neither past due nor impaired	120,834	137,524
Long-term accounts receivable impaired and provided for	54,185	51,039
Impairment provision at the end of the year	(14,083)	(12,797)
Long-term accounts receivable past due but not impaired	21	112
Total long-term accounts receivable and prepayments	**160,957**	**175,878**

	31 December 2013	31 December 2012 (restated)
Long-term loans	66,808	68,578
Long-term trade receivables	8,133	4,677
Other long-term receivables*	45,893	64,269
Total long-term accounts receivable neither past due nor impaired	**120,834**	**137,524**

*Long-term accounts receivable and prepayments include prepayments in amount of RR 2,450 and RR 5,365 as of 31 December 2013 and 2012, respectively.

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

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

	Year ended 31 December 2013	Year ended 31 December 2012
Impairment provision at the beginning of the year	12,797	17,893
Impairment provision accrued*	2,833	24
Release of previously created provision*	(1,547)	(5,120)
Impairment provision at the end of the year	**14,083**	**12,797**

* The accrual and release of provision for impaired receivables have been included in (Charge for) reversal of impairment and other provisions in the consolidated statement of comprehensive income.

(In millions of Russian Roubles)

16 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

	31 December	
	2013	**2012 (restated)**
Equity securities*	167,985	160,050
Debt instruments	919	1,654
	168,904	**161,704**

* As of 31 December 2013 and 2012 equity securities include OAO NOVATEK shares in the amount of RR 135,910 and RR 110,370, respectively.

Available-for-sale long-term financial assets in total amount of RR 168,904 and RR 161,704 are shown net of provision for impairment of RR 1,629 and RR 2,059 as of 31 December 2013 and 2012, respectively.

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

	Year ended 31 December	
Movements in long-term available-for-sale financial assets	**2013**	**2012 (restated)**
Balance at the beginning of the year	161,704	181,138
Increase (decrease) in fair value of long-term available-for-sale financial assets	6,991	(19,192)
Purchased long-term available-for-sale financial assets	10,033	1,308
Disposal of long-term available-for-sale financial assets	(10,254)	(1,056)
Impairment release (charge) of long-term available-for-sale financial assets	430	(494)
Balance at the end of the year	**168,904**	**161,704**

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

17 OTHER NON-CURRENT ASSETS

Included within other non-current assets is VAT recoverable related to assets under construction totalling RR 74,711 and RR 89,128 as of 31 December 2013 and 2012, respectively.

Other non-current assets include net pension assets in the amount of RR 111,160 and RR 84,379 as of 31 December 2013 and 2012 respectively (see Note 24).

18 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December	
	2013	**2012 (restated)**
Financial liabilities		
Trade payables	282,285	273,062
Accounts payable for acquisition of property, plant and equipment	315,511	343,730
Derivative financial instruments	10,361	27,001
Other payables*	151,831	260,681
	759,988	904,474
Non-financial liabilities		
Advances received	133,411	132,435
Accruals and deferred income	2,295	2,084
	135,706	134,519
	895,694	**1,038,993**

*As of 31 December 2013 and 2012 other payables include RR 8,430 and RR 115,255 of accruals for probable price adjustments related to natural gas deliveries made from 2010 to 2013, respectively (see Note 26).

Trade payables of RR 120,080 and RR 109,383 were denominated in foreign currency, mainly the US dollar and Euro, as of 31 December 2013 and 2012, respectively. Book values of accounts payable approximate their fair value.

(In millions of Russian Roubles)

19 OTHER TAXES PAYABLE

	31 December 2013	31 December 2012 (restated)
VAT	58,411	52,763
Natural resources production tax	49,625	40,145
Property tax	17,724	11,833
Excise tax	8,866	8,469
Other taxes	11,469	9,240
	146,095	**122,450**

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

	31 December 2013	31 December 2012 (restated)
Short-term borrowings and promissory notes:		
RR-denominated borrowings and promissory notes	25,742	22,869
Foreign currency denominated borrowings	13,843	42,896
	39,585	65,765
Current portion of long-term borrowings (see Note 21)	292,341	256,868
	331,926	**322,633**

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

	31 December 2013	31 December 2012 (restated)
Fixed rate RR-denominated short-term borrowings	8.39%	9.01%
Fixed rate foreign currency denominated short-term borrowings	4.08%	2.95%
Variable rate RR-denominated short-term borrowings	6.01%	-
Variable rate foreign currency denominated short-term borrowings	1.58%	1.94%

Fair values of these liabilities approximate the carrying values.

21 LONG-TERM BORROWINGS AND PROMISSORY NOTES

	Currency	Final Maturity	31 December 2013	31 December 2012 (restated)
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009[2]	US dollar	2019	74,927	69,533
Loan participation notes issued in July 2012[2]	Euro	2017	64,849	57,250
Loan participation notes issued in October 2007[2]	Euro	2018	57,108	51,088
Loan participation notes issued in September 2012[7]	US dollar	2022	49,697	46,118
Loan participation notes issued in November 2013[7]	US dollar	2023	49,364	-
Loan participation notes issued in May 2005[2]	Euro	2015	46,511	41,607
Loan participation notes issued in March 2013[2]	Euro	2020	46,164	-
Loan participation notes issued in November 2006[2]	US dollar	2016	44,482	41,279
Loan participation notes issued in March 2007[2]	US dollar	2022	43,425	40,298
White Nights Finance B.V.	US dollar	2014	42,682	39,609
Loan participation notes issued in July 2009[2]	US dollar	2014	42,297	39,251
Loan participation notes issued in August 2007[2]	US dollar	2037	42,030	39,003
Loan participation notes issued in July 2013[2]	Euro	2018	41,129	-
Loan participation notes issued in July 2009[2]	Euro	2015	41,041	36,715
Loan participation notes issued in April 2004[2]	US dollar	2034	39,868	36,997
Loan participation notes issued in April 2008[2]	US dollar	2018	36,654	34,015
Loan participation notes issued in October 2006[2]	Euro	2014	36,575	32,719
Loan participation notes issued in April 2013[7]	Euro	2018	34,398	-

(In millions of Russian Roubles)

21 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	Currency	Final Maturity	31 December 2013	31 December 2012 (restated)
Loan participation notes issued in July 2012[2]	US dollar	2022	33,458	31,049
Loan participation notes issued in November 2011[2]	US dollar	2016	32,900	30,531
Loan participation notes issued in November 2010[2]	US dollar	2015	32,877	30,510
Loan participation notes issued in June 2007[2]	Euro	2014	31,766	28,417
Loan participation notes issued in February 2013[2]	US dollar	2028	30,044	-
ZAO Mizuho Corporate Bank (Moscow)	US dollar	2016	28,606	26,563
Loan participation notes issued in September 2013[2]	GBP	2020	27,198	-
Loan participation notes issued in February 2013[2]	US dollar	2020	26,589	-
Natixis SA[1]	US dollar	2015	23,933	36,232
Loan participation notes issued in November 2006[2]	Euro	2017	23,387	20,921
Loan participation notes issued in March 2013[2]	Euro	2025	23,254	-
Commerzbank AG	US dollar	2018	23,026	-
OAO VTB Bank	US dollar	2015	22,974	-
Loan participation notes issued in March 2007[2]	Euro	2017	22,686	20,294
Loan participation notes issued in November 2011[2]	US dollar	2021	20,155	18,704
Bank of Tokyo-Mitsubishi UFJ Ltd.[1]	US dollar	2016	18,528	22,887
Loan participation notes issued in October 2013[2]	CHF	2019	18,444	-
BNP Paribas SA[1]	Euro	2022	16,550	16,451
The Royal Bank of Scotland AG[1]	US dollar	2015	16,339	15,483
Russian bonds issued in February 2013[9]	Rouble	2016	15,404	-
Loan participation notes issued in November 2013[10]	Rouble	2043	15,102	-
Loan participation notes issued in November 2013[10]	Rouble	2043	15,102	-
GK Vnesheconombank	Rouble	2025	14,698	14,808
Deutsche Bank AG	US dollar	2016	13,327	12,387
UniCredit Bank AG[1,6]	US dollar	2018	11,220	13,683
UniCredit Bank AG[1,6]	Euro	2018	11,116	13,067
Credit Agricole CIB	Euro	2015	10,813	9,673
Sumitomo Mitsui Finance Dublin Limited	US dollar	2016	10,504	9,749
HSBC Bank plc	Euro	2022	10,443	-
Russian bonds issued in February 2011[7]	Rouble	2021	10,358	10,356
Russian bonds issued in February 2011[7]	Rouble	2021	10,342	10,340
Russian bonds issued in February 2011[7]	Rouble	2016	10,342	10,340
Russian bonds issued in February 2012[7]	Rouble	2022	10,332	10,330
Russian bonds issued in February 2013[9]	Rouble	2017	10,271	-
Russian bonds issued in April 2009[7]	Rouble	2019	10,173	10,171
OAO Sberbank of Russia	Euro	2017	10,145	-
Russian bonds issued in December 2012[7]	Rouble	2022	10,065	10,063
OAO Gazprombank	Rouble	2018	10,000	10,000
OAO Gazprombank	Rouble	2017	10,000	10,000
Deutsche Bank AG	US dollar	2014	9,899	9,186
Banc of America Securities Limited	US dollar	2018	9,894	-
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2015	9,874	9,171
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2016	9,830	9,122
Citibank International plc[1]	US dollar	2021	9,020	8,563
Bank of America Securities Limited	Euro	2017	8,143	7,285
OAO Sberbank of Russia	Rouble	2016	7,400	-
Deutsche Bank AG	US dollar	2014	6,566	6,093
UniCredit Bank AG	US dollar	2018	6,548	-
BNP Paribas SA[1]	Euro	2023	6,536	6,497
Banc of America Securities Limited	US dollar	2016	5,895	5,471
Russian bonds issued in February 2007[10]	Rouble	2014	5,138	5,137
Russian bonds issued in February 2013[9]	Rouble	2018	5,126	-
Russian bonds issued in December 2009[5]	Rouble	2014	5,038	5,037
Russian bonds issued in June 2009[10]	Rouble	2014	5,013	5,011
OAO Bank ROSSIYA	Rouble	2016	5,000	-
OAO Sberbank of Russia	US dollar	2018	4,915	-

(In millions of Russian Roubles)

21 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	Currency	Final Maturity	31 December 2013	31 December 2012 (restated)
Eurofert Trading Limited llc[4]	Rouble	2015	3,600	5,000
UniCredit Bank AG[1,6]	Rouble	2018	3,145	4,134
Deutsche Bank AG	US dollar	2014	2,346	4,353
OAO Gazprombank	US dollar	2015	2,085	-
OAO VTB Bank	Rouble	2014	708	4,010
Russian bonds issued in July 2009[8]	Rouble	2014	126	2,894
The Royal Bank of Scotland AG	US dollar	2013	-	54,858
Loan participation notes issued in June 2007[2]	US dollar	2013	-	48,795
Russian bonds issued in April 2010[7]	Rouble	2013	-	20,326
Loan participation notes issued in July 2008[2]	US dollar	2013	-	15,617
Structured export notes issued in July 2004[3]	US dollar	2013	-	12,509
Loan participation notes issued in April 2008[2]	US dollar	2013	-	12,347
Eurofert Trading Limited llc[4]	Rouble	2013	-	8,600
Credit Agricole CIB[1]	US dollar	2013	-	7,607
OAO TransKreditBank	Rouble	2013	-	7,055
Other long-term borrowings and promissory notes	Various	Various	94,826	91,658
Total long-term borrowings and promissory notes			**1,762,343**	**1,434,827**
Less: current portion of long-term borrowings			(292,341)	(256,868)
			1,470,002	**1,177,959**

[1] Loans received from syndicate of banks, named lender is the bank-agent.
[2] Issuer of these bonds is Gaz Capital S.A.
[3] Issuer of these notes is Gazprom International S.A.
[4] Issuer of these notes is OAO WGC-2.
[5] Issuer of these bonds is OAO Mosenergo.
[6] Loans were obtained for development of Yuzhno-Russkoye oil and gas field.
[7] Issuer of these bonds is OAO Gazprom neft.
[8] Issuer of these bonds is OAO TGC-1.
[9] Issuer of these bonds is OOO Gazprom capital.
[10] Issuer of these bonds is OAO Gazprom.

	31 December 2013	31 December 2012 (restated)
RR-denominated borrowings and promissory notes (including current portion of RR 45,730 and RR 40,958 as of 31 December 2013 and 2012, respectively)	245,463	207,994
Foreign currency denominated borrowings and promissory notes (including current portion of RR 246,611 and RR 215,910 as of 31 December 2013 and 2012, respectively)	1,516,880	1,226,833
	1,762,343	**1,434,827**

Due for repayment:	31 December 2013	31 December 2012 (restated)
Between one and two years	242,531	278,726
Between two and five years	640,741	502,440
More than five years	586,730	396,793
	1,470,002	**1,177,959**

Long-term borrowings include fixed rate loans with a carrying value of RR 1,427,690 and RR 1,165,789 and fair value of RR 1,500,542 and RR 1,276,254 as of 31 December 2013 and 2012, respectively. All other long-term borrowings have variable interest rates generally linked to LIBOR, and the difference between carrying value of these liabilities and their fair value is not significant.

In 2013 and 2012 the Group did not have material formal hedging arrangements to mitigate its foreign exchange risk or interest rate risk.

(In millions of Russian Roubles)

21 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

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

	31 December 2013	31 December 2012 (restated)
Fixed rate RR-denominated long-term borrowings	8.56%	8.62%
Fixed rate foreign currency denominated long-term borrowings	5.91%	6.79%
Variable rate RR-denominated long-term borrowings	7.30%	-
Variable rate foreign currency denominated long-term borrowings	2.54%	3.02%

As of 31 December 2013 and 2012 long-term borrowings of RR nil and RR 12,509, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Western Europe.

As of 31 December 2013 and 2012 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoe oil and gas field with the group of international financial institutions with UniCredit Bank AG acting as a facility agent, ordinary shares of OAO Severneftegazprom with the pledge value of RR 16,968 and fixed assets with the pledge value of RR 26,210 were pledged to ING Bank N.V. (London branch) up to the date of full redemption of the liabilities on this agreement. As of 31 December 2013 and 2012 carrying amount of these fixed assets is RR 24,614 and RR 25,656, respectively. Management of the Group does not expect any substantial consequences to occur which relate to respective pledge agreement.

As of 31 December 2013 loan participation notes with the nominal value of RR 39,868 issued by Gaz Capital S.A. in April 2004 due in 2034 were classified as long-term borrowings as the noteholders did not execute the right of early redemption.

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

Under the terms of the Russian bonds with the nominal value of RR 10,000 issued by OAO Gazprom neft in February 2012 due in 2022 bondholders can execute the right of early redemption in February 2015 at par, including interest accrued.

Under the terms of the Russian bonds with the nominal value of RR 10,000 issued by OAO Gazprom neft in February 2011 due in 2021 bondholders can execute the right of early redemption in February 2016 at par, including interest accrued.

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

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

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

(In millions of Russian Roubles)

22 PROFIT TAX

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

Note		Year ended 31 December 2013	2012 (restated)
	Profit before profit tax	1,486,083	1,557,736
	Theoretical tax charge calculated at applicable tax rates	(297,217)	(311,547)
	Tax effect of items which are not deductible or assessable for taxation purposes:		
	Non-deductible expenses	(51,858)	(38,552)
14	Non-taxable profits of associated undertakings and joint ventures	11,334	29,038
	Other non-taxable income	17,363	15,740
	Profit tax expense	**(320,378)**	**(305,321)**

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

	Tax effects of taxable and deductible temporary differences:						
	Property, plant and equipment	Financial assets	Inventories	Tax losses carry forward	Retroactive gas price adjustments	Other deductible temporary differences	**Total net deferred tax liabilities**
1 January 2012 (restated)	**(405,226)**	**(14,674)**	**(4,768)**	**896**	**-**	**5,877**	**(417,895)**
Differences recognition and reversals recognised in profit or loss	(56,354)	3,518	4,911	(688)	23,051	311	(25,251)
Differences recognition and reversals recognised in other comprehensive income	-	1,163	-	-	-	2,097	3,260
Acquisition of subsidiaries	(3,918)	-	-	-	-	-	(3,918)
31 December 2012 (restated)	**(465,498)**	**(9,993)**	**143**	**208**	**23,051**	**8,285**	**(443,804)**
Differences recognition and reversals recognised in profit or loss	(99,231)	(1,447)	(5,764)	8,041	(18,339)	(1,766)	(118,506)
Differences recognition and reversals recognised in other comprehensive income	-	1,885	-	-	-	(626)	1,259
Acquisition of subsidiaries	(1,254)	(118)	9	2,452	-	1,093	2,182
31 December 2013	**(565,983)**	**(9,673)**	**(5,612)**	**10,701**	**4,712**	**6,986**	**(558,869)**

Taxable temporary differences recognized for the years ended 31 December 2013 include the effect of depreciation premium on certain property, plant and equipment. As a result a deferred tax liability related to property, plant and equipment was recognized in the amount of RR 66,812 with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the year ended 31 December 2013.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 725,876 and RR 728,421 as of 31 December 2013 and 2012, respectively. A deferred tax liability on these temporary differences was not recognized, because management controls the timing of the reversal of the temporary differences and believes that they will not reversed in the foreseeable future.

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

23 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

(In millions of Russian Roubles)

23 DERIVATIVE FINANCIAL INSTRUMENTS

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

Fair value	31 December 2013	31 December 2012
Assets		
Commodity contracts	17,672	25,098
Foreign currency derivatives	1,629	1,736
Other derivatives	342	106
	19,643	**26,940**
Liabilities		
Commodity contracts	13,922	30,509
Foreign currency derivatives	3,885	1,459
	17,807	**31,968**

The maturities of all derivative financial instruments vary from up to three months to five years and more and predominantly include derivatives up to three months and from six to twelve months. Derivative financial instruments are mainly denominated in Pounds sterling and Euros.

24 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2013	31 December 2012 (restated)
Provision for post-employment benefit obligations	198,202	198,256
Provision for decommissioning and site restoration costs	120,782	127,763
Other	11,596	10,524
	330,580	**336,543**

The Group operates post-employment benefits, which are recorded in the consolidated financial statements under IAS 19 (revised). Defined benefit plan covers the majority employees of the Group. The retirement benefit plan includes benefits of the following types: pension benefits paid to former employees through the non-state pension fund "Gazfund" (hereinafter referred to as the "NPF"), lump sum payment upon retirement, financial aid provided to pensioners, financial aid and compensation to cover funeral expenses in the event of an employee's or pensioner's death.There were certain updates on defined benefit plan during 2013. The change was recognized in past service cost.

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

Principal actuarial assumptions used:

	31 December 2013	31 December 2012
Discount rate (nominal)	8.0%	7.0%
Future salary and pension increases (nominal)	6.0%	6.0%
Retirement ages	females 54, males 58	
Turnover ratio p.a.	Age-related curve, 3.8% pa on average	

Weighted-average duration of obligations is around 14 years. The assumptions relating to life expectancy at expected pension age were 19.3 years for a 58 year old man and 29.5 years for a 54 year old woman in 2013 and 2012.

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

	31 December 2013		31 December 2012 (restated)	
	Funded benefits - provided through NPF Gazfund	**Unfunded liabilities - other benefits**	**Funded benefits - provided through NPF Gazfund**	**Unfunded liabilities – other benefits**
Present value of benefit obligations	(318,208)	(198,202)	(323,133)	(198,256)
Fair value of plan assets	429,368	-	407,512	-
Net balance asset (liability)	**111,160**	**(198,202)**	**84,379**	**(198,256)**

(In millions of Russian Roubles)

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The net pension assets related to benefits provided by the pension plan NPF Gazfund in amount of RR 111,160 and RR 84,379 as of 31 December 2013 and 2012, respectively, are included within other non-current assets. Future economic benefit was determined based on expected contribution reductions allowing for the requirement to fund benefits for new entrants.

Changes in the present value of the defined benefit obligations and fair value of plan assets for the year ended 31 December 2013 are as follows:

	Funded benefits - provided through NPF Gazfund	Plan asset	Restrictions on asset recognised	Net liability (asset) – funded benefits	Unfunded liabilities – other benefits
Opening balance at 1 January 2013 (restated)	**323,133**	**(407,512)**	**-**	**(84,379)**	**198,256**
Current service cost	13,973	-	-	13,973	12,480
Past service cost	14,365	-	-	14,365	8,614
Net interest expense (income)	22,628	(28,520)	-	(5,892)	14,275
Total expenses included in staff cost	**50,966**	**(28,520)**	**-**	**22,446**	**35,369**
Remeasurements:					
Actuarial (gains) arising from changes in financial assumptions	(35,763)	-	-	(35,763)	(22,937)
Actuarial losses arising from changes in demographic assumptions	-	-	-	-	96
Actuarial (gains) losses - Experience	(10,965)	-	-	(10,965)	4,670
Return on assets excluding amounts included in net interest expense	-	9,475	-	9,475	-
Total recognized in other comprehensive income (loss)	**(46,728)**	**9,475**	**-**	**(37,253)**	**(18,171)**
Benefits paid	(9,163)	9,163	-	-	(17,663)
Contributions by employer	-	(11,974)	-	(11,974)	-
Business combinations	-	-	-	-	411
Closing balance at 31 December 2013	**318,208**	**(429,368)**	**-**	**(111,160)**	**198,202**

Changes in the present value of the defined benefit obligations and fair value of plan assets for the year ended 31 December 2012 are as follows:

	Funded benefits - provided through NPF Gazfund	Plan asset	Restrictions on asset recognised	Net liability (asset) – funded benefits	Unfunded liabilities – other benefits
Opening balance at 1 January 2012 (restated)	**228,121**	**(447,183)**	**107,646**	**(111,416)**	**148,804**
Current service cost	12,963	-	-	12,963	9,699
Past service cost	-	-	-	-	(172)
Net interest expense (income)	18,258	(35,817)	8,612	(8,947)	12,301
Total expenses included in staff cost	**31,221**	**(35,817)**	**8,612**	**4,016**	**21,828**
Remeasurements:					
Actuarial (gains) arising from changes in financial assumptions	35,009	-	-	35,009	25,313
Actuarial losses arising from changes in demographic assumptions	24,967	-	-	24,967	5,196
Actuarial (gains) losses - Experience	11,840	-	-	11,840	7,722
Return on assets excluding amounts included in net interest expense	-	76,012	-	76,012	-
Change in the effect of the asset ceiling	-	-	(116,258)	(116,258)	-
Total recognized in other comprehensive income (loss)	**71,816**	**76,012**	**(116,258)**	**31,570**	**38,231**
Benefits paid	(8,025)	8,025	-	-	(12,013)
Contributions by employer	-	(8,549)	-	(8,549)	-
Business combinations	-	-	-	-	1,406
Closing balance at 31 December 2012 (restated)	**323,133**	**(407,512)**	**-**	**(84,379)**	**198,256**

(In millions of Russian Roubles)

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

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

	31 December 2013		31 December 2012	
	Fair value	**Percentage, %**	**Fair value**	**Percentage, %**
Quoted plan asset, including	**103,942**	**24.2%**	**113,550**	**27.8%**
Mutual funds	42,326	9.9%	42,166	10.3%
Bonds	31,051	7.2%	25,202	6.2%
Shares	28,501	6.6%	46,182	11.3%
Other securities	2,064	0.5%	-	-
Unquoted plan asset, including	**325,426**	**75.8%**	**293,962**	**72.2%**
Shares	239,503	55.8%	217,032	53.3%
Mutual funds	52,011	12.1%	48,159	11.8%
Deposits	28,579	6.7%	23,437	5.8%
Other securities	5,333	1.2%	5,334	1.3%
Total plan assets	**429,368**	**100%**	**407,512**	**100%**

The amount of ordinary shares of OAO Gazprom included in the fair value of plan assets comprises RR 12,004 and RR 15,860 as of 31 December 2013 and 2012, respectively.

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

For the year ended 31 December 2013 actual return on plan assets was income of RR 19,045 primarily caused by the change of the fair value of plan assets.

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2013 is presented below:

	Increase (decrease) of defined benefit obligation	**Increase (decrease) of defined benefit obligation, %**
Mortality rates lower by 20%	23,415	4.6%
Mortality rates higher by 20%	(19,441)	(3.8%)
Discount rate lower by 1 pp	57,992	11.4%
Discount rate higher by 1 pp	(48,669)	(9.5%)
Benefit growth lower by 1 pp	(49,942)	(9.8%)
Benefit growth higher by 1 pp	58,585	11.5%
Staff turnover lower by 1 pp for all ages	25,144	4.9%
Staff turnover higher by 1 pp for all ages	(22,037)	(4.3%)
Retirement ages lower by 1 year	22,970	4.5%
Retirement ages higher by 1 year	(22,665)	(4.4%)

The Group expects to contribute RR 11,600 to the defined benefit plans in 2014.

Retirement benefit plan parameters and related risks

As a rule, the above benefits are increase in line with inflation rate or salary growth for benefits that are fixed in monetary terms or depend on salary level respectively, excluding the retirement benefits payable through NPF. Increase in pensions, payable through NPF to current pensioners, depends on amount of investment return on plan assets.

All retirement benefit plans of the Group are exposed to inflation risk. In addition to the inflation risk, the Group is exposed to mortality risk under life pension payable through NPF.

25 EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2013 and 2012 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Russian Roubles.

Dividends

In 2013 OAO Gazprom declared and paid dividends in the nominal amount of 5.99 Russian Roubles per share for the year ended 31 December 2012. In 2012 OAO Gazprom declared and paid dividends in the nominal amount of 8.97 Russian Roubles per share for the year ended 31 December 2011.

Treasury shares

As of 31 December 2013 and 2012 subsidiaries of OAO Gazprom held 723 million and 724 million of the ordinary shares of OAO Gazprom, respectively. Shares of the Group held by the subsidiaries represent 3.1% of OAO Gazprom shares as of 31 December 2013 and 2012. The Group management controls the voting rights of these shares.

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Russian Rouble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29 “Financial Reporting in Hyperinflation Economies”. Also, retained earnings and other reserves include translation gains arising on the translation of the net assets of foreign subsidiaries, associated undertakings and joint arrangements in the amount of RR 78,130 and RR 25,816 as of 31 December 2013 and 2012, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of these assets to governmental authorities and this process may continue. Social assets with a net book value of RR 240 and RR 16 have been transferred to governmental authorities during the years ended 31 December 2013 and 2012, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with Russian Accounting Rules. For the year ended 31 December 2013 the statutory profit of the parent company was RR 628,311. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

(In millions of Russian Roubles)

26 SALES

	Year ended 31 December 2013	2012 (restated)
Gas sales gross of custom duties to customers in:		
Russian Federation	794,349	760,885
Former Soviet Union (excluding Russian Federation)	504,681	626,820
Europe and other countries	2,115,748	1,806,947
	3,414,778	3,194,652
Customs duties	(517,348)	(434,796)
Retroactive gas price adjustments*	74,393	(102,749)
Total sales of gas	2,971,823	2,657,107
Sales of refined products to customers in:		
Russian Federation	821,487	742,473
Former Soviet Union (excluding Russian Federation)	80,557	73,267
Europe and other countries	449,669	393,475
Total sales of refined products	1,351,713	1,209,215
Sales of crude oil and gas condensate to customers in:		
Russian Federation	32,094	40,726
Former Soviet Union (excluding Russian Federation)	50,115	30,186
Europe and other countries	128,007	204,648
Total sales of crude oil and gas condensate	210,216	275,560
Electricity and heat sales:		
Russian Federation	362,415	326,737
Former Soviet Union (excluding Russian Federation)	2,191	5,586
Europe and other countries	10,983	11,186
Total electric and heat energy sales	375,589	343,509
Gas transportation sales:		
Russian Federation	161,825	123,327
Former Soviet Union (excluding Russian Federation)	1,434	2,059
Europe and other countries	6	-
Total gas transportation sales	163,265	125,386
Other revenues:		
Russian Federation	144,529	139,393
Former Soviet Union (excluding Russian Federation)	4,992	5,058
Europe and other countries	27,838	11,267
Total other revenues	177,359	155,718
Total sales	**5,249,965**	**4,766,495**

* Retroactive gas price adjustments relate to gas deliveries in 2010, 2011 and 2012 for which a discount has been agreed or is in the process of negotiations and where it is probable that a discount will be provided. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made. The effect of retroactive gas price adjustments on sales for the year ended 31 December 2013 was a credit of RR 74,393 reflecting a decrease in a related accrual following estimates made and agreements reached prior to the issuance of this consolidated financial statements. Effect of retroactive gas price adjustments recorded for the year ended 31 December 2012 was a charge of RR 102,749 reflecting an increase in a related accrual for volumes of gas delivered in 2010 and 2011 for which a discount was agreed in 2012 or was in a process of negotiations at the time the 2012 consolidated financial statements were issued where it was probable that a discount will be provided.

(In millions of Russian Roubles)

27 OPERATING EXPENSES

Note		Year ended 31 December 2013	2012 (restated)
	Purchased oil and gas	753,829	820,692
37	Taxes other than profit tax	706,667	625,313
	Staff costs	497,852	409,807
	Depreciation	419,019	345,690
	Transit of gas, oil and refined products	358,829	317,754
	Materials	236,354	186,920
	Repairs and maintenance	200,621	219,999
	Cost of goods for resale including refined products	136,776	129,812
	Electricity and heating expenses	87,242	76,949
	Social expenses	34,970	31,736
	Transportation services	29,909	38,839
	Rental expenses	27,167	24,126
	Insurance expenses	25,052	22,370
	Research and development expenses	16,738	19,766
	Processing services	14,423	14,396
	Heat transmission	5,075	19,647
	Derivatives (gains) losses	(8,512)	8,802
	Foreign exchange rate differences on operating items	(45,050)	14,147
	Other	233,795	182,347
		3,730,756	**3,509,112**
	Changes in inventories of finished goods, work in progress and other effects	(129,848)	(87,265)
	Total operating expenses	**3,600,908**	**3,421,847**

Staff costs include RR 57,815 and RR 25,844 of expenses associated with post-employment benefit obligations for the years ended 31 December 2013 and 2012, respectively (see Note 24).

Gas purchase expenses included within purchased oil and gas amounted to RR 538,551 and RR 556,346 for the years ended 31 December 2013 and 2012, respectively.

Taxes other than profit tax consist of:

	Year ended 31 December 2013	2012 (restated)
Natural resources production tax	512,885	458,322
Excise tax	104,568	98,780
Property tax	75,468	54,934
Other taxes	13,746	13,277
	706,667	**625,313**

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

	Year ended 31 December 2013	2012
Charge for provision for accounts receivable	64,451	47,238
Charge for (release of) provision for inventory obsolescence	419	(133)
Charge for (release of) provision for investments	2,782	(379)
Charge for (release of) provision for impairment of assets under construction	46	(49,934)
	67,698	**(3,208)**

(In millions of Russian Roubles)

28 FINANCE INCOME AND EXPENSES

	Year ended 31 December 2013	2012 (restated)
Exchange gains	96,125	281,863
Interest income	33,398	26,626
Total finance income	**129,523**	**308,489**
Exchange losses	241,339	210,146
Interest expense	42,768	37,022
Total finance expenses	**284,107**	**247,168**

Total interest paid amounted to RR 92,024 and RR 93,692 for the years ended 31 December 2013 and 2012, respectively.

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

Note		Year ended 31 December 2013	2012 (restated)
	RAR net profit for the year per consolidated statutory accounts	**839,045**	**770,581**
	Effects of IFRS adjustments:		
	Classification of revaluation of available-for-sale financial assets	(8,949)	19,923
	Difference in share of net income of associated undertakings and joint ventures	(16,565)	3,503
	Differences in depreciation of property, plant and equipment	269,730	247,689
	Reversal of goodwill amortization	58,518	54,645
	Loan interest capitalized	55,312	59,313
24	Impairment and other provisions, including provision for pension obligations and unused vacations	(31,311)	65,711
	Accounting for finance leases	13,087	14,880
	Write-off of research and development expenses capitalized for RAR purposes	(4,707)	(5,565)
	Fair value adjustment on derivatives	8,512	(8,802)
	Differences in fixed assets disposal	4,952	(1,700)
	Other effects	(21,919)	32,237
	IFRS profit for the year	**1,165,705**	**1,252,415**

30 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF OAO GAZPROM

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

There were 22.9 billion weighted average shares outstanding for the years ended 31 December 2013 and 2012, respectively.

There are no dilutive financial instruments outstanding.

(In millions of Russian Roubles)

31 NET CASH PROVIDED BY OPERATING ACTIVITIES

Notes		Year ended 31 December 2013	Year ended 31 December 2012 (restated)
	Profit before profit tax	**1,486,083**	**1,557,736**
	Adjustments to profit before profit tax for:		
27	Depreciation	419,019	345,690
28	Net finance expense (income)	154,584	(61,321)
14	Share of net income of associated undertakings and joint ventures	(56,670)	(145,192)
27	Charge for provisions	125,513	22,636
27	Derivatives (gains) losses	(8,512)	8,802
	Losses (gains) on disposal of available-for-sale financial assets	3,212	(546)
	Other	(24,905)	10,422
	Total effect of adjustments	612,241	180,491
	Cash flows from operating activities before working capital changes	2,098,324	1,738,227
	Decrease (increase) in non-current assets	4,320	(2,244)
	Decrease in non-current liabilities	(3,372)	(2,472)
		2,099,272	1,733,511
	Changes in working capital:		
	Increase in accounts receivable and prepayments	(110,748)	(180,256)
	Increase in inventories	(101,823)	(39,711)
	Increase in other current assets	(40,986)	(39,363)
	Decrease (increase) in accounts payable and accrued charges, excluding interest, dividends and capital construction	(211,246)	108,009
	Settlements on taxes payable (other than profit tax)	318,390	170,136
	(Increase) decrease in available-for-sale financial assets and financial assets held for trading	(5,539)	6,633
	Total effect of working capital changes	(151,952)	25,448
	Profit tax paid	(199,457)	(286,180)
	Net cash from operating activities	**1,747,863**	**1,472,779**

Total taxes and other similar payments paid in cash for the years 2013 and 2012:

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Customs duties	744,933	684,179
Natural resources production tax	503,229	446,632
Profit tax	199,457	286,180
Excise	130,522	110,994
VAT	22,291	238,791
Insurance contributions to non-budget funds	77,071	63,518
Property tax	72,805	54,471
Personal income tax	48,488	42,671
Other	21,776	23,792
Total taxes paid	**1,820,572**	**1,951,228**

(In millions of Russian Roubles)

32 SUBSIDIARY UNDERTAKINGS

Significant subsidiaries Subsidiary undertaking	Country of primary operation	% of share capital as of 31 December* 2013	2012
OOO Aviapredpriyatie Gazprom avia	Russia	100	100
VEMEX s.r.o.**	Czech Republic	50	50
OAO Vostokgazprom	Russia	100	100
GAZPROM Schweiz AG	Switzerland	100	100
ZAO Gazprom Armenia (ZAO ArmRosgazprom)***	Armenia	80	80
OOO Gazprom VNIIGAZ	Russia	100	100
OAO Gazprom gazoraspredelenie	Russia	100	100
OAO Gazprom gazoraspredelenie Sever****	Russia	91	-
OOO Gazprom geologorazvedka	Russia	100	100
OOO Gazprom georesurs	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Gerosgaz Holdings B.V.	Netherlands	100	100
Gazprom Global LNG Ltd.	United Kingdom	100	100
OOO Gazprom dobycha Astrakhan	Russia	100	100
OOO Gazprom dobycha Krasnodar	Russia	100	100
OOO Gazprom dobycha Nadym	Russia	100	100
OOO Gazprom dobycha Noyabrsk	Russia	100	100
OOO Gazprom dobycha Orenburg	Russia	100	100
OOO Gazprom dobycha Urengoy	Russia	100	100
OOO Gazprom dobycha shelf	Russia	100	100
OOO Gazprom dobycha Yamburg	Russia	100	100
OOO Gazprom invest	Russia	100	100
OOO Gazprom invest Vostok	Russia	100	100
ZAO Gazprom invest RGK (ZAO RSh-Centr)***	Russia	100	100
ZAO Gazprom invest Yug	Russia	100	100
OOO Gazprom investholding	Russia	100	100
Gazprom International Germany GmbH (Gazprom Libyen Verwaltungs GmbH)***	Germany	100	100
OOO Gazprom inform	Russia	100	100
OOO Gazprom komplektatciya	Russia	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
OOO Gazprom mezhregiongaz	Russia	100	100
OAO Gazprom neftekhim Salavat *****	Russia	100	98
ZAO Gazprom neft Orenburg ******	Russia	100	100
Gazprom Neft Trading GmbH ******	Austria	100	100
OOO Gazprom neft shelf	Russia	100	100
OAO Gazprom neft	Russia	96	96
OOO Gazprom pererabotka	Russia	100	100
OOO Gazprom podzemremont Orenburg	Russia	100	100
OOO Gazprom podzemremont Urengoy	Russia	100	100
OOO Gazprom PKhG	Russia	100	100
Gazprom Sakhalin Holdings B.V.	Netherlands	100	100
OOO Gazprom torgservis	Russia	100	100
OAO Gazprom transgaz Belarus	Belorussia	100	100
OOO Gazprom transgaz Volgograd	Russia	100	100
OOO Gazprom transgaz Ekaterinburg	Russia	100	100
OOO Gazprom transgaz Kazan	Russia	100	100
OOO Gazprom transgaz Krasnodar	Russia	100	100
OOO Gazprom transgaz Makhachkala	Russia	100	100
OOO Gazprom transgaz Moskva	Russia	100	100
OOO Gazprom transgaz Nizhny Novgorod	Russia	100	100
OOO Gazprom transgaz Samara	Russia	100	100
OOO Gazrpom transgaz St. Petersburg	Russia	100	100
OOO Gazprom transgaz Saratov	Russia	100	100
OOO Gazprom transgaz Stavropol	Russia	100	100
OOO Gazprom transgaz Surgut	Russia	100	100
OOO Gazprom transgaz Tomsk	Russia	100	100

(In millions of Russian Roubles)

32 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Country of primary operation	% of share capital as of 31 December* 2013	2012
OOO Gazprom transgaz Ufa	Russia	100	100
OOO Gazprom transgaz Ukhta	Russia	100	100
OOO Gazprom transgaz Tchaikovsky	Russia	100	100
OOO Gazprom transgaz Yugorsk	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
OOO Gazprom tsentrremont	Russia	100	100
OOO Gazprom export	Russia	100	100
OOO Gazprom energo	Russia	100	100
OOO Gazprom energoholding	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
OOO Gazpromneft-Vostok ******	Russia	100	100
ZAO Gazpromneft-Kuzbass ******	Russia	100	100
OAO Gazpromneft-MNPZ ******	Russia	96	96
OAO Gazpromneft-Noyabrskneftegaz ******	Russia	100	100
OAO Gazpromneft-Omsk ******	Russia	100	100
OAO Gazpromneft-Omskiy NPZ ******	Russia	100	100
ZAO Gazpromneft-Severo-Zapad ******	Russia	100	100
OOO Gazpromneft-Khantos******	Russia	100	100
OOO Gazpromneft-Centr ******	Russia	100	100
OOO Gazpromneftfinans******	Russia	100	100
OOO Gazpromtrans	Russia	100	100
OAO Gazpromtrubinvest	Russia	100	100
OOO Gazflot	Russia	100	100
OAO Daltransgaz	Russia	100	100
OOO Zapolyarneft******	Russia	100	100
OAO Zapsibgazprom	Russia	-	77
ZAO Kaunasskaya power station	Lithuania	-	99
OAO Krasnoyarskgazprom	Russia	75	75
OAO MIPC	Russia	90	-
OAO Mosenergo	Russia	53	53
Naftna Industrija Srbije a.d.******	Serbia	56	56
OOO NK Sibneft-Yugra ******	Russia	-	100
OOO Novourengoysky GCC	Russia	100	100
OAO WGC-2	Russia	77	58
ZAO Purgaz	Russia	51	51
OAO Regiongazholding	Russia	57	57
ZAO Rosshelf	Russia	57	57
OAO Severneftegazprom *******	Russia	50	50
OAO Sibirskie gazovye seti (OOO Sibirskie gazovye seti)***	Russia	100	100
Sibir Energy Ltd. ******	United Kingdom	100	100
OOO Sibmetakhim	Russia	100	100
OAO Spetsgazavtotrans	Russia	51	51
OAO TGC-1	Russia	52	52
OAO Teploset Sankt-Peterburga	Russia	75	75
OAO Tomskgazprom	Russia	100	100
OOO Faktoring-Finance	Russia	90	90
OAO Tsentrgaz	Russia	100	100
OAO Tsentrenergogaz	Russia	66	66
OAO Yuzhuralneftegaz******	Russia	88	88
ZAO Yamalgazinvest	Russia	100	100

* Cumulative share of Group companies in charter capital of investments.

** In July 2013 GAZPROM Germania GmbH ceased control over its subsidiary VEMEX s.r.o. Despite the fact that the Group's share in VEMEX s.r.o. comprises 50.14%, investment in the company is accounted for using the equity method due to changes in corporate governance structure of the investee.

*** The indicated subsidiaries were renamed (former name is put in the brackets).

**** In November 2012 the sole participant of OAO Gazovie Magistraly Tumeny took a decision to reorganize OAO Gazovie Magistraly Tumeny in the form of a merger with OAO Tyumenmezhraygaz. In June 2013 the reorganization was completed, all assets and liabilities of OAO Gazovie Magistraly Tumeny were transferred to OAO Tyumenmezhraygaz. As a result of this transaction, the Group's share in

(In millions of Russian Roubles)

32 SUBSIDIARY UNDERTAKINGS (continued)

OAO Tyumenmezhraygaz comprises 90.7%. In July 2013 OAO Tyumenmezhraygaz was renamed to OAO Gazprom gazoraspredelenie Sever.
***** During the period from May 2012 to June 2013 as a result of series of transactions, the Group acquired an additional 30.97% interest in the ordinary shares of OAO Gazprom neftekhim Salavat for cash consideration of RR 30,934 increasing its interest to 100% (see Note 35).
****** Subsidiaries of OAO Gazprom neft.
******* Group's portion of voting shares.

33 NON-CONTROLLING INTEREST

	Year ended 31 December 2013	2012 (restated)
Non-controlling interest at the beginning of the year	**309,212**	**297,374**
Non-controlling interest share of net profit of subsidiary undertakings	26,444	27,941
Acquisition of additional interest in OAO WGC-2	(19,600)	-
Changes in the non-controlling interest as a result of other acquisitions and disposals	5,249	(276)
Acquisition of the additional interest in OAO Gazpromneft-MNPZ and its subsidiaries	(344)	(10,593)
(Losses) gains from cash flow hedges	(139)	89
Remeasurements of post-employment benefit obligations	128	-
Dividends	(10,719)	(3,323)
Translation differences	4,533	(2,000)
Non-controlling interest at the end of the year	**314,764**	**309,212**

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

	Country of primary operation	% of share capital held by non-controlling interest*	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
As of and for the year ended 31 December 2013					
Gazprom neft Group**	Russia	4%	14,276	72,278	5,973
Naftna Industrija Srbije a.d. Group	Serbia	46%	7,734	40,739	2,028
Mosenergo Group	Russia	46%	3,471	80,212	550
TGC-1 Group	Russia	48%	3,505	66,100	226
WGC-2 Group	Russia	21%	886	32,610	-
As of and for the year ended 31 December 2012					
Gazprom neft Group**	Russia	4%	13,876	61,473	1,325
Naftna Industrija Srbije a.d. Group	Serbia	46%	6,545	34,372	-
Mosenergo Group	Russia	46%	2,917	77,291	551
TGC-1 Group	Russia	48%	3,157	62,811	91
WGC-2 Group	Russia	40%	1,216	51,206	23

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

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

	Gazprom neft Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
As of and for the year ended 31 December 2013					
Current assets	426,166	47,418	46,728	18,812	31,347
Non-current assets	1,430,482	128,163	195,000	175,922	173,548
Current liabilities	182,987	42,811	21,154	20,443	9,476
Non-current liabilities	414,815	44,715	33,112	42,478	54,436
Revenue	1,267,603	136,450	156,730	70,362	112,175
Profit for the year	158,901	16,733	10,633	8,379	1,929
Total comprehensive income for the year	166,944	16,733	10,633	8,402	2,487

(In millions of Russian Roubles)

33 NON-CONTROLLING INTEREST (continued)

	Gazprom neft Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
Net cash from (used in)					
operating activities	207,114	28,632	12,407	11,364	12,530
investing activities	(237,772)	(24,391)	(26,912)	(7,218)	(19,765)
financing activities	39,671	(5,089)	4,513	(4,618)	9,231
As of and for the year ended 31 December 2012					
Current assets	364,517	39,577	54,961	16,964	27,846
Non-current assets	1,296,141	92,411	169,450	173,099	161,714
Current liabilities	187,934	22,889	17,370	19,898	34,074
Non-current liabilities	312,990	34,830	31,604	46,332	40,447
Revenue	1,232,647	102,468	156,355	62,572	104,349
Profit (loss) for the year	182,683	14,140	11,678	5,869	(2,841)
Total comprehensive income (loss) for the year	176,104	14,140	11,678	5,869	(2,841)
Net cash from (used in)					
operating activities	248,573	11,979	10,742	10,270	12,158
investing activities	(203,673)	(17,942)	(24,495)	(12,456)	(21,614)
financing activities	6,474	(314)	818	2,540	12,857

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

34 ACQUISITION OF THE CONTROLLING INTEREST IN OAO MOSCOW INTEGRATED POWER COMPANY (OAO MIPC)

In September 2013 the Group acquired 89.98% interest in the ordinary shares of OAO Moscow Integrated Power Company (OAO MIPC) and heat assets from the Moscow Government for cash consideration of RR 99,866 including VAT in the amount of RR 1,246 related to acquired heat assets. As a result of the acquisition, the Group obtained control over OAO MIPC. Considering treasury shares of OAO MIPC, the Group's effective interest is 98.77%. The primary business activity of OAO MIPC is generation, purchase and supply of heat energy in the form of heating and hot water to commercial and residential customers in the City of Moscow. As of 31 December 2013 the title on the assets acquired in the amount of RR 6,920 excluding VAT was not transferred to the Group.

In accordance with IFRS 3 "Business Combinations", the Group recognized the acquired assets and liabilities based upon their provisional fair values. Management is required to finalise the assessment of the fair values within 12 months from the date of acquisition. Any revisions to the provisional values will be reflected as of the acquisition date.

Details of the assets acquired and liabilities assumed are as follows:

	Provisional fair value
Cash and cash equivalents	3,276
Short-term financial assets	2,762
Accounts receivable and prepayments	27,568
Inventories	2,273
VAT recoverable	102
Other current assets	6,026
Current assets	**42,007**
Property, plant and equipment	122,806
Long-term accounts receivable and prepayments	4,799
Available-for-sale long-term financial assets	3,117
Deferred tax assets	1,669
Non-current assets	**132,391**
Total assets	**174,398**

(In millions of Russian Roubles)

34 ACQUISITION OF THE CONTROLLING INTEREST IN OAO MOSCOW INTEGRATED POWER COMPANY (OAO MIPC) (continued)

	Provisional fair value
Accounts payable and accrued charges	28,476
Other taxes payable	601
Short-term borrowings, promissory notes and current portion of long-term borrowings	30,235
Current liabilities	**59,312**
Long-term borrowings and promissory notes	7,400
Provisions for liabilities and charges	1,068
Other non-current liabilities	5,615
Non-current liabilities	**14,083**
Total liabilities	**73,395**
Net assets at acquisition date	**101,003**
Non-controlling interest at acquisition date measured at the proportionate share of the net assets	1,137
Purchase consideration	**99,866**

If the acquisition had occurred on 1 January 2013, the Group's sales and the Group's profit for the year ended 31 December 2013 would have been RR 5,291,256 and RR 1,160,092, respectively.

35 ACQUISITION OF THE CONTROLLING INTEREST IN OAO GAZPROM NEFTEKHIM SALAVAT

In December 2008 the Group acquired a 50% interest plus one ordinary share in OAO Gazprom neftekhim Salavat for cash consideration of RR 20,959. Since then the Group started to exercise significant influence and applied the equity method of accounting for its investment in OAO Gazprom neftekhim Salavat.

During the period from November 2011 to December 2011 as a result of series of transactions, the Group acquired an additional 19.03% interest in OAO Gazprom neftekhim Salavat for total cash consideration of RR 19,008. Despite having a 69.03% interest as of 31 December 2011, the Group still did not exercise control over OAO Gazprom neftekhim Salavat due to its corporate governance regulations.

In May 2012 the Group acquired additional 18.48% interest in OAO Gazprom neftekhim Salavat for cash consideration of RR 18,458 increasing its interest to 87.51% and, as a result, obtained control over OAO Gazprom neftekhim Salavat.

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

Purchase consideration includes cash for the 18.48% interest in OAO Gazprom neftekhim Salavat acquired in May 2012 in the amount of RR 18.4 billion and fair value of previously acquired 69.03% interest accounted for using the equity method in the amount of RR 43.7 billion.

As a result of the Group obtaining control over OAO Gazprom neftekhim Salavat, the Group's previously held 69.03% interest was remeasured to fair value, resulting in a gain of RR 4.7 billion recognized in 2012. This has been recognised in the line item 'Share of net income of associated undertakings and joint ventures' in the consolidated statement of comprehensive income.

Details of the assets acquired and liabilities assumed are as follows:

	Fair value
Cash and cash equivalents	7,196
Accounts receivable and prepayments	15,600
VAT recoverable	2,489
Inventories	10,760
Other current assets	5,868
Current assets	**41,913**
Property, plant and equipment	48,160
Long-term accounts receivable and prepayments	14,969
Other non-current assets	877
Non-current assets	**64,006**
Total assets	**105,919**

(In millions of Russian Roubles)

35 ACQUISITION OF THE CONTROLLING INTEREST IN OAO GAZPROM NEFTEKHIM SALAVAT (continued)

	Fair value
Accounts payable and accrued charges	35,630
Short-term borrowings, promissory notes and current portion of long-term borrowings	24,612
Current liabilities	**60,242**
Long-term borrowings and promissory notes	20,696
Deferred tax liabilities	2,636
Provisions for liabilities and charges	961
Other non-current liabilities	85
Non-current liabilities	**24,378**
Total liabilities	**84,620**
Net assets at acquisition date	**21,299**
Non-controlling interest at acquisition date measured at the proportionate share of the net assets	2,660
Purchase consideration	62,108
Goodwill	**43,469**

During the period from September 2012 to June 2013 as a result of a series of transactions, the Group acquired an additional 12.49% interest in the ordinary shares of OAO Gazprom neftekhim Salavat for cash consideration of RR 12,476 increasing its interest to 100%. The difference between consideration paid and the non-controlling interest acquired has been recognized in equity in the amount of RR 9,842 and is included within retained earnings and other reserves.

36 RELATED PARTIES

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as of 31 December 2013 is detailed below.

Government

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

As of 31 December 2013 38.373% of OAO Gazprom issued shares were directly owned by the Government. Another 11.859% were owned by Government controlled entities. The Government does not prepare consolidated financial statements for public use. Governmental economic and social policies affect the Group’s financial position, results of operations and cash flows.

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

Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities under Government control. Prices of natural gas sales and electricity tariffs in Russia are regulated by the Federal Tariffs Service (“FTS”). Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with the applicable statutory rules.

(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

As of and for the years ended 31 December 2013 and 2012, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	As of 31 December 2013		Year ended 31 December 2013	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
Current profit tax	9,884	14,554	-	194,723
Insurance contributions to non-budget funds	534	5,354	-	84,963
VAT recoverable/payable	518,192	51,638	-	-
Customs duties	57,511	-	-	-
Other taxes	2,698	78,457	-	669,187
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	62,796	-
Electricity and heating sales	-	-	220,160	-
Other services sales	-	-	2,850	-
Accounts receivable	54,970	-	-	-
Oil transportation expenses	-	-	-	99,662
Accounts payable	-	11,290	-	-
Loans	-	111,434	-	-
Interest expense	-	-	-	4,781
Short-term financial assets	4,334	-	-	-
Available-for-sale long-term financial assets	13,376	-	-	-

	As of 31 December 2012 (restated)		Year ended 31 December 2012 (restated)	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
Current profit tax	14,241	7,990	-	280,070
Insurance contributions to non-budget funds	578	4,290	-	64,079
VAT recoverable/payable	565,470	52,763	-	-
Customs duties	67,662	-	-	-
Other taxes	4,614	65,397	-	625,313
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	59,307	-
Electricity and heating sales	-	-	199,158	-
Other services sales	-	-	2,283	-
Accounts receivable	34,362	-	-	-
Oil transportation expenses	-	-	-	95,548
Accounts payable	-	7,197	-	-
Loans	-	64,523	-	-
Interest expense	-	-	-	4,290
Short-term financial assets	1,738	-	-	
Available-for-sale long-term financial assets	24,544	-	-	-

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

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

See consolidated statement of changes in equity for returns of social assets to governmental authorities during years ended 31 December 2013 and 2012. See Note 12 for net book values as of December 2013 and 2012 of social assets vested to the Group at privatisation.

(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RR 2,992 and RR 2,130 for the years ended 31 December 2013 and 2012, respectively. Such amounts include personal income tax and insurance contributions to non-budget funds. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of the Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

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

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

Associated undertakings and joint ventures

For the years ended 31 December 2013 and 2012 and as of 31 December 2013 and 2012 the Group had the following significant transactions with associated undertakings and joint ventures:

	Year ended 31 December	
	2013	2012 (restated)
	Revenues	
Gas sales		
Wintershall Erdgas Handelshaus GmbH & Co. KG (WIEH)	133,070	97,321
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	107,558	79,420
ZAO Panrusgaz	61,392	51,102
AO Gazum	29,030	30,537
AO Moldovagaz	20,502	25,745
Bosphorus Gaz Corporation A.S.	17,730	3,854
Wintershall Erdgas Handelshaus Zug AG (WIEE)*	13,586	26,015
ZAO Gazprom YRGM Trading**	12,075	11,887
AO Latvijas Gaze	9,490	9,920
ZAO Gazprom YRGM Development**	8,625	8,490
AO Lietuvos dujos	7,608	12,289
Russian-Serbian Trading Corporation a.d.	7,168	7,365
SGT EuRoPol GAZ S.A.	3,911	2,973
AO Overgaz Inc.	3,310	29,141
PremiumGas S.p.A.	-	10,111
Gas transportation sales		
ZAO Gazprom YRGM Trading**	21,188	20,126
ZAO Gazprom YRGM Development**	15,135	14,375
TOO KazRosGaz	1,421	2,042
Gas condensate, crude oil and refined products sales		
OAO NGK Slavneft and its subsidiaries	26,063	34,057
OOO Gazpromneft – Aero Sheremetyevo	12,263	7,977
ZAO SOVEKS	5,535	5,025
OAO Gazprom neftekhim Salavat***	-	10,036
Gas refining services sales		
TOO KazRosGaz	5,247	5,079

(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

	Year ended 31 December 2013	2012 (restated)
	Expenses	
Purchased gas		
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	73,071	62,966
ZAO Gazprom YRGM Trading**	58,527	57,228
ZAO Gazprom YRGM Development**	41,810	40,904
TOO KazRosGaz	22,724	39,930
OOO SeverEnergiya and its subsidiaries	9,858	3,132
Sakhalin Energy Investment Company Ltd.	5,715	4,604
ZAO Nortgaz	2,222	3,713
Purchased transit of gas		
Nord Stream AG	37,058	24,785
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	13,586	11,149
SGT EuRoPol GAZ S.A.	9,757	10,341
Purchased crude oil and refined products		
OAO NGK Slavneft and its subsidiaries	84,091	88,228
Sakhalin Energy Investment Company Ltd.	13,396	-
Purchased processing services		
OAO NGK Slavneft and its subsidiaries	11,853	10,976

* Wintershall Erdgas Handelshaus Zug AG (WIEE) is a subsidiary of Wintershall Erdgas Handelshaus GmbH &Co.KG (WIEH).
** ZAO Gazprom YRGM Trading and ZAO Gazprom YRGM Development are not associated undertakings and joint ventures.
*** During the period from May 2012 to June 2013 as a result of series of transactions, the Group acquired an additional 30.97% interest in the ordinary shares of OAO Gazprom neftekhim Salavat for cash consideration of RR 30,934 increasing its interest to 100% (see Note 35).

Gas is sold to associated undertakings in the Russian Federation mainly at the rates established by the FTS. Gas is sold outside the Russian Federation mainly under long-term contracts at prices indexed mainly to world oil product prices.

	As of 31 December 2013		2012 (restated)	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	20,501	-	14,406	-
Gazprombank Group	8,974	-	1,083	-
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	8,452	-	11,420	-
AO Overgaz Inc.	8,011	-	10,000	-
ZAO Panrusgaz	5,774	-	8,134	-
OAO NGK Slavneft and its subsidiaries	4,512	-	1,701	-
AO Gasum	4,157	-	3,892	-
Bosphorus Gaz Corporation A.S.	2,731	-	725	-
AO Lietuvos dujos	2,000	-	2,212	-
ZAO Gazprom YRGM Trading	1,377	-	1,829	-
Wintershall Erdgas Handelshaus Zug AG (WIEE)	1,290	-	2,451	-
ZAO Gazprom YRGM Development	976	-	1,307	-
TOO KazRosGaz	676	-	667	-
Russian-Serbian Trading Corporation a.d.	660	-	628	-
AO Latvijas Gaze	227	-	242	-
AO Moldovagaz*	-	-	2,348	-
Short-term promissory notes				
Gazprombank Group	1,059	-	179	-
Cash balances				
Gazprombank Group	366,421	-	172,154	-

(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

	As of 31 December			
	2013		2012 (restated)	
	Assets	Liabilities	Assets	Liabilities
Long-term accounts receivable and prepayments				
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	17,214	-	15,487	-
OOO Yamal razvitie	2,200	-	-	-
Gas Project Development Central Asia AG	1,826	-	1,707	-
Bosphorus Gaz Corporation A.S.	-	-	1,501	-
Long-term promissory notes				
Gazprombank Group	431	-	599	-
Short-term accounts payable				
ZAO Gazprom YRGM Trading	-	8,723	-	8,606
SGT EuRoPol GAZ S.A.	-	7,702	-	6,565
ZAO Gazprom YRGM Development	-	5,786	-	5,704
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	-	4,715	-	7,906
Nord Stream AG	-	4,179	-	2,892
AO Lietuvos dujos	-	3,188	-	-
TOO KazRosGaz	-	2,992	-	2,783
OAO NGK Slavneft and its subsidiaries	-	2,466	-	1,502
Sakhalin Energy Investment Company Ltd.	-	657	-	867
AO Latvijas Gaze	-	66	-	38
Gazprombank Group	-	42	-	152
Other non-current liabilities				
ZAO Gazprom YRGM Trading	-	797	-	1,593
ZAO Gazprom YRGM Development	-	124	-	248
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank Group	-	13,614	-	21,666
RosUkrEnergo AG	-	-	-	2,248
Wintershall Erdgas Handelshaus GmbH & Co. KG (WIEH)	-	-	-	1,281
Long-term borrowings				
Gazprombank Group	-	26,195	-	24,569

* Net of impairment provision on accounts receivable in the amount of RR 142,592 and RR 115,573 as of 31 December 2013 and 2012.

Investments in associated undertakings and joint ventures are disclosed in Note 14.

See Note 37 for financial guarantees issued by the Group for the associated undertakings and joint ventures.

(In millions of Russian Roubles)

37 COMMITMENTS AND CONTINGENCIES

Taxation

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 31 December 2013 is appropriate and all of the Group's material tax, currency and customs positions will be sustainable.

Financial guarantees

Note		31 December 2013	31 December 2012
	Outstanding guarantees issued for:		
	Sakhalin Energy Investment Company Ltd.	89,825	94,145
	Nord Stream AG	50,830	40,519
	OOO Production Company VIS	8,164	2,507
	Blackrock Capital Investments Limited	4,804	4,573
	EM Interfinance Limited	3,668	5,385
5	Blue Stream Pipeline Company B.V.	-	2,078
	Other	43,752	37,711
		201,043	**186,918**

In 2013 and 2012 counterparties fulfilled their obligations. The maximum exposure to credit risk in relation to financial guarantees is RR 201,043 and RR 186,918 as of 31 December 2013 and 2012, respectively.

Included in financial guarantees are amounts denominated in USD of USD 3,404 million and USD 3,832 million as of 31 December 2013 and 2012, respectively, as well as amounts denominated in Euro of Euro 1,493 million and Euro 1,340 million as of 31 December 2013 and 2012, respectively.

In June 2008 the Group provided a guarantee to the Bank of Tokyo-Mitsubishi UFJ Ltd. for Sakhalin Energy Investment Company Ltd. under the credit facility up to the amount of the Group's share (50%) in the obligations of Sakhalin Energy Investment Company Ltd. toward the Bank of Tokyo-Mitsubishi UFJ Ltd. As of 31 December 2013 and 2012 the above guarantee amounted to RR 89,825 (USD 2,744 million) and RR 94,145 (USD 3,100 million), respectively.

In May 2011 the Group provided a guarantee to Societe Generale for Nord Stream AG under the credit facility for financing of Nord Stream gas pipeline Phase 2 construction completion. According to guarantee agreements the Group has to redeem debt up to the amount of the Group's share (51%) in the obligations of Nord Stream toward the Societe Generale in the event that Nord Stream fails to repay those amounts. As of 31 December 2013 and 2012 the above guarantee amounted to RR 50,830 (Euro 1,130 million) and RR 40,519 (Euro 1,007 million), respectively.

In July 2012 the Group provided a guarantee to OAO Sberbank of Russia for OOO Production company VIS as a security of credit facility for financing of construction projects for Gazprom Group. As of 31 December 2013 and 2012 the above guarantee amounted to RR 8,164 and RR 2,507, respectively.

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) in regard to bonds issued with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by SGT EuRoPol GAZ S.A. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. As a result as of 31 December 2013 and 2012 the guarantees issued for Blackrock Capital Investments Limited and EM Interfinance Limited amounted to RR 8,472 (USD 259 million) and RR 9,958 (USD 328 million), respectively.

In July 2005 Blue Stream Pipeline Company B.V. (BSPC) refinanced some of the existing liabilities, guaranteed by the Group, by means of repayment of the liabilities to a group of Italian and Japanese banks. For the purpose of this transaction loans in the amount of USD 1,185.3 million were received from Gazstream S.A. The Group guaranteed the above loans. As of 31 December 2012 outstanding amount of these loans was RR 2,078 (USD 68 million), which was guaranteed by the Group, pursuant to its obligations. In July 2013 loans issued by Gazstream S.A. were redeemed. Starting from 1 January 2013 BSPC is proportionally consolidated in the Group's consolidated interim condensed financial information (see Note 5) and thus, 25% of these loans were consolidated in the Group's balance sheet.

37 COMMITMENTS AND CONTINGENCIES (continued)

Other

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

Capital commitments

The total investment program related to gas, oil and power assets for 2014 is RR 1,180 billion.

Operating lease commitments

As of 31 December 2013 the Group does not have significant liabilities related to operating leases.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2013 no loss is expected to result from these long-term commitments.

38 OPERATING RISKS

Operating environment

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

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

Legal proceedings

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

Taxation

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

Management believes that its interpretation of the relevant legislation as of 31 December 2013 is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

Changes in the Russian Law “On Transfer pricing” are effective from 1 January 2012. The new legislation grants the right to a taxpayer to validate compliance with arm's length principle in respect of prices in controlled transactions through preparation of documentation for tax purposes.

The management of the Group believes that the Group sets market prices in its transactions and internal controls procedures are being introduced to comply with legislative requirements on transfer pricing. Currently the new regulation practice has not been established yet, consequences of the trials with tax authorities cannot be estimated reliably, however they can have an impact on financial results and activities of the Group.

Group changes

The Group is continuing to be subject to reform initiatives in the Russian Federation and in some of its export markets.The future direction and effects of any reforms are the subject of political considerations. Potential reforms in the structure of the Group, tariff setting policies, and other government initiatives could each have a significant, but undeterminable, effect on enterprises operating in the Group.

(In millions of Russian Roubles)

38 OPERATING RISKS (continued)

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered.The Group periodically evaluates its obligations under environmental regulations.As obligations are determined, they are recognised immediately. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reliably estimated, but could be material.In the current enforcement climate under existing legislation, the Group management believes that there are no significant liabilities for environmental damage, other than amounts that have been accrued in the consolidated financial statements.

Social commitments

The Group significantly contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees in the areas of its production operations mainly in the northern regions of the Russian Federation, including contributions toward the construction, development and maintenance of housing, hospitals, transport services, recreation and other social needs.

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 focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

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

Market risk

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

(a) Foreign exchange risk

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

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

Notes		Russian Rouble	US dollar	Euro	Other	Total
	31 December 2013					
	Financial assets					
	Current					
8	Cash and cash equivalents	511,438	141,980	24,857	10,855	689,130
9	Short-term financial assets (excluding equity securities)	7,741	-	-	87	7,828
10	Trade and other accounts receivable	409,825	336,963	113,792	65,705	926,285
	Non-current					
15	Long-term accounts receivable	135,563	22,034	527	383	158,507
16	Available-for-sale long-term financial assets (excluding equity securities)	870	-	-	49	919
	Total financial assets	**1,065,437**	**500,977**	**139,176**	**77,079**	**1,782,669**
	Financial liabilities					
	Current					
18	Accounts payable and accrued charges (excluding derivative financial instruments)	564,344	115,798	39,167	30,318	749,627
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	71,472	165,812	93,242	1,400	331,926
	Non-current					
21	Long-term borrowings and promissory notes	199,733	757,308	494,479	18,482	1,470,002
	Total financial liabilities	**835,549**	**1,038,918**	**626,888**	**50,200**	**2,551,555**

(In millions of Russian Roubles)

39 FINANCIAL RISK FACTORS (continued)

Notes		Russian Rouble	US dollar	Euro	Other	Total
	31 December 2012 (restated)					
	Financial assets					
	Current					
8	Cash and cash equivalents	284,685	76,792	48,067	16,176	425,720
9	Short-term financial assets (excluding equity securities)	3,541	-	-	6	3,547
10	Trade and other accounts receivable	381,874	276,863	93,040	47,122	798,899
	Non-current					
15	Long-term accounts receivable	150,939	19,035	19	520	170,513
16	Available-for-sale long-term financial assets (excluding equity securities)	1,600	-	-	54	1,654
	Total financial assets	**822,639**	**372,690**	**141,126**	**63,878**	**1,400,333**
	Financial liabilities					
	Current					
18	Accounts payable and accrued charges (excluding derivative financial instruments)	646,987	166,856	30,308	33,322	877,473
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	63,827	240,032	18,490	284	322,633
	Non-current					
21	Long-term borrowings and promissory notes	167,036	670,143	340,615	165	1,177,959
	Total financial liabilities	**877,850**	**1,077,031**	**389,413**	**33,771**	**2,378,065**

See discussion of financial derivatives in Note 23.

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

As of 31 December 2013, if the Russian Rouble had weakened by 10% against the US dollar with all other variables held constant, profit before profit tax would have been lower by RR 53,794, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. As of 31 December 2012, if the Russian Rouble had weakened by 10% against the US dollar with all other variables held constant, profit before profit tax would have been lower by RR 70,434, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. The effect of related Russian Rouble strengthening against the US dollar would have been approximately the same amount with opposite impact.

As of 31 December 2013, if the Russian Rouble had weakened by 10% against the Euro with all other variables held constant, profit before profit tax would have been lower by RR 48,771, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. As of 31 December 2012, if the Russian Rouble had weakened by 10% against the Euro with all other variables held constant, profit before profit tax would have been lower by RR 24,829, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. The effect of related Russian Rouble 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:

Long-term borrowings and promissory notes	**31 December**	
	2013	**2012 (restated)**
At fixed rate	1,427,690	1,165,789
At variable rate	334,653	269,038
	1,762,343	1,434,827

39 FINANCIAL RISK FACTORS (continued)

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

During years ended 31 December 2013 and 2012 the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2013, if benchmark interest rates on US dollar- and Euro-denominated borrowings at these dates had been 2.0% higher with all other variables held constant, profit before profit tax would have been lower by RR 6,692 for 2013, mainly as a result of higher interest expense on floating rate borrowings. As of 31 December 2012, if benchmark interest rates on US dollar- and Euro-denominated borrowings at these dates had been 2.0% higher with all other variables held constant, profit before profit tax would have been lower by RR 5,380 for 2012, mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in benchmark interest rates is approximately equal and opposite.

(c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in development activities and could cause a decrease in the volume of reserves available for transportation and processing through the Group's systems or facilities and ultimately impact the Group's ability to deliver under its contractual obligations.

The Group's overall strategy in production and sales of natural gas, crude oil and related products is centrally managed. Substantially all the Group's natural gas, gas condensate and other hydrocarbon export sales to Europe and other countries are sold under long-term contracts. Natural gas export prices to Europe and other countries are generally based on a formula linked to oil product prices, which in turn are linked to crude oil prices.

The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2013, if the average gas prices related to the export market had decreased by 10% with all other variables held constant, profit before profit tax would have been lower by RR 217,747 for 2013. As of 31 December 2012, if the average gas prices related to the export market had decreased by 10% with all other variables held constant, profit before profit tax would have been lower by RR 189,622 for 2012.

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

The Group assesses on regular basis the potential scenarios of future fluctuation in commodity prices and their impacts on operational and investment decisions.

However, in the current environment management estimates may materially differ from actual future impact on the Group's financial position.

(d) Securities price risk

The Group is exposed to movements in the equity securities prices because of financial assets held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss (see Notes 9 and 16).

As of 31 December 2013 and 2012, if MICEX equity index, which affects the major part of Group's equity securities, had decreased by 20% with all other variables held constant, assuming the Group's equity instruments moved according to the historically high correlation with the index, Group's total comprehensive income for the year would have been RR 44,006 and RR 46,418 lower, respectively.

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

(In millions of Russian Roubles)

39 FINANCIAL RISK FACTORS (continued)

Credit risk

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

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

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

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

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

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

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

	31 December 2013	31 December 2012 (restated)
Cash and cash equivalents	689,130	425,720
Debt securities	8,747	5,201
Long-term and short-term trade and other accounts receivable	1,087,242	974,777
Financial guarantees	201,043	186,918
Total maximum exposure to credit risk	**1,986,162**	**1,592,616**

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 Group believes that it has significant funding through the commercial paper markets or through committed borrowing facilities to meet foreseeable borrowing requirements (see Note 37).

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

(In millions of Russian Roubles)

39 FINANCIAL RISK FACTORS (continued)

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of 31 December 2013					
Short-term and long-term loans and borrowings and promissory notes	159,699	172,227	242,531	640,741	586,730
Accounts payable and accrued charges (excluding derivative financial instruments)	596,128	153,499	-	-	-
Financial guarantees	5,711	9,451	31,349	71,408	83,124
As of 31 December 2012 (restated)					
Short-term and long-term loans and borrowings and promissory notes	171,314	151,319	278,726	502,440	396,793
Accounts payable and accrued charges (excluding derivative financial instruments)	645,540	231,933	-	-	-
Financial guarantees	8,920	10,696	13,356	63,138	90,808

See discussion of financial derivatives in Note 23.

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.

Capital risk management

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

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

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

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

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

The net debt to adjusted EBITDA ratios at 31 December 2013 and 2012 were as follows:

	31 December 2013	31 December 2012 (restated)
Total debt	1,801,928	1,500,592
Less: cash and cash equivalents and certain restricted cash	(689,130)	(429,378)
Net debt	1,112,798	1,071,214
Adjusted EBITDA	2,009,475	1,645,921
Net debt/Adjusted EBITDA ratio	**0.55**	**0.65**

OAO 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 2013.

(In millions of Russian Roubles)

40 FAIR VALUE MEASUREMENTS

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

a) Financial instruments in Level 1

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

b) Financial instruments in Level 2

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

c) Financial instruments in Level 3

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

Long-term accounts receivables are fair valued at Level 3 (see Note 15), long-term borrowings with variable interest rate – Level 2, long-term borrowings with fixed interest rate – Level 3 (see Note 21).

As of 31 December 2013 and 2012 the Group had the following assets and liabilities that are measured at fair value:

		31 December 2013			
Notes		Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
9	**Financial assets held for trading:**				
	Equity securities	2,200	14,474	-	16,674
	Bonds	5,681	-	-	5,681
	Available-for-sale financial assets:				
	Bonds	-	-	-	-
	Promissory notes	-	2,147	-	2,147
	Total short-term financial assets	**7,881**	**16,621**	**-**	**24,502**
16	**Available-for-sale financial assets:**				
	Equity securities	150,632	11,395	5,958	167,985
	Bonds	49	-	-	49
	Promissory notes	-	870	-	870
	Total available-for-sale long-term financial assets	**150,681**	**12,265**	**5,958**	**168,904**
23	Derivative financial instruments	527	18,525	591	19,643
	Total assets	**159,089**	**47,411**	**6,549**	**213,049**
23	Derivative financial instruments	439	16,931	437	17,807
	Total liabilities	**439**	**16,931**	**437**	**17,807**

(In millions of Russian Roubles)

40 FAIR VALUE MEASUREMENTS (continued)

Notes		Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
		31 December 2012 (restated)			
9	**Financial assets held for trading:**				
	Equity securities	2,566	10,849	-	13,415
	Bonds	1,606	-	-	1,606
	Available-for-sale financial assets:				
	Bonds	910	-	-	910
	Promissory notes	-	1,031	-	1,031
	Total short-term financial assets	**5,082**	**11,880**	**-**	**16,962**
16	**Available-for-sale financial assets:**				
	Equity securities	135,160	23,612	1,278	160,050
	Bonds	54	-	-	54
	Promissory notes	-	1,600	-	1,600
	Total available-for-sale long-term financial assets	**135,214**	**25,212**	**1,278**	**161,704**
23	Derivative financial instruments	909	25,217	814	26,940
	Total assets	**141,205**	**62,309**	**2,092**	**205,606**
23	Derivative financial instruments	1,011	30,110	847	31,968
	Total liabilities	**1,011**	**30,110**	**847**	**31,968**

There were no transfers between Levels 1, 2 and 3 during the period. For the year ended 31 December 2013 the Group has reclassified available-for-sale investments losses from other comprehensive income into the profit or loss in the amount of RR 1,492.

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

Carrying value of financial assets and liabilities not measured at fair value approximate their fair value.

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, in the event of a default by the counterparty (such as bankruptcy or a failure to pay or perform), net counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty.

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

	Gross amounts before offsetting	Amounts offset	Net amounts after offsetting in the consolidated balance sheet	Amounts subject to netting agreements
31 December 2013				
Financial assets				
Long-term and short-term trade and other accounts receivable	1,101,062	16,270	1,084,792	-
Derivative financial instruments	58,998	39,355	19,643	30,942
Financial liabilities				
Accounts payable and accrued charges (excluding derivative financial instruments)	765,897	16,270	749,627	-
Derivative financial instruments	57,162	39,355	17,807	30,942

(In millions of Russian Roubles)

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
31 December 2012				
Financial assets				
Long-term and short-term trade and other accounts receivable	1,081,924	112,512	969,412	993
Derivative financial instruments	53,140	26,200	26,940	13,536
Financial liabilities				
Accounts payable and accrued charges (excluding derivative financial instruments)	989,985	112,512	877,473	993
Derivative financial instruments	58,168	26,200	31,968	13,536

42 POST BALANCE SHEET EVENTS

Investments

In March 2014 the Group acquired additional 20% interest in Artic Russia B.V. for cash consideration of USD 980 million. As a result of the transaction, the Group's effective interest in OOO SeverEnergiya increased from 38.46% to 43.15%.

Borrowings and loans

In February 2014 the Group issued Loan Participation Notes in the amount of EURO 750 million at an interest rate of 3.6% due in 2021.

In March 2014 the Group obtained long-term syndicated loan from consortium of banks in the amount of USD 2,150 million at an interest rate of LIBOR + 1.5% due in 2019. Mizuho Bank Ltd. was appointed as bank agent.

APPENDIX A
CERTAIN EXPLORATION AND PRODUCTION INFORMATION OF THE GROUP

Licenses

The following table shows our licensed areas set out by regions of the Russian Federation (excluding our joint operations) as of June 30, 2015.

License type(1)	Urals federal district	North-western federal district	Southern and North Caucasian federal districts	Privolzhski federal district	Siberian federal district	Far East federal district	Shelf	Total
				(thousand km^2)				
Licenses for geological survey, exploration and production of hydrocarbons (SEPL)	38.3	0.3	2.9	6.0	45.8	-	319.3	412.6
Licenses for exploration and production of hydrocarbons (EPL)	53.2	0.7	4.0	2.6	20.2	14.5	12.4	107.6
Licenses for geological survey (SL)	16.3	0.2	0.3	1.2	3.8	-		21.8

Note:

(1) As provided by Russian law. See "Overview of the Russian Gas Industry, Classification of Reserves, and Certain Regulatory Matters—Russian Regulation—Subsoil licensing."

The following table shows our major fields in Russia with the production rights set out according to the main operational regions as of June 30, 2015.

	Name of the field (block)	Year of production start	Subsidiary—license holder	Interest of the Group (%)(1)	Type of the field (block)(2)	Category of the license(3)	License expiration year(4)
Western Siberia (Ural Federal District)	Urengoyskoye	1978	OOO Gazprom dobycha Urengoy	100%	OGC	EPL	2038(5)
	Severo-Urengoyskoye	1987			OGC	EPL	2030
	Yen-Yakhinskoye	1985			OGC	EPL	2030(5)
	Pestsovoye	2004			OGC	EPL	2019
	Yamburgskoye	1991	OOO Gazprom dobycha Yamburg	100%	OGC	EPL	2054
	Zapolyarnoye	2001			OGC	EPL	2018
	Tazovskoye	—			OGC	SEPL	2025
	Severo-Parusovoye	—			OGC	EPL	2027
	Medvezhye	1972	OOO Gazprom dobycha Nadym	100%	OGC	EPL	2018
	Yamsoveyskoye	1997			OGC	EPL	2018
	Yubileynoye	1992			OGC	EPL	2018
	Kharasaveyskoye	—			GC	EPL	2019
	Bovanenkovskoye	2012			OGC	EPL	2018
	Novoportovskoye	—	OOO Gazprom Neft Novy Port(6)	100%	OGC	EPL	2019
	Komsomolskoye	1993	OOO Gazprom dobycha Noyabrsk	100%	OGC	EPL	2029
	Yety-Purovskoye	2004			OGC	EPL	2020
	Zapadno-Tarkosalinskoye	1996			OGC	SEPL	2018
	Gubkinskoye	1998	ZAO "Purgaz"	51%	OGC	EPL	2033
	Yuzhno-Russkoye	2007	OAO Severneftegazprom	50.001% (of votes)	OGC	EPL	2043
	Zapadno-Tambeyskoye	—	PJSC Gazprom	—	OGC	EPL	2028
	Kruzenshternskoye	—			GC	EPL	2028
	Malyginskoye	—			GC	EPL	2028
	Severo-Tambeyskoye	—			GC	EPL	2028
	Tasiyskoye	—			GC	EPL	2028
	Antipayutinskoye	—			G	EPL	2028
	Tota-Yakhinskoye	—			G	EPL	2028
	Semakovskoye	—			G	EPL	2028
	Sugmutskoye	1995	OOO Gazpromneft Noyabrskneftegaz(6)	100%	O	EPL	2050
	Sutorminskoye and Severo-Karamovskoye	1982			OGC	EPL	2038
	Sporyshevskoye	1996			O	EPL	2047
	Muravlenkovskoye	1982			OG	EPL	2038
	Priobskoye (southern part)	1984	OOO Gazpromneft Khantos(6)	100%	O	EPL	2038
	Vyngapurovskoye	1982	OOO Zapolyarneft(6)	100%	OGC	EPL	2020
Southern Russia (Southern Federal District)	Astrakhanskoye	1986	OOO Gazprom dobycha Astrakhan	100%	GC	EPL	2019
	Zapadno-Astrakhanskoye	—	PJSC Gazprom	100%	GC	SEPL	2024

South Urals (Privolzhsky federal district)	Orenburgskoye	1974	OOO Gazprom dobycha Orenburg	100%	OGC	EPL	2018
	Eastern area of the Orenburgskoye field	1994	ZAO Gazprom Neft(6) Orenburg	100%	OGC	EPL	2018
Eastern Siberia and the Far East (Siberian and Far East Federal Districts)	Chayandinskoye	—	PJSC Gazprom	100%	OGC	EPL	2028
	Chikanskoye	—			GC	EPL	2028
	Kovyktinskoye(7)	—			GC	EPL	2017
	Tas-Yuryakhskoye	—			OGC	EPL	2031
	Sobolokh-Nedzhelinskoye	—			GC	EPL	2031
	Part of Srednetyungskoye	—			GC	EPL	2031
	Verkhnevilyuchanskoye	—			OGC	EPL	2031
	Sobinskoye	—	OOO Gazprom Geologorazvedka	100%	OGC	SEPL	2028
Russian sea shelf	Shtokmanovskoye	—	PJSC Gazprom	100%	GC	EPL	2043
	Prirazlomnoye	2013	OOO Gazprom Neft Shelf		O	EPL	2043
	Kamennomysskoye-more	—	PJSC Gazprom	100%	G	EPL	2026
	Severo-Kamennomysskoye	—			GC	EPL	2026
	Dolginskoye	—	OOO Gazprom Neft Sakhalin		O	EPL	2025
	Kirinskoye	2013	PJSC Gazprom	100%	GC	EPL	2028
	Yuzhno-Kirinskoye	—			GC	SEPL	2039
	Mynginskoye	—			GC	SEPL	2039
	Ledovoye	—			GC	EPL	2043
	Rusanovskoye	—			GC	SEPL	2043
	Ludlovskoye	—			G	SEPL	2043
	Leningradskoye	—			GC	SEPL	2043

Notes:

(1) Cumulative share of Group companies in charter capital of investments.

(2) Type of field is provided in accordance with the Russian state classification: OGC—oil,-gas, condensate; OG—oil and gas; GC—gas condensate; G—gas; O—oil.

(3) The classification is provided in accordance with Russian law.

(4) Most of our licenses for survey, exploration and production of hydrocarbons were received in 1993-1996 in accordance with the Federal law "On subsoil." The expiry period of the licenses for our largest fields is between 2014 and 2018. So long as we are in substantial compliance with the requirements set forth in our licensing agreements, we are entitled to extend the licenses for the exploration and production of the fields. We intend to extend our licenses for the duration of the economic life of the fields.

(5) The license for the Urengoyskoye field includes the Urengoyskaya and Yen-Yakhinskaya areas.

(6) A part of Gazprom Neft.

(7) In accordance with Government Resolution No. 668-r dated April 24, 2014, we obtained an exploration and production license for the Khandinskiy area which includes part of the Kovyktinskoye field. See "Gazprom—Reserves and Production—Licencing activities."

Exploration activities

The following table sets forth the key figures of our geological exploration activities in Russia (excluding our joint operations) for the periods indicated.

	For the six months ended June 30,		For the year ended December 31,		
	2015	2014	2014	2013	2012
Exploration drilling, thousand meters	87.0	96.1	165.4	146.4	126.4
Completed exploration wells, units	15	9	41	53	54
including successful wells	14	5	31	37	46
Seismic exploration 2D, thousand line km	0.0	0.1	6.6	1.4	1.9
Seismic exploration 3D, thousand km2	10.9	7.1	12.6	13.3	8.4

The following table sets forth the key figures of our joint operations' geological exploration activities (in the portion of 100%) for the periods indicated.

	For the six months ended June 30,		For the year ended December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
Exploration drilling, thousand meters	3.2	6.6	13.1	11.6	14.0
Completed exploration wells, units	-	1	4	5	5
including successful wells	-	1	3	3	3
Seismic exploration 2D, thousand km2	-	-	-	-	0.5
Seismic exploration 3D, thousand km2	0.4	0.3	0.5	0.9	1.1

The following table sets forth the key figures of our geological exploration activities outside Russia (with regard to the projects where we act as operator or exercise control) for the periods indicated.

	For the six months ended June 30,		For the year ended December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
Exploration drilling, thousand meters	9.5	8.7	17.6	18.1	24.0
Completed exploration wells, units	3	2	5	4	7
including successful wells	3	2	4	1	1
Seismic exploration 2D, thousand line km	0.5	0.0	-	0.4	0.7
Seismic exploration 3D, thousand km2	0.4	1.6	1.7	1.4	0.4

Development activities

The following table sets forth the key figures of our geological development drilling in Russia (excluding UGSFs wells drilling and our joint operations) for the periods indicated, excluding our joint operations.

	For the six months ended June 30,		For the year ended December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
Constructed production wells, units					
Natural gas	21	14	38	93	212
Crude oil	380	395	832	788	724
Total	**401**	**409**	**870**	**881**	**936**
Penetration in production drilling, thousand m					
Natural gas	60.6	66.4	125.6	239.7	367.7
Crude oil	1,503.9	1,496.8	2,948.5	3,002.1	2,566.6
Total	**1,564.5**	**1,559.4**	**3,074.1**	**3,241.8**	**2,934.3**

The following table sets forth the key figures of our joint operations' geological development drilling (in the portion of 100%) for the periods indicated.

	For the six months ended June 30,		For the year ended December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
Constructed production wells, units					
Crude oil	107	71	192	193	219
Penetration in production drilling, thousand m					
Crude oil	393.8	286.9	694.1	697.5	827.3

The following table sets forth the key figures of our geological development drilling outside Russia (excluding UGSFs wells drilling) with regard to the projects where we act as operator or exercise control for the periods indicated.

	For the six months ended June 30,		For the year ended December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
Constructed production wells, units					
Natural gas	1	3	3	1	2
Crude oil	19	19	47	19	13
Total	**20**	**22**	**50**	**20**	**15**
Penetration in production drilling, thousand m					
Natural gas	0.4	7.9	7.9	1.9	3.1
Crude oil	37.9	41.2	95.1	58.1	20.8
Total	**38.3**	**49.1**	**103.0**	**60.1**	**23.9**

Production assets

The following table sets forth the key figures of our production assets in Russia for the periods indicated, excluding our joint operations.

	As of June 30,	As of December 31,		
	2015	2014	2013	2012
Producing fields, units	**139**	**139**	**131**	**127**
Gas production wells, units	**7,816**	**7,816**	**7,744**	**7,717**
including those in operation	7,293	7,293	7,263	7,226
Oil production wells, units	**8,218**	**8,218**	**7,868**	**7,296**
including those in operation	7,604	7,604	7,246	6,738

The following table sets forth the key figures of our joint operations' production assets (in the portion of 100%) for the periods indicated.

	As of June 30,	As of December 31,		
	2015	2014	2013	2012
Producing fields, units	**43**	**39**	**35**	**34**
Gas production wells, units	**7**	**8**	**10**	**9**
including those in operation	**-**	1	-	2
Oil production wells, units	**3,686**	**3,635**	**3,590**	**3,439**
including those in operation	3,123	3,086	3,017	2,793

The following table sets forth the key figures of our production assets outside Russia with regard to the projects where we act as operator or exercise control, for the periods indicated.

	As of June 30,	As of December 31,		
	2015	2014	2013	2012
Producing fields, units	**63**	**62**	**65**	**64**
Gas production wells, units	**171**	**235**	**322**	**319**
including those in operation	78	96	119	116
Oil production wells, units	**983**	**907**	**968**	**1,002**
including those in operation	670	626	662	687

APPENDIX B

DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

September 30, 2015

OAO Gazprom
16A, Nametkina Street
117997, Moscow B-420
Russia

Gentlemen:

Pursuant to your request, we have prepared estimates, as of December 31, 2014, of the extent and value of the proved and probable gas, oil, condensate, gas liquids, sulfur, and helium reserves owned or controlled by OAO Gazprom (Gazprom) through its subsidiaries and associations. These estimates are presented in our "Appraisal Report, as of December 31, 2014, on Gas, Oil, Gas Liquids, Sulfur, and Helium Reserves Owned or Controlled by OAO Gazprom in Certain Fields in the Russian Federation PRMS Case Executive Summary Confidential" (the Gazprom Report) and our "Appraisal Report, as of December 31, 2014, on Oil, Condensate, and Natural Gas Reserves in Certain Fields Owned by OAO Gazprom Neft PRMS Case" (the Gazprom Neft Report). Gazprom and OAO Gazprom Neft (Gazprom Neft) are referred to collectively herein as the "Gazprom Group." The fields evaluated are located in eastern Siberia, western Siberia, the Barents Sea, the Pechora Sea, the Tomsk region, offshore Sakhalin Island, and the Volga-Ural Province of Russia.

Gazprom has represented that it owns a 49-percent interest in and controls the management of the producing company ZAO Purgaz, which owns 100 percent of the license of the Gubkinskoye field. Gazprom also has represented that it owns a 40-percent interest in and controls the management of the producing company OAO Severneftegazprom, which owns 100 percent of the license of the Yuzhno Russkoye field. As a result, 100 percent of the reserves of the Gubkinskoye and Yuzhno Russkoye fields, including those portions not owned by Gazprom, are reported herein as Gazprom reserves. A detailed discussion of the reserves and associated values attributable to Gazprom is included in the Gazprom Report.

Gazprom has represented that it owns 95.68-percent interest in and controls the management of Gazprom Neft. Gazprom Neft owns interests in certain fields either directly or through various subsidiary enterprises. All fields are held at 100 percent by the respective subsidiary enterprise. Gazprom Neft's ownership in all the subsidiary enterprises ranges between 87.5 and 100 percent, and Gazprom Neft controls the management of these subsidiaries. Gazprom Neft has also represented that it holds a 40-percent interest in the Badra Block and 50-percent interest in the Mil Qasim and Sarqala fields within the Kurdistan region in Iraq, and an 8-percent interest in the Junin-6 field located in the Faja Extra Heavy Oil Belt in the basin of the Orinoco River in Venezuela. A detailed discussion of the reserves and associated values attributable to Gazprom Neft is included in the Gazprom Neft Report. The estimated reserves and associated values attributable to Gazprom Group are reported herein at 100 percent. The estimated reserves and values attributable to Gazprom Group through its relationship with Gazprom Neft are presented separately in the tables included herein.

The estimated proved and probable gas, oil, and gas liquids reserves owned or controlled by Gazprom Group, as of December 31, 2014, in the fields evaluated in the Gazprom Report, expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3), or thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt), are summarized by subsidiary as follows. Estimates of sulfur reserves, expressed in thousands of United States tons ($10^3U.S.t$) and thousands of metric tons (10^3mt), are shown in Attachment I. Estimates of helium reserves, expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3) are also shown in Attachment I.

Subsidiary	English Units Gazprom Separator Gas Total Proved ($10^6 ft^3$)	Probable ($10^6 ft^3$)	Proved plus Probable ($10^6 ft^3$)
OOO Gazprom dobycha Urengoi	79,224,502	14,110,214	93,334,716
OOO Gazprom dobycha Yamburg	108,011,316	14,157,417	122,168,733
OOO Gazprom dobycha Nadym	168,546,533	21,267,767	189,814,300
OOO Gazprom dobycha Noyabrsk	13,350,285	2,773,736	16,124,021
OAO Severneftegazprom	17,125,157	4,440,118	21,565,275
OOO Gazprom dobycha Orenburg	7,377,487	3,654,401	11,031,888
OOO Gazprom dobycha Astrakhan	8,772,383	825,405	9,597,788
OAO Gazprom	250,599,834	95,041,228	345,641,062
ZAO Purgaz	5,121,868	454,955	5,576,823
OAO Tomskgazprom	616,232	152,759	768,991
Total	**658,745,597**	**156,878,000**	**815,623,597**

Subsidiary	Metric Units Gazprom Separator Gas Total Proved ($10^6 m^3$)	Probable ($10^6 m^3$)	Proved plus Probable ($10^6 m^3$)
OOO Gazprom dobycha Urengoi	2,243,386	399,556	2,642,942
OOO Gazprom dobycha Yamburg	3,058,537	400,893	3,459,430
OOO Gazprom dobycha Nadym	4,772,702	602,236	5,374,938
OOO Gazprom dobycha Noyabrsk	378,038	78,543	456,581
OAO Severneftegazprom	484,930	125,730	610,660
OOO Gazprom dobycha Orenburg	208,907	103,481	312,388
OOO Gazprom dobycha Astrakhan	248,406	23,373	271,779
OAO Gazprom	7,096,191	2,691,267	9,787,458
ZAO Purgaz	145,035	12,883	157,918
OAO Tomskgazprom	17,450	4,325	21,775
Total	**18,653,582**	**4,442,287**	**23,095,869**

Notes:
1. Probable reserves have not been risk adjusted to make them comparable to proved reserves.
2. Reserves estimates for ZAO Purgaz include those reserves attributable to the 51-percent interest in ZAO Purgaz not owned by Gazprom.
3. Reserves estimates OAO Severneftegazprom include those reserves attributable to the 60-percent interest in OAO Severneftegazprom not owned by Gazprom.

Subsidiary	English Units Gazprom Oil Total Proved	Probable (10^3bbl)	Proved plus Probable

	(10^3bbl)		(10^3bbl)
OOO Gazprom dobycha Urengoi	59,137	16,598	75,735
OOO Gazprom dobycha Yamburg	0	66,174	66,174
OOO Gazprom dobycha Nadym			
OOO Gazprom dobycha Noyabrsk			
OAO Severneftegazprom			
OOO Gazprom dobycha Orenburg	178,122	85,593	263,715
OOO Gazprom dobycha Astrakhan			
OAO Gazprom	172,374	162,271	334,645
ZAO Purgaz			
OAO Tomskgazprom			
Total	**409,633**	**330,636**	**740,269**

	Metric Units		
	Gazprom Oil		
Subsidiary	**Total Proved (10^3mt)**	**Probable (10^3mt)**	**Proved plus Probable (10^3mt)**
OOO Gazprom dobycha Urengoi	7,700	2,161	9,861
OOO Gazprom dobycha Yamburg	0	9,574	9,574
OOO Gazprom dobycha Nadym			
OOO Gazprom dobycha Noyabrsk			
OAO Severneftegazprom			
OOO Gazprom dobycha Orenburg	23,788	11,431	35,219
OOO Gazprom dobycha Astrakhan			
OAO Gazprom	24,144	22,729	46,873
ZAO Purgaz			
OAO Tomskgazprom			
Total	**55,632**	**45,895**	**101,527**

Note: Probable reserves have not been risk adjusted to make them comparable to proved reserves.

Subsidiary	English Units Gazprom Gas Liquids Total Proved (10³bbl)	Probable (10³bbl)	Proved plus Probable (10³bbl)
OOO Gazprom dobycha Urengoi	2,092,181	391,641	2,483,822
OOO Gazprom dobycha Yamburg	673,254	119,692	792,946
OOO Gazprom dobycha Nadym	303,903	206,192	510,095
OOO Gazprom dobycha Noyabrsk			
OAO Severneftegazprom			
OOO Gazprom dobycha Orenburg	216,221	96,903	313,124
OOO Gazprom dobycha Astrakhan	917,672	97,572	1,015,244
OAO Gazprom	1,068,688	761,308	1,829,996
ZAO Purgaz			
OAO Tomskgazprom	8,855	2,076	10,931
Total	**5,280,774**	**1,675,384**	**6,956,158**

Subsidiary	Metric Units Gazprom Gas Liquids Total Proved (10³mt)	Probable (10³mt)	Proved plus Probable (10³mt)
OOO Gazprom dobycha Urengoi	252,650	47,293	299,943
OOO Gazprom dobycha Yamburg	81,329	14,455	95,784
OOO Gazprom dobycha Nadym	36,707	24,912	61,619
OOO Gazprom dobycha Noyabrsk			
OAO Severneftegazprom			
OOO Gazprom dobycha Orenburg	26,126	11,709	37,835
OOO Gazprom dobycha Astrakhan	110,819	11,782	122,601
OAO Gazprom	128,623	92,389	221,012
ZAO Purgaz			
OAO Tomskgazprom	1,070	250	1,320
Total	**637,324**	**202,790**	**840,114**

Note: Probable reserves have not been risk adjusted to make them comparable to proved reserves.

The estimated proved and probable gas, oil, and condensate reserves owned or controlled by Gazprom Group, as of December 31, 2014, in the fields evaluated in the Gazprom Neft Report, expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3), or thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt), are summarized as follows.

English Units Gazprom Neft Gas Total Proved	Probable (10^6ft^3)	Proved plus Probable

	Total Proved (10⁶ft³)	Probable	Proved plus Probable (10⁶ft³)
Sales Gas	7,585,787	5,687,491	13,273,278

	Metric Units		
	Gazprom Neft Gas		
	Total Proved (10^6m^3)	Probable (10^6m^3)	Proved plus Probable (10^6m^3)
Sales Gas	214,806	161,046	375,852

Notes:
1. Probable reserves have not been risk adjusted to make them comparable to proved reserves.
2. Reserves estimates for Gazprom Neft include those reserves attributable to the 4.32-percent interest in Gazprom Neft not owned by Gazprom.

	English Units		
	Gazprom Neft Oil and Condensate		
	Total Proved (10^3bbl)	Probable (10^3bbl)	Proved plus Probable (10^3bbl)
Oil and Condensate	5,044,282	3,284,271	8,328,553

	Metric Units		
	Gazprom Neft Oil and Condensate		
	Total Proved (10^3mt)	Probable (10^3mt)	Proved plus Probable (10^3mt)
Oil and Condensate	684,360	444,205	1,128,565

Notes:
1. Probable reserves have not been risk adjusted to make them comparable to proved reserves.
2. Reserves estimates for Gazprom Neft include those reserves attributable to the 4.32-percent interest in Gazprom Neft not owned by Gazprom.

The estimated Gazprom Group future net revenue and present worth to be derived from the production and sale of the proved and proved-plus-probable reserves owned or controlled by Gazprom Group in the fields evaluated in the Gazprom Report, as of December 31, 2014, are summarized below, expressed in thousands of United States dollars (10^3U.S.$). Values were estimated in United States dollars using the exchange rate of 37.4549 Russian Rubles per U.S.$1.00. The values shown include the value of sulfur and helium reserves estimated for OOO Gazprom dobycha Astrakhan, OOO Gazprom dobycha Orenburg, and OAO Gazprom in the Astrakhan, Orenburg, and Chayandinskoye fields, respectively, as shown in Attachment I.

Subsidiary	Gazprom: Future Net Revenue: Total Proved (10^3U.S.$)	Gazprom: Future Net Revenue: Proved plus Probable (10^3U.S.$)	Gazprom: Present Worth at 10 Percent: Total Proved (10^3U.S.$)	Gazprom: Present Worth at 10 Percent: Proved plus Probable (10^3U.S.$)
OOO Gazprom dobycha Urengoi	159,345,729	190,601,348	53,970,126	57,062,069
OOO Gazprom dobycha Yamburg	164,604,244	184,730,321	67,441,766	66,087,001
OOO Gazprom dobycha Nadym	231,711,352	264,229,832	62,502,096	64,575,117
OOO Gazprom dobycha Noyabrsk	18,863,239	23,119,759	9,805,408	11,150,003
OAO Severneftegazprom	24,107,910	31,057,209	10,498,974	11,339,816
OOO Gazprom dobycha Orenburg	5,972,316	10,879,747	1,539,156	2,226,475
OOO Gazprom dobycha Astrakhan	24,588,441	27,366,205	6,521,300	6,602,352
OAO Gazprom	597,077,237	819,243,356	27,645,656	38,845,980
ZAO Purgaz	6,794,958	7,425,653	3,479,009	3,515,490
OAO Tomskgazprom	943,510	1,192,104	532,848	607,842
Total	**1,234,008,936**	**1,559,845,534**	**243,936,339**	**262,012,145**

Notes:
1. Values for probable reserves have not been risk adjusted to make them comparable to values for proved reserves.
2. Future net revenue and present worth include the value of sulfur and helium reserves from the Astrakhan, Chayandinskoye, and Orenburg fields, as shown in Attachment I.
3. The values shown for ZAO Purgaz and Total include revenues attributable to the 51-percent interest in ZAO Purgaz not owned by Gazprom.
4. The values shown for OAO Severneftegazprom and Total include revenues attributable to the 60-percent interest in OAO Severneftegazprom not owned by Gazprom.
5. In preparation of these estimates, future income tax expenses have been taken into account at the field level and for transportation of gas for export.

The estimated Gazprom Group future net revenue and present worth to be derived from the production and sale of the proved and proved-plus-probable reserves owned or controlled by Gazprom Group in the fields evaluated in the Gazprom Neft Report, as of December 31, 2014, are summarized below, expressed in thousands of United States dollars (10^3U.S.$). Values were estimated in United States dollars using an exchange rate Russian Rubles 37.4549 per U.S.$1.00.

Gazprom Neft			
Future Net Revenue		**Present Worth at 10 Percent**	
Total Proved (10^3U.S.$)	**Proved plus Probable (10^3U.S.$)**	**Total Proved (10^3U.S.$)**	**Proved plus Probable (10^3U.S.$)**
95,367,494	150,562,902	36,343,496	48,328,266

Notes:
1. Values for probable reserves have not been risk adjusted to make them comparable to values for proved reserves.
2. The values shown for Gazprom Neft include revenues attributable to the 4.32-percent interest in Gazprom Neft not owned by Gazprom.
3. In preparation of these estimates, future income tax expenses have been taken into account at the field level and for transportation of gas for export.

The estimates of Gazprom Group reserves, future net revenue, and present worth of future net revenue summarized are subject to the definitions, assumptions, qualifications, explanations, and conclusions expressed in the Gazprom Report and the Gazprom Neft Report. These summaries should be considered in view of the two reports and are susceptible to being misunderstood apart from these reports.

Very truly yours,

/s/ DeGolyer and MacNaughton

DeGOLYER and MacNAUGHTON
Texas Registered Engineering Firm F-716

Attachment

ATTACHMENT I
ESTIMATES
of
SULFUR and HELIUM RESERVES and REVENUE
owned by
OAO GAZPROM
as of
DECEMBER 31, 2014

	Gazprom Sulfur Reserves		Gazprom Helium Reserves	
	English Units (10^3U.S.t)	Metric Units (10^3mt)	English Units (10^6ft^3)	Metric Units (10^6m^3)
Total Proved	175,174	158,915	24,695	699
Probable	19,718	17,888	35,825	1,015
Proved plus Probable	**194,892**	**176,803**	**60,520**	**1,714**

	Gazprom Sulfur and Helium Revenue	
	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
OOO Gazprom dobycha Astrakhan		
Total Proved	3,759,144	1,064,525
Probable	353,702	16,287
Proved plus Probable	**4,112,846**	**1,080,812**
OOO Gazprom dobycha Orenburg		
Total Proved	552,549	254,229
Probable	273,717	29,448
Proved plus Probable	**826,266**	**283,677**
OAO Gazprom		
Total Proved	1,404	213
Probable	2,113	217
Proved plus Probable	**3,517**	**430**
Grand Totals		
Total Proved	**4,313,097**	**1,318,967**
Probable	**629,532**	**45,952**
Proved plus Probable	**4,942,629**	**1,364,919**

Notes:
1. Sulfur reserves are expressed as thousands of U.S. tons (10^3U.S.t) and thousands of metric tons (10^3mt).
2. All sulfur reserves are located in the Astrakhan and Orenburg fields.
3. Helium reserves are expressed as millions of cubic feet (10^6ft^3) and in millions of cubic meters (10^6m^3).
4. All helium reserves are located in the Chayandinskoye and Orenburg fields.
5. Probable reserves and values for probable reserves have not been risk adjusted to make them comparable to proved reserves and values for proved reserves.

COMPANY

Public Joint Stock Company Gazprom
16 Nametkina Street
117997 Moscow
Russian Federation

ISSUER

Gaz Capital S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg

ARRANGERS AND DEALERS

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

UBS Limited
1 Finsbury Avenue
London EC2M 2PP
United Kingdom

DEALERS

Commerzbank Aktiengesellschaft
Kaiserstraße 16 (Kaiserplatz)
60311 Frankfurt am Main
Federal Republic of Germany

Joint Stock Commercial Bank Rosbank
Mashi Poryvaevoi Str., 11
P.O. Box 208
107078 Moscow
Russian Federation

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

METROPOL Investment Financial Company Ltd.
13/1 Donskaya Street
119049 Moscow
Russian Federation

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

National Reserve Bank
2/2 Paveletskaya Square
Moscow 115 054
Russian Federation

Renaissance Securities (Cyprus) Limited
9th Floor, Capital Center
2-4 Arch, Makarious III Ave.
Nicosia, Cyprus

UniCredit Bank AG
Arabellastrasse, 12
D-81925 Munich
Germany

FINANCIAL ADVISOR TO THE COMPANY

Horizon-Corporate Finance OOO
71/32 Novocheremushkinskaya Street
117420 Moscow
Russian Federation

AUDITORS TO THE COMPANY

AO PricewaterhouseCoopers Audit
Butyrsky Val, 10
125047 Moscow
Russian Federation

FBK
Myasnitskaya Street, 44/1
101990 Moscow
Russian Federation

TAX ADVISOR TO THE COMPANY

Ernst & Young
Sadovnicheskaya Nab. 77, Bld. 1
115035 Moscow
Russian Federation

LEGAL ADVISORS TO THE COMPANY

As to U.S. law

Winston & Strawn LLP
35 W. Wacker Drive
Chicago, Illinois 60601
United States of America

As to English law

Winston & Strawn LLP
CityPoint, One Ropemaker Street
London EC2Y 9HU
United Kingdom

As to Russian law

Winston & Strawn LLP
26 Valovaya Street
115054 Moscow
Russian Federation

LEGAL ADVISORS TO THE ARRANGERS, THE DEALERS AND THE TRUSTEE

As to U.S. and English law

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

As to Luxembourg law

Linklaters LLP
35, Avenue John F. Kennedy
P.O. Box 1107
L-1011 Luxembourg

As to Russian law

Linklaters CIS
Paveletskaya Square 2
Bld. 2
115054 Moscow
Russian Federation

TRUSTEE, U.S. REGISTRAR, PAYING AGENT AND TRANSFER AGENT

Deutsche Bank Trust Company Americas
60 Wall Street
New York, New York 10005
United States of America

PRINCIPAL PAYING AGENT AND TRANSFER AGENT

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

LUXEMBOURG REGISTRAR, PAYING AGENT AND TRANSFER AGENT

Deutsche Bank Luxembourg S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg

LISTING AGENT

Arthur Cox Listing Services Limited
Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

IRISH PAYING AGENT

Deutsche International Corporate Services (Ireland) Limited
5 Harbourmaster Place, IFSC
Dublin 1
Ireland

PETROLEUM CONSULTANTS TO THE COMPANY

DeGolyer and MacNaughton
Suite 800 East
5001 Spring Valley Road
Dallas, Texas 75244
United States of America