MANAGEMENT REPORT
PJSC GAZPROM
2015

CONTENT

Note:

In the present Management Report some of operating and economic parameters have been determined in accordance with International Financial Reporting Standards (IFRS) principles and for the Group's entities included in the IFRS consolidated financial statements of PJSC Gazprom for the year ended December 31, 2015, therefore they can differ from similar parameters in reports of PJSC Gazprom prepared under Russian statutory requirements.

Moreover, some operating parameters of PJSC Gazprom and its subsidiaries are determined in accordance with principles underlying management reporting.

Analysis of financial results should be read in conjunction with the audited consolidated financial statements of PJSC Gazprom for the year ended December, 31, 2015 prepared in accordance with IFRS.

Among other things, the Management Report discloses information on the future production and economic activities of Gazprom Group, based on the management's forecasts and estimates considering the current situation. Actual performance results may differ from the forecasts and estimates due to the impact of various objective factors.

Gazprom Group (PJSC Gazprom and its subsidiaries, hereinafter – Gazprom, the Group) – is one of the world's largest vertically integrated energy companies.

THE GROUP'S POSITION IN THE GLOBAL ENERGY INDUSTRY

Gazprom Group is the global leader in terms of reserves (approximately 17%) and natural gas production volumes (approximately 11%). In Russia, Gazprom accounts for 66% of gas production and approximately for 11% of oil and gas condensate production (including the share in the production of entities where Gazprom has investments classified as joint operations).

Gazprom owns the world's largest gas transportation network, which is located in Russia and extends for 171.2 thousand kilometres. This network ensures distribution of natural gas to customers within Russia as well as access to European markets for natural gas.

In Russia, Gazprom Group accounts for a half of all natural and associated petroleum gas processing and 18% of oil and stable gas condensate refining.

Gazprom is the dominant supplier of gas to consumers in Russia and countries of the former Soviet Union (FSU). In addition, the Group is Europe's major supplier of natural gas. Share of PJSC Gazprom's gas sales under contracts signed by OOO Gazprom export in the total gas consumption in European far abroad countries is 30.9%.

The Group also owns electricity generating assets, which provide approximately 14% of all the electrical power generated in Russia. Gazprom is the largest heat producer in Russia.

Gazprom Group's key operational and financial indicators for 2015 and 2014 are presented in the tables below.

	As of and for the year ended December 31,		Change, %
	2015	2014	
Reserves of hydrocarbons under PRMS Standards[(1)]			
Proved and probable gas reserves, bcm	23,704.99	23,510.74	0.8
Proved and probable gas condensate reserves, million tons	933.30	848.61	10.0
Proved and probable crude oil reserves, million tons	1,355.40	1,374.38	–1.4
Total proved and probable reserves of hydrocarbons, bboe	157.2	155.5	1.1
Operating indicators			
Natural and associated petroleum gas production[(1)], bcm	419.5	444.9	–5.7
Crude oil production[(1)], million tons	44.0	43.5	1.1
Unstable gas condensate production[(1)], million tons	15.3	14.5	5.5
Total hydrocarbon production[(1)], million boe	2,918.5	3,057.9	–4.6
Natural and associated petroleum gas refining, bcm	31.2	30.5	2.3
Oil and gas condensate refining, million tons	66.8	68.0	–1.8
Electricity generation, billion kilowatt-hour (kWh)	147.9	155.4	–4.8
Key financial results (RUB million)			
Sales	6,073,318	5,589,811	8.7
Operating profit	1,228,301	1,310,424	–6.3
Profit for the year attributable to owners of PJSC Gazprom	787,056	159,004	395.0
Adjusted EBITDA	1,874,726	1,962,558	–4.5
Balance Sheet highlights (RUB million)			
Cash and cash equivalents	1,359,095	1,038,191	30.9
Total debt	3,442,215	2,688,824	28.0
Net debt	2,083,120	1,650,633	26.2
Total assets	17,052,040	15,177,470	12.4
Equity, including non-controlling interest	10,914,622	10,120,021	7.9

	As of and for the year ended December 31, 2015	2014	Change, %
Ratios			
Net earnings per share for profit attributable to the owners of PJSC Gazprom, RUB	34.29	6.93	394.8
Total debt to equity, including non-controlling interest	0.32	0.27	18.5
Adjusted EBITDA to interest expense	28.04	43.86	–36.1
Return on capital employed, %	7.9	9.3	–15.1

Note:

(1) Including the Group's share in the reserves and production of entities where Gazprom has investments classified as joint operations.

OPERATING RESULTS

Reserves and development of hydrocarbons

The table below presents assets and volumes of capital expenditures in the Production of gas and Production of oil and gas condensate segments:

	As of December 31, 2015	2014
Gas production		
Assets, RUB million	2,357,813	2,276,369
Share in the total assets of the Group, %	15.0	15.3
Oil and gas condensate production		
Assets, RUB million	2,183,335	1,896,609
Share in the total assets of the Group, %	13.9	12.8

	Year ended December 31, 2015	2014
Gas production		
Capital additions, RUB million	220,214	254,881
Share in capital additions of the Group, %	16.4	20.9
Oil and gas condensate production		
Capital additions, RUB million	324,330	227,421
Share in the total assets of the Group, %	24.1	18.6

Reserves

According to the audit of Gazprom Group's hydrocarbon reserves under PRMS Standards performed by DeGolyer and MacNaughton, as of December 31, 2015 proved and probable reserves of the Group's hydrocarbons (including the share in the reserves of entities where Gazprom has investments classified as joint operations) are 157.2 bboe. The valuation covered 94% of natural gas, 92% of gas condensate and 92% of crude oil reserves of Gazprom Group under the ABC_1 classification.

The following table shows proved and probable reserves of Gazprom Group (including the share in the reserves of entities where Gazprom has investments classified as joint operations) under PRMS Standards:

		As of December 31, 2015	As of December 31, 2014
Gas			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)], %		94	94
Proved			
	bcm	18,791.20	18,894.76
	tcf	663.6	667.3
Probable			
	bcm	4,913.79	4,615.98
	tcf	173.5	163.0
Proved and probable			
	bcm	23,704.99	23,510.74
	tcf	837.1	830.3
Gas condensate			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)], %		92	92
Proved			
	million tons	699.53	642.28
	billion barrels	5.7	5.3
Probable			
	million tons	233.77	206.33
	billion barrels	1.9	1.7
Proved and probable			
	million tons	933.30	848.61
	billion barrels	7.6	7.0
Oil			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)], %		92	91
Proved			
	million tons	792.73	830.49
	billion barrels	5.8	6.1
Probable			
	million tons	562.67	543.89
	billion barrels	4.1	4.0
Proved and probable			
	million tons	1,355.40	1,374.38
	billion barrels	9.9	10.1
Total			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)], %		94	94
Proved			
	billion tons of fuel equivalent	23.8	23.9
	bboe	122.2	122.6
Probable			
	billion tons of fuel equivalent	6.8	6.4
	bboe	35.0	32.9
Proved and probable			
	billion tons of fuel equivalent	30.6	30.3
	bboe	157.2	155.5

Note:

(1) The ABC_1 classification accepted in Russia is based on the geological data analysis and evaluates the actual hydrocarbon reserves in geological formations. PRMS Standards take into account not only the

probability of hydrocarbon presence in geological formations but also the economic feasibility of reserves extraction, which is determined based on exploration and drilling costs, operating expenses for production and transportation, taxes, current selling prices of hydrocarbon and other factors.

As compared to the assessment made as of December 31, 2014, proved and probable reserves of Gazprom Group grew by 1.7 bboe. The increase in PRMS hydrocarbon reserves is mainly attributable to the expansion of the audit scope to cover new projects (Parusovoye and Severo-Parusovoye fields), additions to reserves at the Chayandinskoye, Kovyktinskoye, Vakunayskoye and Tsarichanskoye fields following the new drilling.

The bulk of the Group's hydrocarbon reserves is concentrated in its license blocks across Russia. Reserves of Gazprom outside Russia were estimated as insignificant.

As of December 31, 2015, Gazprom Group held 267 subsoil licenses for conducting geological surveys, prospecting, exploration and production of hydrocarbons in the Russian Federation.

The licensed subsoil area covered 546.9 thousand sq. km, including 331.3 thousand sq. km of offshore sites. In addition, entities where Gazprom has investments classified as joint operations held 35 licenses with the licensed subsoil area of 22.9 thousand sq. km.

As of December 31, 2015, Gazprom Group (including the share in the reserves of entities where Gazprom has investments classified as joint operations) had licenses in Russia for ABC_1 hydrocarbon reserves development in the following volumes: 36,147.3 bcm of natural gas, 1,499.5 million tons of gas condensate and 2,082.0 million tons of crude oil, for a total of 240,4 bboe, including Gazprom Group's share in the reserves owned by entities where PJSC Gazprom has investments classified as joint operations in the amount of 26.0 bcm of gas, 3.0 million tons of gas condensate, and 198.2 million tons of oil, or 1.6 bboe

In 2015, Gazprom Group's share in the ABC_1 hydrocarbon reserves of associated companies and joint ventures was 1,035.5 bcm of gas, 112.1 million tons of gas condensate and 566.9 million tons of crude oil, or 11.2 bboe.

The following table presents changes to ABC_1 reserves of natural gas, gas condensate and oil (including the share in the reserves of entities where Gazprom has investments classified as joint operations) at licensed areas of Gazprom Group in Russia in 2015:

	Natural gas, bcm	**Gas condensate, million tons**	**Crude oil, million tons**	**Total, million boe**
Reserves as of December 31, 2014	**36,101.4**	**1,447.0**	**2,053.1**	**239,523**
including share of non-controlling shareholders[(1)]	**658.6**	**4.2**	**66.1**	**4,398**
Additions to reserves as a result of exploration	531.1	68.5	20.6	3,840
Transfer of reserves discovered in 2015 to the Undistributed Subsoil Fund of Russia[(2)], acquisition from other companies	–62.9	–4.7	0.9	–402
Licenses obtaining	–	–	4.2	31
Return of licenses	–	–	–	–
Acquisition of assets	–	–	–	–
Disposal of assets	–	–	–	–
Revaluation	–5.0	–0.1	47.1	315
Production (including losses)	–417.3[(3)]	–11.2[(4)]	–43.9	–2,871
Reserves as of December 31, 2015	**36,147.3**	**1,499.5**	**2,082.0**	**240,436**
including share of non-controlling shareholders[(1)]	**643.0**	**4.2**	**69.5**	**4,331**

Notes:

(1) Share in the reserves of subsidiaries which are non-controlling shareholders as at the end of the year is calculated based on Gazprom Group's effective interest in the share capital of the relevant subsidiary which is a subsoil use licence holder.

(2) Under the Russian Federation laws, the subsoil user does not have any vested right to develop reserves discovered in areas covered by exploration licenses or beyond the licensed areas. Such reserves shall be transferred to the Undistributed Subsoil Fund of the Russian Federation. Subsequently the subsoil user has a preference right to receive a license for their development.

(3) Except for dissolved gas.

(4) Any changes in gas condensate reserves due to production are recognized as converted into stable gas condensate (C_{5+}). In 2015, Gazprom Group produced 15.3 million tons of unstable gas condensate.

Exploration

The following table presents summary information on exploration work at licensed areas of Gazprom Group in Russia and those under the foreign projects with the Group's participation:

	Year ended December 31, 2015	
	in Russia	**abroad[(1)]**
Exploration drilling, thousand meters	143.6	28.3
Completed exploration wells, units	43	4
including successful wells	38	2
Seismic exploration 2D, thousand line km	0.3	–
Seismic exploration 3D, thousand km^2	20.0	1.4
Financing for exploration (including VAT), RUB billion	102.1	16.3

Notes:

(1) The consolidated data about exploration work carried out by Gazprom Group in foreign countries include the data on projects where the Group's subsidiaries perform operational functions.

In addition, in entities where Gazprom has investments classified as joint operations wells development drilling totalled 3.2 thousand m, one exploration well has been completed, which yielded an influx.

In 2015, exploration work in Russia resulted in an increase in reserves by 531.1 bcm of natural gas and 68.5 million tons of gas condensate and 20.6 million tons of crude oil.

A sizeable increase in ABC1 reserves was achieved in gas reserves at the Yuzhno-Kirinskoye (213.2 bcm) and Chayandinskoye (205.0 bcm) fields, and oil reserves at the Vakunayskoye (6.9 million tons) and Tsarichanskoye (4.9 million tons) fields.

The recovery ratio for natural gas reserves amounted to 1.27, while for gas condensate it was 6.12 and for oil it was 0.47.

In the reporting year, Gazprom Group continued prospecting, exploring and developing fields outside Russia in strict compliance with relevant contracts. Exploration projects operated by Gazprom Group included exploration drilling in Algeria, Vietnam and Serbia, seismic surveys in Algeria, and gravity surveys in Kyrgyzstan.

Exploration drilling (two wells totalling 8,740 m) at Blocks 129–132 offshore Vietnam discovered a new field, Than Bien. Water depth at the block reaches 1,600 m.

Construction of a 4,150 m well (RSH-3) at the El-Assel license block in Algeria is nearing completion. Earlier, this well confirmed gas presence in Ordovician deposits. The well construction employed the latest technologies, including oriented core sampling in quartzite rock.

Licencing

New licenses obtained in 2015 increased Gazprom Group's A+B+C1 oil reserves by 4.2 million tons. Gazprom Group obtained eight licenses for blocks in the Khanty-Mansi Autonomous Area – Yugra, with purchase costs totalling RUB 3.25 billion.

As instructed by the Russian President, the Federal Subsoil Resources Management Agency (Rosnedra) revises and updates Russian licenses to harmonize subsoil management rules by December 31, 2016. PJSC Gazprom has arranged for Gazprom Group's subsoil users to file subsoil license update applications. As of December 31, 2015, Gazprom Group had updated 82 out of the 267 subsoil licenses held by Gazprom Group to conduct geological surveys, exploration and production of hydrocarbons in Russia.

Production

The following table presents information on the volumes of natural gas and liquid hydrocarbons produced by Gazprom Group and associated companies and joint ventures in Russia:

	Natural and associated petroleum gas, bcm	Unstable gas condensate, million tons	Crude oil, million tons	Total million boe
Year ended December 31, 2015				
Production of Gazprom Group, including the share in the production of entities where Gazprom has investments classified as joint operations	419.5	15.3	44.0	2,918.5
Share of Gazprom Group in the production of associated companies and joint ventures	25.5	4.7	9.6	259.0
Year ended December 31, 2014				
Production of Gazprom Group, including the share in the production of entities where Gazprom has investments classified as joint operations	444.9	14.5	43.5	3,057.9
Share of Gazprom Group in the production of associated companies and joint ventures	18.2	2.3	10.0	199.3

In 2015, Gazprom Group produced 419.5 bcm of natural and associated petroleum gas in Russia which is 25.4 bcm, or 5.7%, less than in 2014. This volume includes 1.0 bcm of natural and associated petroleum gas which is the share in the production of entities where Gazprom has investments classified as joint operations. The decrease in gas production was attributable primarily to reduced gas withdrawal by Gazprom's consumers.

Oil production, including the share in the production of entities where Gazprom has investments classified as joint operations (8.0 million tons of oil), was 44.0 million tons, which is 0.5 million tons more than in 2014. The increase was driven by growing oil production at deposits in the Orenburg Region (as a result of successful geological and technical activities), and at the Prirazlomnoye and Novoportovskoye fields.

In 2015, gas condensate production by Gazprom Group reached 15.3 million tons (up 0.8 million tons y-o-y), driven by production capacity additions at Block 1 and Block 2 of the Urengoyskoye OGCF achimovsk deposits.

Affiliates and joint ventures produced 25.5 bcm of gas, 4.7 million tons of gas condensate, and 9.6 million tons of oil (adjusted for the share of Gazprom Group). The growth of gas and condensate production is attributable to larger production volumes at the fields operated by OAO Arcticgas controlled by OOO SeverEnergia, and an increase in Gazprom Neft Group's effective interest in the project from 45.1% to 46.67%. Lower oil production rates are associated

with a decline in production by OAO NGK Slavneft and its subsidiaries due to the depletion of fields under development.

Gazprom's subsidiary NIS produces hydrocarbons abroad. NIS produced 1.1 million tons of oil and gas condensate and 0.6 bcm of gas in the reporting year.

The following table presents information on the number of Gazprom Group's developing fields and production wells stock:

	As of December 31, 2015	
	in Russia	**abroad**
Developing fields	138	53
Gas active production wells	7,358	74
Oil active production wells	8,461	661
Total design capacity of integrated and preliminary gas treatment units, bcm	1,119.7	3.3

In addition, as of December 31, 2015, entities where Gazprom has investments classified as joint operations developed 41 fields in Russia.

In addition, Gazprom Group holds shares in a number of oil and gas projects abroad that have entered a production phase.

- Blocks 05-2 and 05-3 in Vietnam's part of the South China Sea (49% held by Gazprom Group) produced 1,883.7 mmcm of gas and 435.9 thousand tons of gas condensate in 2015 (as compared to 1,786.2 mmcm and 366.4 thousand tons, respectively, in 2014).
- The Wingate offshore field in the North Sea (20% financed by Gazprom Group) produced 877.0 mmcm of gas and 5.3 thousand tons of gas condensate in 2015 (as compared to 622.4 mmcm and 4.4 thousand tons, respectively, in 2014).
- The Shakhpakhty field in Uzbekistan (5% held by Gazprom Group) yielded a total of 357.4 mmcm of natural gas in 2015 vs. 334.0 mmcm in 2014.
- The Junin-6 project in Venezuela (20% held by Gazprom Neft Group in the Russian segment of the project managed by OOO National Oil Consortium) yielded a total of 0.5 million tons of oil in 2015. Follow-up exploration is underway, with a full-scale development programme currently designed. The consortium continues to carry out the Early Production project.
- The Badrah field in Iraq (30% held by Gazprom Neft Group). In 2015 production was 1.4 million tons of oil, a level sufficient for the project to pay back.
- The Garmian block in Iraq (Kurdistan) (40% held by Gazprom Neft Group). In 2015 oil production was a total of 219.0 thousand tons.

In Libya, Wintershall AG, an affiliated company, produced 0.5 million tons of oil under C96 and C97 concessions in 2015. Low production was due to Force Majeure invoked by the company. Another affiliated company, Wintershall Noordzee (50% held by Gazprom Group following an asset swap deal between PJSC Gazprom and Wintershall Holding GmbH), produced 1.2 bcm of gas in 2015, including 0.3 bcm produced after Gazprom Group acquired a stake in the company (in Q4 2015).

Main areas of investments

Most capital investments to gas production were associated with the development of Cenomanian-Aptian layers at the Bovanenkovskoye oil and gas condensate field, retrofit, upgrade and expansion of existing capacity as well as new facilities at the Kirinskoye gas condensate field and Yuzhno-Russkoye oil and gas condensate field.

Gazprom Group's capital investments in oil and gas condensate exploration and production were mostly focused on the oil rim development in the Buotubinsky horizon of the Chayandinskoye oil and gas condensate field, and the construction of an Arctic terminal as part of the Novoportovskoye field development project, Priobskoye field development project, Gazprom Neft group of fields in Orenburg region development project. Long-term financial investments in oil and gas condensate exploration and production are associated with the Messoyakha project.

In 2015, following objects were commissioned:

- 80 MW BCS at CGTU 1AV (Facility 1) at the Urengoyskoye oil and gas condensate field;
- 64 MW Booster Compressor Plant 1 (Second Phase) at the Yuzhno-Russkoye field;
- 36 new gas production wells and 797 new oil production wells. Production drilling totalled 153.2 thousand m of gas wells and 3,163.0 thousand m of oil wells.

Besides, in 2015 production drilling by entities where Gazprom has investments classified as joint operations in Russia was 789 thousand m.

ZAO Achimgaz joint venture, the operator developing Block 1 in the achimovsk formation of the Urengoyskoye oil and gas condensate field, commissioned Processing Facility 4 at CGTU 31. The facility is designed to remove solid particles from gas condensate and separate gas from natural gas liquids. After commissioning, the new facility improved the total capacity of the CGTU by more than 30%.

Sale of oil and gas condensate

In 2015, Gazprom Group sold 17.0 million tons of oil and gas condensate in total.

Volumes of oil and gas condensate sold by Gazprom Group in domestic and foreign markets were as follows:

(million tons)	Year ended December 31		Change,
	2015[(1)]	2014[(1)]	%
Russia	5.3	4.7	12.8
including: Gazprom Neft Group	3.9	3.4	14.7
FSU	1.9	1.2	58.3
including: Gazprom Neft Group	1.9	1.2	58.3
Europe and other countries	9.8	9.8	–
including: Gazprom Neft Group	8.6	8.6	–
Total	**17.0**	**15.7**	**8.3**

Note:

(1) The volumes of sold oil and gas condensate do not include intra-group sales.

A 12.8% increase in oil and gas condensate sales on the domestic market was driven by more favourable domestic prices and growth of economic effuciency of trading operations in Russia. A 58.3% increase in oil and gas condensate sales in FSU was driven by the launch of sales to Uzbekistan and higher sales to the Mozyr Oil Refinery.

Operations of Gazprom Group are affected by the prevailing price of crude oil, both in domestic and international oil markets. In 2015, according to the PIRA agency the prices for Urals crude oil (average quotes of URALS Mediterranean and URALS Rotterdam) fluctuated in the range of 33.1 - 66.3 USD/barrel and decreased by 38% to 33.1 USD/barrel at the year end.

Oil grade	January	February	March	April	May	June
			USD /barrel			
BRENT[(1)]	47.859	58.132	55.924	59.763	64.318	61.685
URALS[(2)]	46.858	57.407	54.638	59.451	63.982	61.854
Spread URALS to BRENT	1.001	0.724	1.286	0.312	0.336	–0.168

Oil grade	July	August	September	October	November	December
			USD /barrel			
BRENT[(1)]	56.536	46.644	47.602	48.560	44.294	38.212
URALS[(2)]	55.479	45.824	46.745	46.851	42.475	36.477
Spread URALS to BRENT	1.057	0.819	0.857	1.709	1.819	1.736

Notes:

(1) Based on daily average of Brent quotes, calculated as an average between daily maximum and minimum quotes.

(2) Based on daily average quotes of Urals Mediterranean and Urals Rotterdam, calculated as an average between daily maximum and minimum quotes.

Reporting year events

In 2015, PJSC Gazprom started construction and installation operations at the Chayandinskoye field in Yakutia, a key source of gas for the Power of Siberia gas pipeline, the eastern route for Russian gas supplies to China.

Following an asset swap deal closed in 2015 by PJSC Gazprom and Wintershall Holding GmbH, Gazprom Group acquired a 50% stake in Wintershall Noordzee. This company holds interests in 52 license blocks, operates 25 offshore platforms and has an advanced coordination and control centre in Den Helder (Netherlands). The license blocks feature numerous fields supplying oil and gas to the European markets. As of December 31, 2015, proved and probable reserves of the company were estimated at around 4.45 bcm of gas. The swap deal gave Gazprom Group access to projects with a well-developed gas transmission infrastructure and the latest exploration and production technologies.

Development plans for the Production of gas and Production of crude oil and gas condensate segments

Gas reserves in the conventional hydrocarbon fields will secure domestic gas supplies and gas exports for a longer term (70 years or more of supplies).

One of Gazprom's key production objectives is to achieve the projected capacity of the existing fields and start developing new fields in the Nadym-Pur-Taz region, and launch production at unique and large fields in the Yamal Peninsula and offshore northern seas to sustain and ramp up hydrocarbon production. PJSC Gazprom consistently adds production capacities in the Nadym-Pur-Taz region and at the Bovanenkovskoye field in the Yamal Peninsula.

Strategic priority production regions over the long term include the Yamal Peninsula (cenomanian-aptian deposits of the Kharasaveyskoye field, neocomian-jurassic deposits of the Bovanenkovskoye and Kharasaveyskoye fields; Kruzenshternskoye field), and Russian northern seas (fields in the Ob and Taz Bays, primarily the Severo-Kamennomysskoye and Kamennomysskoye-Sea fields, the offshore Shtokman field in the Barents Sea).

Gazprom has been building gas production centres in Russia's Eastern regions. The Chayandinskoye oil and gas condensate field is the core field for the future Yakutsk gas production centre, and the Kovyktinskoe gas condensate field is key to the future Irkutsk gas production centre. The fields will comprise the resource base for the Power of Siberia pipeline. The top development priorities to boost output from the Sakhalin gas production centre include Sakhalin III fields: the Kirinskoye oil and gas and condensate field put into commercial development in 2014, and the Yuzhno-Kirinskoye gas and condensate field, one of Gazprom's priority projects in gas production over the long term.

Gazprom Neft Group is responsible for developing of oil business of PJSC Gazprom. Gazprom Neft seeks to rise its hydrocarbon production to 100 million toe per year by 2020 and maintain this rate through 2025. The current proved reserves-to-production ratio is expected to be maintained. To achieve these targets Gazprom Neft intends to maximise the profitability of the remaining resource extraction at its active production sites through the roll-out of best development optimisation practices, the reduction of the cost of tested production technologies, and the promotion and mass introduction of advanced technologies. A new production centre in the northern part of Yamal-Nenets Autonomous Area is contemplated. Gazprom Neft treats unconventional reserves as a growth opportunity and will expand this asset class as an important component of its portfolio.

Transportation

The following table presents information on assets and volumes of capital investments in the Transportation segment:

	As of December 31,	
	2015	**2014**
Assets, RUB million	6,119,073	6,088,335
Share in total assets of the Group, %	39.0	41.0

	Year ended December 31,	
	2015	**2014**
Capital additions, RUB million	420,874	434,433
Share in the Group's total capital additions, %	31.3	35.6

Gas transportation system

Russia's Unified Gas Supply System (UGSS) is a centrally operated system of natural gas processing, transportation and storage. The UGSS incorporates the world's longest network of high-pressure trunk pipelines covering the European part of Russia and Western Siberia. In addition, Gazprom Group owns trunk pipelines in the Russian Far East: linking Sakhalin – Khabarovsk – Vladivostok, Oktyabrsky – Khabarovsk, and Sobolevo – Petropavlosk-Kamchatsky.

As at the end of 2015, the length of trunk pipelines and connections operated by Gazprom Group's gas transportation subsidiaries in Russia totalled 171.2 thousand km. The gas transportation system (GTS) comprises 250 compressor stations equipped with 3,829 gas pumping units with a total capacity of 46.2 thousand MW. In addition, gas is supplied to the GTS via pipelines operated by gas production and processing subsidiaries and OOO Gazprom PHG, measuring 4.7 thousand km overall.

The table below shows data on Gazprom Group's gas trunk pipelines in Russia by age:

	As of December 31, 2015	
Age of trunk pipelines	**Length, thousand km,**	**Share, %**
Up to 10 years	19.9	12
11 – 20	19.1	11
21 – 30	47.3	28
31 – 40	49.2	29
41 – 50	23.3	13
Over 50	12.4	7
Total	**171.2**	**100**

In a continuous effort to improve safety and reliability of the GTS infrastructure and deliver operational excellence, Gazprom Group is introducing a GTS Operability and Integrity Management System. By leveraging this System and a dedicated software tool, Gazprom Group developed the Trunk Pipeline Linear Section Comprehensive Overhaul Programme for 2016–2020, approved by PJSC Gazprom's Management Committee in 2015.

All GTS overhauls scheduled for the reporting year in relevant targeted integrated repair programmes were completed in full.

In 2015, 602.6 bcm of gas (as compared to 627.5 bcm in 2014) was pumped into PJSC Gazprom's GTS. In 2015, the amount of natural gas consumed for GTS own operational needs was 32.0 bcm (as compared to 32.8 bcm in 2014).

As an owner of the GTS in Russia, PJSC Gazprom leases free pipeline capacity to third party companies provided they have a gas production license and a supply contract with gas consumers. Third-party gas is to comply with technical specifications. In 2015, the volume of gas transported via Gazprom Group's GTS in Russia by companies outside Gazprom Group was 121.5 bcm (vs. 121.1 bcm in 2014).

Gazprom Group companies own GTS in Belarus, Armenia and Kyrgyzstan. OAO Gazprom transgaz Belarus is the Group's major gas transportation asset abroad. It supplies natural gas to consumers in Belarus and transports gas to Europe and the Kaliningrad Region. Daily requests of PJSC Gazprom to transport Russian natural gas through Belarus were satisfied in full.

In 2015, 64.2 bcm of gas were fed into the 7.9 thousand km GTS operated by OAO Gazprom transgaz Belarus, including 45.4 bcm transported via Belarus in transit.

Gas transportation services in foreign countries are provided to PJSC Gazprom by a number of companies with a non-controlling participation of Gazprom Group. Offshore cross-border pipeline systems constructed with Gazprom Group's involvement secured PJSC Gazprom's gas (contracts of OOO Gazprom export) transportation to Northwest and Central Europe (Nord Stream, 39.1 bcm of gas in 2015, up 9.8% y-o-y) and Turkey (Blue Stream, 15.7 bcm in 2015, up 9.0% y-o-y). Share of these gas transport systems in total gas transit in Europe amounts to about 35%.

Main areas of investments

The bulk of capital investments to Transportation segment was invested in the UGSS expansion project to supply gas to a new pipeline under the Black Sea, and construction of the Bovanenkovo – Ukhta trunk pipeline.

In 2015, 0.8 thousand km of trunk pipelines and branch connections and 4 pipeline compressor stations with a total capacity of 390 MW were brought into operations.

Reporting year events

In 2015, Nord Stream 2 gas transport project was initiated. PJSC Gazprom and companies from the groups BASF/Wintershall, Uniper, ENGIE, (earlier GDF SUEZ), OMV and Shell signed the Shareholders Agreement for Nord Stream 2 AG, a joint project company responsible for designing, funding, construction, operation, and maintenance of the gas pipeline.

In October 2015, Gazprom launched the construction of the Ukhta – Torzhok 2 gas pipeline designed to supply additional gas to Russia's North-West to expand the gas infrastructure and deliver gas to domestic consumers, and ensure export supplies via Nord Stream 2.

In 2015, the Turkish Stream structure was optimised (to two instead of four lines), the pipeline construction was suspended.

In accordance with the foreign asset portfolio optimisation strategy, PJSC Gazprom and its subsidiaries are disposing of their interests in gas network operators in Europe and the Baltic countries. In the reporting year, Gazprom Group sold its non-controlling interests in the Estonian GTS operator EG Vorguteenus (37.03%) and Interconnector (UK) Ltd. (10%), an operator of the Interconnector, a gas pipeline linking the United Kingdom and Belgium. In December 2015, PJSC Gazprom and the Finnish state-owned Gasonia signed a purchase and sale agreement for a 25% stake in Gasum. The deal was closed in January 2016.

Development plans for the Transportation segment

Expansion of PJSC Gazprom's gas transportation capacities is planned in tandem and close coordination with the development of gas production and storage facilities, and will also take into account the degree of readiness to receive gas shown by new consumers, as well as export projects.

Timelines for commissioning new and upgrading existing gas transportation facilities are scheduled with a long-term perspective and the following considerations:

- their effective utilisation periods;
- maintaining optimal throughput of the existing GTS.

This approach helps prevent introducing excessive capacities, make an efficient and flexible use of PJSC Gazprom's investments, and optimise gas transportation costs.

Apart from greenfield gas transportation projects, PJSC Gazprom also performs upgrades and technical re-equipment of its existing gas transportation facilities.

To ensure gas supplies to the domestic market and meet its obligations under export contracts, PJSC Gazprom is implementing a number of gas transportation projects.

Gas pipeline systems Bovanenkovo – Ukhta and Ukhta – Torzhok with the projected production capacity of 124 bcm of gas per annum and 90 bcm per annum carry gas from the Yamal fields.

In order to diversify export routes for Russian pipeline gas to PJSC Gazprom's conventional European market PJSC Gazprom initiated the Nord Stream 2 project to enhance the capacity of the existing Nord Stream gas pipeline. The Nord Stream 2 project envisages the construction of two offshore strings with the capacity of 27.5 bcm each, to be laid from Russia to Germany across the Baltic Sea. Western and Central European countries are the project's target markets. Nord Stream 2 gas supplies will be secured by the Gryazovets – Volkhov – Russia's Baltic Sea coast gas pipeline expansion, with pre-FEED and FEED stages underway.

In 2015, PJSC Gazprom explored the construction of a new Black Sea offshore pipeline to Turkey (the Turkish Stream), and of an onshore pipeline further to the Greek border. Due to the seemingly low interest of the Turkish side throughout the year and the mounting tensions between the two countries since November 2015, the struggling project was finally halted.

As part of its efforts to ensure geographic diversification of supply projects, Gazprom pays much attention to supplying pipeline gas from Russia to China.

Power of Siberia trunk pipeline project to transport gas from Yakutsk and Irkutsk gas production centres to consumers in the Far East and China is on track. This project is pursued to meet the obligations under the 2014 agreement for Russian gas supplies to China via the eastern route. It provides for exports of 38 bcm of gas per year over a 30-year period. The Purchase and Sale Agreement came into full force in May 2015, with eastern route supplies to start within 2019 to 2021.

To ensure supplies of the natural gas produced at Western Siberian fields to China, the new Power of Siberia 2 pipeline system is planned for construction. The parties are currently negotiating the commercial and technical framework of gas supplies.

Gas storage

The following table presents information on assets and volumes of capital investments in the Gas storage segment:

	As of December 31,	
	2015	**2014**
Assets, RUB million	348,857	280,762
Share in total assets of the Group, %	2.2	1.9

	Year ended December 31,	
	2015	**2014**
Capital additions, RUB million	48,486	15,530
Share in the Group's total capital additions, %	3.6	1.3

Underground gas storage facilities are an integral part of the national UGSS. Storage facilities offset any fluctuations in demand, whether seasonal, weekly or daily, accounting for 20% to 40% of PJSC Gazprom's total gas supplies in the heating season. Peak and base load storage facilities improve reliability of the UGSS infrastructure, optimise process parameters and gas transportation costs. Another major function of underground gas storage facilities (UGSF) is to maintain strategic gas reserves in case export transit risks.

Underground gas storages in Russia and abroad

Gazprom Group operates 22 UGSFs in 26 geological structures in Russia.

As of December 31, 2015, Gazprom Group's UGSFs in Russia had a total active capacity of 73.6 bcm. In 2015, their withdrawal and injection volumes amounted to 24.3 bcm and 27.1 bcm of gas, respectively. By the 2015/2016 withdrawal season, operating gas reserves in Russian UGSFs had increased to 72.02 bcm, up 0.02 bcm y-o-y. In 2015, the amount of natural gas consumed for UGSFs own operational needs was 0.3 bcm (as compared to 0.4 bcm in 2014).

UGSF operation is supported by 18 compressor stations with an aggregate capacity of 899.2 MW; production wells total 2,686.

Gazprom's export projects involve active utilisation of gas storage facilities located abroad.

To secure reliable gas supplies by PJSC Gazprom under contracts signed by OOO Gazprom export, Gazprom Group, acting as a co-investor, uses gas storage capacities in Austria (Haidach), Germany (Katharina and Etzel), Serbia (Banatski Dvor), as well as UGSF Rehden and Jemgum, owned by WINGAS GmbH and passed into Gazprom Group's control in the reporting year. All storage facilities constructed with Gazprom Group's involvement fit into the European framework of energy laws providing for a legal division between network and storage operators

and indiscriminate access of all market players to storage capacities. Several production wells were repaired at Banatski Dvor UGSF (Serbia) to enhance daily capacity.

Storage contracts for the capacity at UGSFs in Austria, Germany, Hungary, the UK and the Netherlands were valid throughout 2015. In the reporting year, the gas storage capacity of OOO Gazprom export in European countries totalled 5.0 bcm, with a throughput of 61.5 mmcm per day. In 2015, a total of 2.9 bcm of gas were injected into European UGSFs, while gas withdrawal amounted to 4.1 bcm.

In the FSU countries, Gazprom Group operates three gas storage facilities in Belarus (Pribugskoye, Osipovichskoye and Mozyrskoye), one UGSF in Armenia (Abovyanskaya underground gas storage station) and one UGSF in Latvia (Incukalns). As of December 31, 2015, the operating gas reserves in FSU UGSFs totalled 2.8 bcm, with a throughput capacity of 56 mmcm per day. In the reporting year, a total of 2.5 bcm of gas was injected into the FSU UGSFs, while gas withdrawal amounted to 2.1 bcm.

Foreign and Russian UGSFs operate in a single mode. When export gas supplies increase in the heating season, foreign UGSFs operate at their maximum capacity to deliver gas to consumers, while Russian gas storage facilities simultaneously ramp-up their throughput.

Main areas of investments

The bulk of capital investments to Gas storage segment was invested in the expansion of Punginskoye UGSF, upgrade of Peschano-Umetskaya and Yelshanskoye underground gas storage stations, Sovkhoznoye UGSF, Kanchurinsko-Musinskoye UGSF, retrofit of Moskovskoye UGSF, and production drilling at underground gas storage facilities. During the reporting year, 0.06 bcm of active capacity were commissioned, with five production wells connected.

The bulk of capital investments in underground gas storage facilities in FSU countries was channelled to the expansion and upgrades of Mozyrskoye and Priburgskoye UGSFs in Belarus. In Belarus, 0.035 bcm of active capacity were commissioned, with four production wells connected; and 0.025 bcm of active capacity came on stream in Armenia with one production well connected.

In the EU, Cavern 4 was commissioned at Katharina UGSF (Germany). The project continues to move forward. In 2015, the construction of Damborice UGSF (Czech Republic) was completed, and start-up operations commenced, with commissioning scheduled to take place in July 2016

Besides, The Jemgum UGSF project, co-financed by WINGAS GmbH, has reached its final construction phase.

Reporting year events

By acquiring control of WINGAS GmbH, as a result of swap deal between PJSC Gazprom and Wintershall Holding GmbH finalized in September 2015, PJSC Gazprom expanded access to the gas storage capacity lease market in Europe. WINGAZ GmbH, a subsidiary of Gazprom Group, markets gas storage capacities at the Rehden, Jemgum and Haidach UGSFs and is a major storage capacity seller in Europe, with a c. 25% market share in gas storage. As of December 31, 2015, Gazprom Group operated a total gas storage capacity of 10.5 bcm on the European market.

Development plans for the Gas storage segment

PJSC Gazprom's forward-looking plans provide for further expansion of its UGSF network in Russia, bringing the network's daily withdrawal capacity up to 1 bcm. This will help cut gas transportation costs by 10%–15% and the cost of gas deliveries to consumers by 5%–10%.

To achieve the above goal PJSC Gazprom plans to:

- sustain the current UGSF performance through upgrade and re-equipment of the existing UGSFs;
- enhance capacities of the existing UGSFs (Kanchurinsko-Musinskiy complex, Kasymovskoye, Nevskoye, Punginskoye, Stepnovskoye, Peschano-Umetskoye, Elshanskoye, Krasnodarskoye);
- build and expand peak-shaving gas storage in rock-salt deposits (Volgogradskoye, Kaliningradskoye);
- continue program of wells reconstruction;
- build new UGSFs in high consumption regions: Arbuzovskoye in the Volga Federal District, Bednodemynovskoye in the Central Federal District, Shatrovskoye in the Ural Federal District, and explore opportunities for UGSFs construction in the North-Western, Siberian and Far Eastern Federal Districts.

To ensure integrated development of regional fields, underground storage facilities for helium concentrate are to be constructed in Russia's Eastern regions.

In terms of international underground gas storage expansion the challenge is to enhance Gazprom Group's UGSF capacities in foreign countries to an active capacity of at least 5% of annual exports by 2030. Own UGSF facilities, i.e. overseas infrastructure facilities with Gazprom Group's stake, are the priority.

Distribution of gas

The following table presents information on assets and volumes of capital investment in the Distribution of gas segment:

	As of December 31,	
	2015	**2014**
Assets, RUB million	1,677,460	1,454,300
Share in total assets of the Group,%	10.7	9.8

	Year ended December 31,	
	2015	**2014**
Capital additions, RUB million	25,962	23,709
Share in the Group's total capital additions, %	1.9	1.9

The following table sets out natural gas sales volumes of Gazprom Group by geographical segments:

(bcm)	Year ended December 31,		Change, %
	2015	**2014**	
Russia	221.2	234.0	–5.5
FSU[(1)]	40.3	48.1	–16.2
Europe and other countries[(1)]	184.4	159.4	15.7
Total	**445.9**	**441.5**	**1.0**

Note:

(1) The sales to FSU countries, Europe and other countries include both gas export from Russian Federation and sales of gas purchased by the Group outside the Russian Federation.

In 2015, Gazprom Group sold 184.4 bcm of gas to far-abroad countries, with net sales (net of excise tax and customs duties) reaching RUB 2,165.5 billion, up 23.6% y-o-y.

Natural gas sold to far-abroad countries in 2015 accounted for 41% (vs. 36% in 2014) of Gazprom Group's total natural gas sales and 63% of revenue (vs. 59% in 2014).

PJSC Gazprom is a major European gas supplier. Share of PJSC Gazprom's gas sales under contracts signed by OOO Gazprom export in the total gas consumption in European far abroad countries is 30.9%.

PJSC Gazprom's gas supplies to European countries under the contracts with OOO Gazprom export in 2015 totalled 158.6 bcm, up 12.0 bcm or 8.2% y-o-y. Since sales under PJSC Gazprom's contracts in 2015 grew faster than demand on the European gas market, PJSC Gazprom increased its share of gas sales under contracts signed by OOO Gazprom export in the total gas consumption in European far abroad countries.

PJSC Gazprom is the largest natural gas supplier on the Russian market.

In 2015, natural gas consumption in Russia totalled 444.3 bcm, down 3.1% y-o-y. The decrease was driven mostly by abnormally warm weather and reduction of industrial production and energy consumption due to economic recession.

In 2015, Gazprom Group sold 221.2 bcm of gas to Russian consumers, with net sales (net of VAT) reaching RUB 805.6 billion, up down 1.8% y-o-y. Natural gas sold to Russian consumers in 2015 accounted for 50% (vs. 53% in 2014) of Gazprom Group's total natural gas sales and 24% of sales revenue (27% in 2014).

Major domestic consumers are the power industry and households. In 2015, Gazprom Group's natural gas supplies to power generators accounted for approximately 23% of its total gas supplies in Russia (excluding intra-group sales), with households accounting for 24%. Moreover, natural gas is heavily used in the steel-making, fertiliser, construction and other industries, as well as by utilities.

Gazprom Group covers a significant portion of natural gas demand in the FSU countries.

In 2015, Gazprom Group sold 40.3 bcm of natural gas to the FSU countries, with net sales (net of customs duties) reaching RUB 429.7 billion, up 4.4% y-o-y.

Natural gas sold to the FSU countries in 2015 accounted for 9% (vs. 11% in 2014) of Gazprom Group's total gas sales and 13% of sales revenue (vs. 14% in 2014).

The decrease in gas supplies to the FSU countries in 2015 resulted from declines in demand, particularly in Ukraine and the Baltic states. Lower gas consumption was driven by an overall economic situation, declining industrial production and a growing share of coal and renewable energy sources in the fuel mix.

In 2015, LNG sales by Gazprom Group grew by 6.2% to 3.56 million tons (4.75 bcm) year-on-year.

Domestic natural gas prices

The following table shows the average domestic natural gas prices:

	Year ended December 31,	
	2015	**2014**
	(net of VAT)	
RUB per mcm	3,641.3	3,506.5
RUB per thousand cf	103.1	99.3
USD per mcm[(1)]	59.4	90.8
USD per thousand cf[(1)]	1.7	2.6

Note:

(1) Calculated based on the annual average currency exchange rate between RUB and USD.

In accordance with the applicable Russian laws, natural gas is domestically sold at regulated and unregulated prices. PJSC Gazprom is the largest natural gas supplier to the regulated market.

Regulated wholesale gas prices are revised in accordance with the Forecast of Social and Economic Development of the Russian Federation prepared by the Ministry of Economic Development of the Russian Federation. Material factors influencing gas price change indices under this document are macroeconomic conditions embedded therein rather than the real financial position of the regulated entity.

The table below presents weighted average changes in domestic prices in 2016-2018, annual average increase versus prior year.

	2015	2016	2017
Change in average regulated wholesale prices for all Russian consumers except for households, %	4.9	2.5	3.0
Change in average regulated wholesale prices for gas to be sold to households, %	5.1	2.4	3.0
Change in average regulated wholesale prices for all Russian consumers, %	4.9	2.5	3.0

In order to mitigate the risk of price regulation PJSC Gazprom maintains a dialogue with federal authorities to optimise gas pricing including by establishing sound pricing principles that will ensure economic sustainability for PJSC Gazprom's gas supplies to the domestic market.

Apart from the regulated segment of the Russian gas market, PJSC Gazprom and independent gas producers sell natural gas at market-driven prices through the evolving sales channels on the Saint Petersburg International Mercantile Exchange (ZAO SPIMEX).

The prices of natural gas in FSU, Europe and other countries

The following table shows the average prices of natural gas sold by Gazprom Group to FSU, Europe and other countries:

	Year ended December 31,	
	2015	2014
	(including excise tax and customs duties)	
Natural gas sales to Europe and other countries[1]		
USD per mcm[2]	245.6	349.4
USD thousand cf[2]	7.0	9.9
RUB per mcm	15,057.3	13,487.2
Natural gas sales to FSU[1]		
USD per mcm[2]	194.2	262.1
USD per thousand cf[2]	5.5	7.4
RUB per mcm	11,911.0	10,115.9

Notes:

(1) VAT is not charged on sales to Europe and other countries and FSU countries.
(2) Calculated based on annual average currency exchange rate between RUB and USD.

Amidst significant changes in the European gas market, primarily the development of liquid trading hubs, Gazprom Group will further stick to oil-indexed pricing, as it gives natural gas a competitive advantage versus other energy sources, stabilises the investment cycle and therefore remains relevant. In the current situation, oil products act as a universal deflator in the gas pricing formula, keeping gas prices linked to other commodities. At the same time, PJSC Gazprom strives to increase efficiency of Russian gas exports, maintaining flexibility in relations with its partners. Gas prices linked to quotes at trading hubs accounted for 17.8% of PJSC Gazprom's supply contracts with European countries in 2015 (vs. 16.5% in 2014).

According to the long-term contracts of PJSC Gazprom, each party is entitled to request a revision of the contract price if any material changes occur on respective markets. Contract

parties exercise this right as soon as the market situation changes. Negotiations are underway with a number of OOO Gazprom export's customers.

Main areas of investments

A significant portion of capital investments in the Distribution of gas segment includes the Group's investments in gasification of the Russian Federation regions. As part of the Programme for Expansion of Gas Infrastructure, 87 gas infrastructure and supply facilities with a total pipeline length of 1,275 km were built in 2015 across 34 Russian regions. PJSC Gazprom has arranged for the connection of 41.8 thousand households and 263 boiler houses in 206 locations. All of them will be connected to the gas network provided that regional administrations fulfil their obligations to prepare gas consumers for connection to gas supply.

Reporting year events

In 2015, PJSC Gazprom and China National Petroleum Corporation (CNPC) signed the Heads of Agreement for pipeline gas supply from Russia to China via the western route.

In June 2015, PJSC Gazprom and Shell signed a memorandum on the construction of the third process train at the LNG plant under the Sakhalin II project.

In 2015, a decision to enter the investment stage was made for the Baltic LNG plant construction project in the Leningrad Region.

In September 2015 PJSC Gazprom and Wintershall Holding GmbH completed an asset swap deal. As a result of the deal, Gazprom Group increased its interest in European gas trading companies WINGAS GmbH, WIEH GmbH & Co. KG, and WIEE AG to 100%. The swap enables Gazprom Group to strengthen its positions in the European gas market.

In 2015, Gazprom Group tested a new framework for European gas sales – a gas auction.

Development plans for the Gas Distribution segment

Gazprom Group seeks to maintain its leadership in the global gas industry in the long term.

In the Russian market, Gazprom Group strives to maintain its current positions both in terms of gas supply volumes and their reliability, including during the heating season.

On traditional European gas markets, Gazprom Group intends to keep its share and further strengthen its positions should the market environment become favourable. PJSC Gazprom seeks to grow its share of North-East Asia markets the longer term.

PJSC Gazprom plans to increase the LNG share in Gazprom's export portfolio.

To ensure expansion of own LNG production capacity, the third process train of the Sakhalin II project (to 5.4 million tons per annum) and the Baltic LNG project (10 million tons per annum) are implemented.

PJSC Gazprom continues development of the Group's LNG trading capacity. Additional gas volumes are also traded through small-tonnage LNG supplies, supported by additions to production capacity and expanded geography of operations.

Refining

Assets and volumes of capital investments in the Refining segment are presented in the table below:

	As of December 31,	
	2015	**2014**
Assets, RUB million	1,260,557	1,378,295
Share in total assets of the Group,%	8.0	9.3

	Year ended December 31,	
	2015	**2014**
Capital additions, RUB million	136,299	135,158
Share in total capital additions of the Group,%	10.1	11.1

Processing of hydrocarbons and production of refined products

Gazprom Group's processing capacities include gas and gas condensate processing plants of gas production and gas processing companies of PJSC Gazprom, oil refining capacities of Gazprom Neft Group, refining and petrochemical assets of Gazprom Neftekhim Salavat Group.

The following table presents the volumes of Gazprom Group's hydrocarbon processing and refining (including share of Yuzhno-Priobskiy gas processing plant and share of of entities where PJSC Gazprom has investments classified as joint operations):

	Year ended December 31,			
	2015[(1)]		**2014[(1)]**	
	Total	**including abroad**	**Total**	**including abroad**
Natural and petroleum associated gas, bcm	31.2	–	30.5	–
including Gazprom Neft Group	0.1	–	–	–
Gazprom Neftekhim Salavat Group	0.4	–	0.5	–
Crude oil and unstable gas condensate, million tons	66.8	3.5	68.0	3.8
including Gazprom Neft Group	43.1	3.5	43.5	3.8
Gazprom Neftekhim Salavat Group	6.4	–	8.1	–

Note:

(1) The data in tables do not include raw materials supplied by customers.

The growth in gas processing volumes was driven by increased volumes of associated petroleum gas processing at OAO Tomskgazprom due to the implementation of projects to improve APG utilisation levels.

The aggregate volumes of crude oil refining and gas condensate processing declined as oil refining was halved at Gazprom neftekhim Salavat's facilities and decreased at Gazprom Neft Group due to lower economic efficiency of refining given the current demand and prices for oil and oil products, as well as an ongoing upgrade project at the catalytic cracking unit at Omsk Refinery. The decline was partially offset by increased volumes of unstable condensate processing as production of liquid hydrocarbons grew in the achimovsk formation of the Urengoyskoye oil and gas condensate field.

The following table presents production volumes of major refined products of Gazprom Group:

	Year ended December 31,			
	2015[1]		2014[1]	
	Total	including abroad	Total	including abroad
Dry gas, bcm	24.2	–	23.3	–
Liquefied oil gas, million tons	3.3	0.1	3.4	0.1
including Gazprom Neft Group	0.8	0.1	0.9	0.1
Broad fractions of light hydrocarbons, million tons	1.7	–	1.5	–
Stable gas condensate and crude oil, million tons	7.4	–	6.4	–
Oil products, million tons	50.9	3.4	53.7	3.8
including Gazprom Neft Group	40.1	3.4	40.6	3.8
Gazprom Neftekhim Salavat Group	5.0	–	7.0	–
Helium, mmcm	5.0	–	4.0	–
Sulphur, million tons	4.8	0.0	4.7	0.0
including Gazprom Neft Group	0.1	0.0	0.1	0.0

Note:

[1] The data in tables do not include raw materials supplied by customers.

In October 2015, OOO LUKOIL-Komi began supplying Sosnogorsky GPP with APG from its northern fields through OOO Gas-oil trading under tolling agreements. APG supplies in 2015 totalled 42 mmcm, with 600–700 mmcm of gas planned to be processed annually in 2016–2021. Work is ongoing to arrange for APG deliveries from the Kyrtaelskoye field operated by OOO LUKOIL-Komi.

Also in 2015, Omsk Refinery launched a range of new oil products, including MTBE, light gas oil for bunkering purposes, polymer-bitumen binder PBB-130, and aviation gasoline components. Moscow Refinery and OAO Slavneft-YANOS switched over to the production of aviation gasoline to Russian standard GOST 32513.

Certain products with high added value (polypropylene, polymer-modified bitumens, polymer asphalt, bitumen emulsions) are produced by Gazprom Neft Group in partnerships with Russian and foreign partners, including PAO SIBUR Holding, ZAO AMDOR, the French oil group Total, and Titan Group.

The Yuzhno-Priobskiy gas processing plant commissioned in 2015 utilised an additional amount of nearly 200 mmcm of APG (including Gazprom Neft Group's share of 100 mmcm). Plans for 2016 are to expand its capacity to 900 mmcm of gas. The plant produces dry stripped gas and natural gas liquids.

Sales of refined products

The following table presents sales of refined and petrochemical products by Gazprom Group:

(million tons)	Year ended December 31,		Change, %
	2015[1,2]	2014[1,2]	
Russia	41.3	41.5	–0.5
including Gazprom Neft Group	27.7	28.3	–2.1
FSU	4.3	4.0	7.5
including Gazprom Neft Group	2.4	2.2	9.1
Europe and other countries	23.8	29.9	–20.4
including Gazprom Neft Group	15.5	19.2	–19.3
Total	**69.4**	**75.4**	**–8.0**

Notes:

(1) The volumes do not include intercompany sales. Sales of own products and products purchased from third parties.

(2) The volumes do not include helium.

In 2015, Gazprom Group sold 69.4 million tons of refined oil and gas products, with net sales reaching RUB 1,555.6 billion (net of VAT, excise tax and custom duties).

Lower sales of oil and gas refined products in the Europe and Other Countries segment in 2015 (down 20.4% y-o-y) was mostly due to lower purchases of oil products in the global market and lower fuel output by Gazprom Neft Group.

In 2015, the total sales of refined and petrochemical products in the domestic market were almost flat year-on-year.

Sales of Gazprom Neft Group in premium segments (small wholesale, own network of filling stations, jet fuels, bituminous materials, oils and lubricants and bunker fuels) in 2015 were comparable with the 2014 sales and amounted to 25.7 million tons, due mostly to an increase in oil product sales through filling stations amidst generally negative market trends. As of December 31, 2015, Gazprom Neft Group owned and operated an extensive network of 1,852 filling stations across Russia, the FSU countries and Eastern Europe. Sales of oil products through the filling station network in 2015 totalled 10.16 million tons, (9.91 million tons in 2014), or 2.5% y-o-y. The sales growth was driven by an increase in the number of filling stations, both constructed under investment projects and leased, as well as by the marketing campaigns to compensate for lower demand and purchasing power.

Starting from 2013, Gazprom Neft Group has been restructuring its distribution business and was one of the first Russian companies to spin off oil product sales to corporate clients into a separate subsidiary, Gazprom Neft Corporate Sales. In 2015, the company introduced online processing of corporate clients' fuel cards. In 2015, fuel sales to corporate clients exceeded 3 million tons.

During 2015, dollar-denominated global prices for key export products of Gazprom Group were trending downward. On domestic market, price change was mixed.

Main areas of investments

In 2015, capital investments in the Refining segment were allocated to the following projects:

- Construction of a gas chemical facility near Novy Urengoy;
- Construction and upgrade of refining and petrochemical facilities of Gazprom neftekhim Salavat;
- Construction and upgrade of production facilities at Omsk and Moscow Refineries of Gazprom Neft Group;
- Construction of a stabilisation unit for achimovsk deposit condensate in the Nadym-Pur-Taz region;
- Phase 1 and Phase 2 upgrades at the Astrakhan Gas Processing Plant;
- Construction of the Urengoy – Surgut gas condensate pipeline (Line 2);
- Phase 2 capacity expansion at the condensate pre-transportation preparation plant;
- Construction of the Urengoy – Purpe oil and condensate pipeline;
- Construction of the Urengoy oil pumping station.

During 2015, Gazprom Group commissioned a number of new hydrocarbon processing facilities.

The 508 km – 588.1 km section of the Urengoy – Surgut gas condensate pipeline (second line) was put into operation. The Orenburg GPP completed the retrofit of Phase 3 facilities to process gas from the Karachaganak oil and gas condensate field. A washing and steaming station in Surgut was commissioned.

Omsk Refinery completed the upgrade of a catalytic cracking unit. Moscow Refinery commissioned a new gas fractioning column (GFU-2) to enhance its LHG product mix. Gazprom neftekhim Salavat's refinery completed the upgrade of a distillate hydrotreating unit.

In addition, in 2015, OOO Yuzhno-Priobskiy GPP, where the Group has investments classified as joint operations, commissioned a gas processing plant at the Yuzhno-Priobskaya compressor station. OAO Slavneft-YANOS joint venture commissioned an on-site automated loading station with vapour removal to load light oil products into railway tanks. The station improves industrial and environmental safety and reduces losses.

Reporting year events

In October 2015, the PJSC Gazprom launched the construction of the Amur GPP, Russia's largest gas processing facility which will be an essential part of the process chain of natural gas supply to China via the Power of Siberia gas pipeline.

Development plans for the Refining segment

To process the projected volumes of liquid hydrocarbons extracted during natural gas production at gas condensate fields in Western Siberia, PJSC Gazprom plans a capacity expansion and upgrade project on the Urengoy Condensate Pre-Transportation Preparation Plant by bringing output up to the rated capacity, construction of achimovsk deposit condensate and oil treatment and transportation facilities, completion of the construction of uncompleted sections of the Urengoy – Surgut gas condensate pipeline, and upgrade and re-equipment of the Surgut Condensate Stabilisation Plant.

PJSC Gazprom, under project financing arrangements, continues to implement a project to construct a gas chemical complex near Novy Urengoy, with gases recovered from de-ethanized gas condensate in the Nadym-Pur-Taz region to be used as a key feedstock.

There are ongoing initiatives to improve the quality of products (construction of a pentane-hexane fraction isomerization plant at the Surgut Condensate Stabilisation Plant, refurbishment of the motor fuel production facilities at the Astrakhan GPP to bring sulphur content down to Euro 4 and Euro 5 standards).

The construction design of the Amur GPP was launched near the town of Svobodny in the Amur Region. Multi-component gas will be delivered to the GPP via the Power of Siberia gas pipeline from the Yakutia and Irkutsk gas production centres constructed by PJSC Gazprom under the Eastern Gas Programme. Commissioning of the first section of the Amur GPP will be synchronised with the launch of gas supplies to China via the Power of Siberia pipeline.

Implementing refinery facilities upgrade programmes and improvements to operating efficiency remain to be Gazprom Neft Group's strategic priorities in its Russian oil refinery business.

Refinery upgrades are completed to ensure compliance of products with technical regulations. In addition, projects aimed at raising the processing efficiency and boosting processing depth and yield for light products at Russian facilities are underway. The company continues to refine an upgrade programme for OAO Slavneft-YANOS. In December 2015, upgrades of the catalytic cracking facilities were completed at the Omsk Refinery; the Moscow Refinery upgrades are at the stage of preparation.

Gazprom Neft Group is focused on the following two key sales segments: motor fuel sales through the corporate retail chain and small wholesale channels, and oil products sales to industrial consumers. Each business line has its specific targets; however, the key target for the sales business is to market 100% of the oil products produced by Gazprom Neft Group's refineries via controlled sales channels to cover, to the maximum extent, the entire value chain of the oil business.

Electric and heat energy generation and sales

The following table presents assets and capital investments related to the Electric and heat energy generation and sales segment:

	As of December 31,	
	2015	**2014**
Assets, RUB million	850,658	799,914
Share in total assets of the Group, %	5.4	5.4

	Year ended December 31,	
	2015	**2014**
Capital additions, RUB million	98,963	82,019
Share in the Group's total capital additions, %	7.4	6.7

As of December 31, 2015, Gazprom Group was the largest Russian owner of generating assets. PJSC Gazprom's power stations account for 38.7 GW, or approximately 16% of the total installed capacity of Russia's Unified Energy System (UES). In 2015, Gazprom's share in electricity generation in Russia was 14%.

Information on Gazprom Group's key generating assets in Russia is presented in the table below:

Generating companies	**Generating capacity as of December 31, 2015, GW**	**Power generation, year ended December 31, 2015, billion kWh**	**Heat capacity as of December 31, 2015, thousand Gcal/h**	**Heat production, year ended December 31, 2015, million Gcal**
PAO Mosenergo	12.92	54.71	43.31	71.68
PAO WGC-2	18.02	64.23	4.34	6.52
OAO TGC-1	7.05	25.81	14.00	23.02
PAO MIPC	0.13	0.13	6.01	10.74
OOO Novo-Salavatskaya TPP, OOO «Nugushsky hydraulic engineering unit»	0.54	2.35	1.62	5.11
Total	**38.66**	**147.23**	**69.28**	**117.07**

In 2015, electricity generated by Gazprom Group totalled 147.2 billion kWh that is 4.8% lower than in 2014; heat generation totalled 117.1 million Gcal, which is 6.5% lower than in 2014. The decrease in power generation by Gazprom Group in 2015 was driven by lower capacity utilisation at the initiative of the UES System Operator due to a decline in regional power consumption amidst warm weather, higher utilisation rates at nuclear power stations and load optimisation at low-performing TPPs.

In 2015, Unit 5 of the Razdan TPP (Armenia) generated 0.64 billion kWh of electric power (0.86 billion kWh in 2014). The change in power output resulted from different generation modes and lower demand.

Power generation by Gazprom Group in the reporting year totalled 147.9 billion kWh.

All power produced by Gazprom Group's generating companies in Russia is sold on the fully liberalised wholesale electricity and capacity market. A small portion of generated power is exported to Norway and Finland. To carry out emergency repairs and fulfil power supply obligations under regulated contracts, Gazprom Group's generating companies purchase power on the wholesale market for subsequent resale.

In 2015, OAO Mezhregionenergosbyt sold 5.6 billion kWh (vs. 6.2 billion kWh in 2014) of power to consumers outside the Group. Power sales to Gazprom Group companies amounted to 17.6 billion kWh.

According to the Market Council, in 2015, the actual average selling price of electricity for end consumers in the Russian retail power market grew by 5% in the Wholesale Electricity and Capacity Market (WECM) price zones.

Power generated by Unit 5 of the Razdan TPP is sold on the Armenian market including sales for subsequent export to neighbouring countries.

In 2015, Gazprom Group was also engaged in power trading operations at European trading hubs, totalling 508 TWh. Also in 2015, Gazprom Group supplied nearly 1,9 TWh of power to end consumers in the UK, Germany and the Netherlands.

Main areas of investment

Gazprom Group's investment programme is one of the biggest in the Russian power industry. Capital investments of Gazprom Group's generating companies are adjusted to fit into their obligations under capacity supply agreements (CSAs). They are expected to increase their capacity by nearly 9 GW over 2007–2017, with total investments for the same period expected to exceed RUB 400 billion.

In 2015, the bulk of capital investments was channelled to new power unit projects at Troitskaya GRES, Serovskaya GRES, Novocherkasskaya GRES, Ryazanskaya GRES of PAO OGK-2, Tsentralnaya CHPP of OAO TGC-1, and CHPP-12 and CHPP-20 of PAO Mosenergo. Investments were also made into land surveys for a power plant construction project in Pancevo, Serbia, with an installed capacity of about 140 MW and an expansion option to bring capacity to 208 MW.

In 2015, Gazprom Group commissioned 1,390 MWt of capacity by generating companies:

- PAO OGK-2: a 420 MW combined cycle gas turbine at the Serovskaya GRES and a 330 MW steam turbine at the Ryazanskaya GRES.
- PAO Mosenergo: a 220 MW combined cycle gas turbine at CHPP-12 and a 420 MW combined cycle gas turbine at CHPP-20

In 2007–2015, Gazprom Group commissioned 7,490 MW of new generating capacity in Russia under the CSAs.

Gazprom is also decommissioning ineffective generating capacities. In 2015, Gazprom Group decommissioned 267.5 MW of low-performing generating capacity. Plans for 2016–2017 are to decommission 1,185 MW more.

Reporting year events

In May 2015, PAO Mosenergo and PAO MIPC transferred to their management company, OOO Gazprom energoholding, powers to act as their sole executive body. These decisions are expected to ensure better management for both companies, as well as eliminate redundancies, and reduce administrative expenses.

Development plans for the Electric and heat generation and sales segment

Power generation sector is a strategic line of business for Gazprom Group. PJSC Gazprom's Power Generation Strategy for Russia was adopted in 2007. Enhanced presence in the power generation sector will facilitate the entire Gazprom Group's business sustainability over the long term and help generate extra revenues. Strategic objectives in the power generation business include:

- diversification of tariff regulation risks;
- fuel mix diversification;
- construction of new facilities;
- operating efficiency improvements.

PJSC Gazprom's strategic objectives in Russia primarily focus on the construction of new generating facilities to improve efficiency of power and heat business, as well as power and heat output.

PJSC Gazprom treats the power generation segment as one of the strongest drivers of potential growth in global gas consumption. Therefore, PJSC Gazprom continues to constantly monitor relevant business opportunities, including potential acquisitions of shares in foreign power generating assets to ensure additional pipeline gas and LNG supplies. Gazprom energoholding's priority international project is the construction of a thermal power plant (TPP) in Pancevo, Serbia, implemented jointly with NIS. In 2015, a joint venture was set up, and the active implementation phase of the project started.

Electricity trading and distribution on the European market is being conducted via PJSC Gazprom's subsidiary, Gazprom Marketing and Trading Ltd. The trader is engaged in pursuing contracts for power generating assets, including power offtake agreements, tolling agreements, and energy management services agreements.

INNOVATION-DRIVEN DEVELOPMENT

Innovative activities and technological development of PJSC Gazprom are governed by OAO Gazprom's Innovative Development Programme until 2020 approved in June 2011 (Board of Directors' Minutes No. 701 dated June 1, 2011).

Innovation-driven development priorities include:

- Hydrocarbon prospecting and exploration technologies, including exploration of unconventional resources;
- Hydrocarbon development technologies for permafrost and offshore fields;
- Hydrocarbon production technologies for operating fields;
- Technologies enhancing the efficiency of trunk pipelines and storage facilities;
- Gas distribution and utilisation technologies;
- Gas processing and petrochemical technologies.

Scientific and research organizations of PJSC Gazprom are key contributors to its effective innovative development. PJSC Gazprom also collaborates with external institutions and research centres, as well as the anchor universities specified in the Innovative Development Programme until 2020, as well as with innovative small and medium-sized enterprises. PJSC Gazprom enhances its technological, innovative and research potential through partnerships with leading international energy companies. In Europe, its research partners are Uniper Holding GmbH, BASF/Wintershall Holding GmbH, VNG-Verbundnetz Gas AG, Siemens AG and EUROPIPE from Germany, N.V. Nederlandse Gasunie (Netherlands), ENGIE (France) and Statoil ASA (Norway). In Asia Pacific, PJSC Gazprom fosters research and technology collaboration with KOGAZ (South Korea), CNPC (China), PETROVIETNAM (Vietnam) and the Agency for Natural Resources and Energy of the Japanese Ministry of Economy, Trade and Industry.

In 2015, Gazprom Group's investments in research and development totalled RUB 9.9 billion (vs. RUB 10.8 billion in 2014).

As of December 31, 2015, Gazprom Group companies held 2,238 patents (206 of them obtained in the reporting year) and 847 software and database registration certificates (89 obtained in the reporting year).

EMPLOYEES

Gazprom Group complies with the fundamental rights and principles set forth in the International Labour Organisation conventions, such as:

- freedom of association and effective recognition of the right to collective bargaining;
- elimination of all forms of forced or compulsory labour;
- effective abolition of child labour; and
- elimination of discrimination in respect of employment and occupation.

Gazprom also adheres to international standards on freedom of association, wages, hours and conditions of work, remuneration for work, social security, holidays with pay, occupational safety, etc.

As of December 31, 2015, the number of employees in Gazprom Group's subsidiaries was 462.4 thousand people (459.6 thousand people in 2014).

The table below shows the structure of Gazprom Group's employees:

	As of December 31, 2015, %
Managers	14
Specialists and other personnel	31
Workers	55

The age composition of the Group's personnel is well balanced. The table below shows the age structure of Gazprom Group's personnel:

	As of December 31, 2015, %
up to 30 years	18
30 – 40 years	30
40 – 50 years	27
50 years and older	25

PJSC Gazprom operates a corporate Continuous Vocational Education and Training System aimed at upgrading employee skills to meet the ever growing operational and performance requirements, roll out new technologies and expand Gazprom Group's regional footprint.

In 2015, 294.1 thousand employees of Gazprom Group were trained under career enhancement and retraining programmes.

The Remuneration Management Policy for Employees of PJSC Gazprom's Entities sets out unified corporate remuneration standards for Gazprom Group's employees. The purpose of this policy is to provide a framework for attracting and retaining staff with required qualifications and motivate employees to perform as expected.

In 2015, regulation of all social and labour relations within Gazprom Group was performed in accordance with the labour laws, the General Agreement between the National Associations of Trade Unions and Employers and the Russian Government, the Industry Agreement for Oil, Gas and Construction Companies, collective agreements, and other local legal acts of Gazprom Group's companies.

PJSC Gazprom's social policy raises its profile in the employment market and aims at attracting highly skilled professionals and retaining them in PJSC Gazprom in the longer run. The key principle that underlies the implementation of PJSC Gazprom's social policy is the use of social partnership mechanism, i.e. a constructive dialogue between employees and employers on the matters related to the regulation of social and labour relations.

OCCUPATIONAL HEALTH, INDUSTRIAL AND FIRE SAFETY

Providing safe and comfortable working environment for every employee is one of Gazprom Group's fundamental operating principles.

PJSC Gazprom is guided in its activities by the Labour Code of the Russian Federation, Federal Law No. 116-FZ On Industrial Safety of Hazardous Production Facilities, and OAO Gazprom's Occupational Health and Safety (OHS) Policy (approved in 2009).

The following goals underpin PJSC Gazprom's Policy:

- create safe labour conditions and protect the lives and health of employees;
- ensure reliable operation of hazardous industrial facilities;
- reduce the risks of incidents at hazardous industrial facilities.

The Policy's key provisions are implemented via the PJSC Gazprom's existing Unified Occupational Health and Safety Management System, comprising a set of regulations, activities and guidelines that unify all workflows to promote a safe and healthy working environment.

PJSC Gazprom was issued a compliance certificate confirming that its Unified Occupational Health and Safety Management System was compliant with OHSAS 18001:2007 as regards gas, gas condensate and oil production, treatment, transportation, processing/refining, distribution, and storage operations. The certificate covers PJSC Gazprom's headquarters and 26 subsidiaries and is valid until December 8, 2017. The total headcount of PJSC Gazprom's and its subsidiaries' employees who successfully passed the certification process is 228 thousand persons.

OHS activities carried out by the companies covered by the PJSC Gazprom's Unified Occupational Health and Safety Management System helped reduce the number of injured in occupational accidents from 159 to 103 people, with the number of emergencies at hazardous industrial facilities brought down from 14 to 12, and the number of incidents down from 65 to 43 between 2011 and 2015.

ENVIRONMENTAL PROTECTION

PJSC Gazprom makes every effort to ensure compliance with Russian and international environmental protection laws, and goes beyond that by taking voluntary environmental commitments.

PJSC Gazprom's Environmental Policy, which sets out its obligations, including voluntary commitments, and their implementation mechanisms, is the primary document governing PJSC Gazprom's environmental activities.

In 2015, a new version of the Environmental Policy was approved. The document was updated to reflect both the expanding range and geography of operations and changes in Russian environmental laws. The new version of the Environmental Policy sets out additional commitments to environmental safety that PJSC Gazprom undertakes in developing hydrocarbon fields on the Russian continental shelf and Arctic Zone and in minimising the risks of negative impact on the environment, including on particularly vulnerable natural sites and areas and features of high conservation value.

The implementation of PJSC Gazprom's Environmental Policy is managed by PJSC Gazprom's Coordinating Committee for Environmental Protection and Energy Efficiency, which is responsible for integrated management and overall coordination of environmental activities by Gazprom Group companies.

The Environmental Management System (EMS), compliant with ISO 14001:2004 international standard, is a key tool to implement the PJSC Gazprom's Environmental Policy. PJSC Gazprom's EMS covers 36 wholly-owned subsidiaries that are engaged in the core activities of exploration, production, transportation, storage and processing of gas and gas condensate or are involved in investment activities.

PJSC Gazprom's Corporate Environmental Targets were set for 2014 to 2016:

- reduction of methane emissions into the atmosphere (from GTS maintenance/repair operations);
- reduction of specific emissions of nitrogen oxides into the atmosphere;
- reduction of waste and effluent water discharge into surface water bodies;
- reduction of disposable waste share;
- reduction of above-limit impact charges as an integral indicator of negative environmental impact;
- reduction of specific fuel & energy consumption for own operational needs.

The main indicators for Gazprom Group's environmental impact from its operating activities in Russia are presented below:

Main indicators	Year ended December 31,		Change,%
	2015	2014	
Pollutant emissions into the air, thousand tons	2,830.6	2,797.6	1.2
Waste water disposal in surface-water bodies, mmcm	3,853.8	4,179.1	–7.8
Generation of waste, thousand tons	4,954.0	4,831.4	2.5
Lands damaged during the year, thousand ha	58.1	15.4	277.3
Recultivated lands, thousand ha	18.2	12.6	44.4

In 2015, total air pollution emissions made by Gazprom Group's stationary sources in Russia slightly increased y-o-y to 2,830.6 thousand tons.

Waste water discharge into surface water bodies was cut by 325 mmcm across Gazprom Group, primarily due to reduced process water consumption at OOO Gazprom energoholding's companies. In addition, in 2015, Gazprom Group implemented a range of environmental protection measures focusing on sustainable use of water and addressing pollution of water bodies. 71 waste water treatment systems were put into service, with an aggregate capacity of 293.9 mcm per day. 15 water recycling systems, with an aggregate capacity of 8,773.7 mcm per day, were installed.

The volume of waste generation was up by 2.5% y-o-y due to increased drilling waste at Gazprom Neft Group and OOO Gazprom dobycha Nadym. The proportion of drilling waste utilised and neutralised across Gazprom Group in 2015 reached 88% of the total amount of drilling waste stored at the start of the year and generated and shipped during the year by other companies.

In 2015, the area of land disturbed during the year increased to 58.1 thousand hectares, due to repairs on PJSC Gazprom's GTS pipelining and active implementation of construction projects in Gazprom Neft Group. OOO Gazpromneft–Angara showed the biggest increase, due to its

large-scale seismic surveys. At the same time, the amount of reclamation works has grown by 44.4%. Land reclamation activities will be continued in 2016.

Gazprom Group's subsidiaries and affiliates operating abroad also seek to minimise their environmental footprint.

Gazprom Group's environmental costs incurred in operating activities in Russia are disclosed below:

(RUB billion)	Year ended December 31,		Change,%
	2015	2014	
Current environmental costs, total	32.17	31.66	1.6
including operating costs, costs of environment-related services	29.21	27.45	6.4
including costs of capital repairs of fixed assets used for environmental protection	2.96	4.21	–29.5
Capital environmental costs	15.75	15.58	1.1
Pollution charges	1.79	1.75	2.3
Total	**49.71**	**48.99**	**1.5**

In 2015, Gazprom Group's capital investments into environmental protection and sustainable use of natural resources in Russia totalled RUB 15.75 billion, roughly flat y-o-y.

In 2015, Gazprom Group paid RUB 1.79 billion of negative environmental impact charges to different level budgets in the Russian Federation, roughly flat y-o-y.

In addition, Gazprom Group funds environmental activities in foreign countries where it operates, and pays negative environmental impact charges to the respective national budgets if required by applicable local laws.

In 2015, a total of 485 state inspections of Gazprom Group's entities were held. In over 100 inspections (more than 20% of the total) no irregularities have been identified. Out of the total identified cases of irregularities, 39% did not pose any environmental threat and no fines or penalties were imposed. Remedial actions are taken within prescribed timelines to eliminate identified irregularities. During 2015, 384 irregularities were rectified; of them 42 irregularities were revealed based on the results of inspections held in previous years.

In 2015, supervisory authorities imposed a total of RUB 26.2 million of fines, including RUB 11.7 million imposed on Gazprom Neft Group's companies.

During 2015, Gazprom Group's companies paid RUB 21.4 million of fines, including RUB 4.1 million for previous years.

In 2015, five claims worth, in aggregate, RUB 10.5 million were brought against the Group companies for environmental damage, including two claims for environmental damage as a result of accidents, worth RUB 3.1 million. Gazprom Group paid a total of RUB 79.6 million in compensation for environmental damage (including for previous years), including RUB 60.6 million paid by Gazprom Neft Group companies.

PJSC Gazprom's efforts to reduce its climate footprint are guided by Russia's Energy Strategy to 2030, the Russian State Environmental Protection Programme 2012–2020, and the Climate Doctrine of the Russian Federation.

Reduction of greenhouse gas emissions is an essential part of PJSC Gazprom's corporate strategy.

In 2015, greenhouse gas emissions at facilities of PJSC Gazprom and its wholly-owned subsidiaries engaged in exploration, production, transportation, storage and processing of hydrocarbons, totalled 102.6 million tons of CO_2 equivalent (in 2014 – 110.7 million tons of

CO2 equivalent), including GHG emissions of gas distribution subsidiaries and subsidiaries supporting the gas supply system's operation that were included in GHG reports for the first time. The emissions reduction was driven by a decrease in the natural gas consumption in compression process, more efficient use of fuel and energy and the implementation of other energy-saving initiatives.

ANALYSIS OF FINANCIAL RESULTS OF OPERATIONS

Results of operation

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

Sales

The following table sets out volumes and realized prices:

(RUB million unless indicated otherwise)	Year ended December 31, 2015	2014
Sales of gas		
Europe and Other countries		
Gross sales[(1)]	2,776,860	2,149,976
Customs duties	(531,479)	(397,829)
Excise tax	(79,881)	-
Net sales	2,165,500	1,752,147
Volumes in bcm	184.4	159.4
Gross average price, US Dollar per mcm (including excise tax and customs duties)[(2)]	245.6	349.4
Gross average price, RUB per mcm (including excise tax and customs duties)	15,057.3	13,487.2
Former Soviet Union countries		
Gross sales[(1)]	480,204	486,079
Customs duties	(50,544)	(74,357)
Net sales	429,660	411,722
Volumes in bcm	40.3	48.1
Gross average price, US Dollar per mcm (including customs duties)[(2)]	194.2	262.1
Gross average price, RUB per mcm (including customs duties)	11,911.0	10,115.9
Russian Federation		
Gross sales (net of VAT)	805,615	820,567
Net sales	805,615	820,567
Volumes in bcm	221.2	234.0
Gross average price, RUB per mcm (net of VAT)	3,641.3	3,506.5
Total sales of gas		
Gross sales (net of VAT)	4,062,679	3,456,622
Customs duties	(582,023)	(472,186)
Excise tax	(79,881)	-
Retroactive gas price adjustments	26,482	949
Net sales	3,427,257	2,985,385
Volumes in bcm	445.9	441.5
Net sales of refined products (net of VAT, excise tax and customs duties)	1,555,591	1,619,214
Net electric and heat energy sales (net of VAT)	424,665	426,951
Net sales of crude oil and gas condensate (net of VAT and customs duties)	260,608	209,234
Net gas transportation sales (net of VAT)	193,965	172,842
Other revenues (net of VAT)	211,232	176,185
Total sales (net of VAT, excise tax and customs duties)	**6,073,318**	**5,589,811**

Notes:

(1) VAT is not charged on sales to Europe and Other countries as well as Former Soviet Union countries.

(2) Calculated on the basis of year average exchange rate between RUB and US Dollar.

Total sales (net of VAT, excise tax and customs duties) increased by RUB 483,507 million, or 9%, to RUB 6,073,318 million for the year ended December 31, 2015 compared to the prior year. The increase in sales is mainly driven by the increase in sales of gas to Europe and Other countries.

Net sales of gas accounted for 56% and 53% of total net sales for the year ended December 31, 2015 and 2014, respectively.

Net sales of gas increased by RUB 441,872 million, or 15%, from RUB 2,985,385 million for the year ended December 31, 2014 to RUB 3,427,257 million for the year ended December 31, 2015.

For the year ended December 31, 2015 net sales of gas to Europe and Other countries increased by RUB 413,353 million, or 24%, to RUB 2,165,500 million compared to the prior year. The overall increase in sales of gas to Europe and Other countries was mainly driven by a 16% increase in volumes of gas sold for the year ended December 31, 2015 compared to the prior year. Gross average Russian Ruble price (including excise tax and customs duties) increased by 12% compared to the prior year. At the same time gross average US Dollar price decreased by 30%.

Net sales of gas to Former Soviet Union countries increased by RUB 17,938 million, or 4%, to RUB 429,660 million for the year ended December 31, 2015 compared to the prior year. The change was due to the 18% increase in the gross average Russian Ruble price (including customs duties) for the year ended December 31, 2015 compared to the prior year. At the same time volumes of gas sold decreased by 16% and the gross average US Dollar price decreased by 26% for the year ended December 31, 2015 compared to the prior year.

Net sales of gas in the Russian Federation decreased by RUB 14,952 million, or 2%, to RUB 805,615 million for the year ended December 31, 2015 compared to the prior year. This is primarily explained by the decrease in volumes of gas sold by 5% for the year ended December 31, 2015 compared to the prior year.

Operating expenses

Operating expenses increased by 18% for the year ended December 31, 2015 to RUB 4,635,502 million from RUB 3,943,669 million for the prior year. Operating expenses as a percentage of sales for the year ended December 31, 2015 increased by 5% compared to the prior year and amounted to 76%. The table below presents a breakdown of operating expenses in each period:

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

Taxes other than on income

Taxes other than on income consist of:

(RUB million)	Year ended December 31,	
	2015	**2014**
Mineral extraction tax	591,336	563,404
Property tax	112,568	89,010
Excise tax	88,580	112,533
Other taxes	12,648	10,879
Taxes other than on income	**805,132**	**775,826**

Mineral extraction tax increased by 5% to RUB 591,336 million for the year ended December 31, 2015 compared to RUB 563,404 million for the prior year. The increase is mainly due to dynamics of mineral extraction tax rate for natural gas and oil and an increase in production of crude oil by Gazprom Neft Group.

Purchased gas and oil

Cost of purchased gas and oil increased by RUB 255,749 million to RUB 1,048,472 million for the year ended December 31, 2015 compared to RUB 792,723 million for the prior year. Cost of purchased gas increased by RUB 243,688 million, or by 42%. The change is mainly related to the completion of the Swap Agreement with Wintershall Holding GmbH, which resulted in

acquisition of control over W & G Beteiligungs-GmbH & Co. KG and WIEH GmbH & Co. KG and in their subsidiaries which operate as natural gas trading and storage companies.

Staff costs

Staff costs increased by 14% to RUB 590,981 million for the year ended December 31, 2015 compared to RUB 516,778 million for the prior year. The increase was mainly driven by average salary growth.

Depreciation

Depreciation increased by 9%, or RUB 43,049 million, to RUB 515,200 million for the year ended December 31, 2015 compared to RUB 472,151 million for 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 34%, or by RUB 134,942 million, for the year ended December 31, 2015, to RUB 534,503 million compared to RUB 399,561 million for the prior year. This increase was mainly driven by an increase in cost of transit of gas through the Nord Stream pipeline and through the territory of Ukraine, Eastern Europe and Germany denominated in Ruble terms.

Foreign exchange rate differences on operating items

Exchange rate differences on operating items for the year ended December 31, 2015 amounted to a net gain of RUB 25,581 million compared to a net gain of RUB 243,438 million for the prior year. The change is explained by the appreciation of US Dollar against the Russian Ruble by 30% and the appreciation of Euro against the Russian Ruble by 17% for the year ended December 31, 2015 compared to the appreciation of US Dollar and Euro against the Russian Ruble by 72% and 52% respectively for the prior year.

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

Changes in inventories of finished goods, work in progress and other effects increased by RUB 45,110 million to RUB 121,809 million for the year ended December 31, 2015 compared to RUB 76,699 million for the prior year. The negative amount in this line item is due to an increase in the balances of finished goods, mainly gas in underground gas storages, as of December 31, 2015 compared to the balances as of December 31, 2014.

Charge for impairment and other provisions, net

Charge for impairment and other provisions, net amounted to RUB 213,219 million for the year ended December 31, 2015 compared to RUB 313,208 million for the prior year. The decrease was mainly driven by reversal of impairment provision for loans issued for the year ended December 31, 2015, recognition of the impairment loss in relation to goodwill in Refining and Electric and heat energy generation and sale segments in the amount of RUB 47,620 million and accrual of provision in the amount of RUB 47,407 million for a guarantee to Gazprombank (Joint Stock Company) related to debts of Ostchem Holding Limited for the year ended December 31, 2014.

Also due to existing uncertainties related to realization of «South Stream» project, the Group recognized the impairment loss for construction-in-progress objects in the amount of RUB 56,347 million.

Operating profit

As a result of operating expenses growth exceeding the growth of sales, the operating profit decreased by RUB 82,123 million, or 6%, to RUB 1,228,301 million for the year ended December 31, 2015 from RUB 1,310,424 million for the prior year. The operating profit margin

for the year ended December 31, 2015 decreased by 3 p.p. compared to the prior year and amounted to 20%.

Net finance loss

(RUB million)	Year ended December 31, 2015	2014
Exchange gains	878,181	322,821
Exchange losses	(1,342,230)	(1,393,792)
Net exchange loss	(464,049)	(1,070,971)
Interest income	112,165	66,983
Interest expense	(66,857)	(44,749)
Net finance loss	**(418,741)**	**(1,048,737)**

The decrease in the net exchange loss by RUB 606,922 million, or 57%, for the year ended December 31, 2015 compared to the net exchange loss in the amount of RUB 1,070,971 million for the prior year is mainly explained by the appreciation of US Dollar against the Russian Ruble by 30% and the appreciation of Euro against the Russian Ruble by 17% for the year ended December 31, 2015 compared to the appreciation of US Dollar and Euro against the Russian Ruble by 72% and 52% respectively for the prior year.

Interest income increased by 67% to RUB 112,165 million for the year ended December 31, 2015 from RUB 66,983 million for the prior year. The change is mainly driven by an increase in accrued interest on bank balances of the Group.

Interest expense increased by 49% to RUB 66,857 million for the year ended December 31, 2015 compared to RUB 44,749 million for the prior year. The change is mainly driven by an increase of year average rate of US Dollar against the Russian Ruble by 59% and an increase of year average rate of Euro against the Russian Ruble by 33% for the year ended December 31, 2015.

Share of net income of associates and joint ventures

Share of net income of associates and joint ventures increased by RUB 60,509 million to RUB 106,560 million for the year ended December 31, 2015 compared to RUB 46,051 million for the prior year. The change is mainly caused by an increase in share of net income of LLC Yamal razvitie and its subsidiaries, OJSC NGK Slavneft and its subsidiaries, Nord Stream AG.

Profit tax

Total profit tax expense decreased by RUB 29,589 million, or 20%, to RUB 120,042 million for the year ended December 31, 2015 compared to RUB 149,631 million for the prior year. The effective profit tax rate was 13.0% and 48.8% for the year ended December 31, 2015 and December 31, 2014 respectively.

The change in effective profit tax rate was mainly driven by a decrease in non-deductible expenses for tax purposes, primarily related to accrual of provision for impairment of assets and other reserves.

Profit for the period attributable to owners of PJSC Gazprom

As a result of the factors discussed above, profit for the period attributable to owners of PJSC Gazprom increased by RUB 628,052 million, or 395%, from RUB 159,004 million for the year ended December 31, 2014 to RUB 787,056 million for the year ended December 31, 2015.

Profit for the period attributable to non-controlling interest

Profit for the period attributable to non-controlling interest increased by RUB 19,955 million to RUB 18,143 million for the year ended December 31, 2015 compared to the loss of RUB 1,812 million for the prior year. The change is mainly driven by recognition of loss on impairment of assets related to non-controlling interest in the amount of RUB 2,034 million in the year ended December 31, 2015, compared to RUB 18,312 million for the year ended December 31, 2014.

Liquidity and capital resources

The following table summarises the cash flows for the years ended December 31, 2015 and 2014:

(RUB million)	Year ended December 31,	
	2015	**2014**
Net cash from operating activities	2,030,927	1,915,769
Net cash used in investing activities	(1,664,156)	(1,441,305)
Net cash used in financing activities	(138,305)	(262,587)

Net cash from operating activities

Net cash from operating activities increased by RUB 115,158 million, to RUB 2,030,927 million for the year ended December 31, 2015 compared to RUB 1,915,769 million for the prior year. This change is mainly driven by positive dynamics of working capital and a decrease in income tax paid.

Net cash used in investing activities

Net cash used in investing activities increased by RUB 222,851 million, or 15%, to RUB 1,664,156 million for the year ended December 31, 2015 compared to RUB 1,441,305 million for the prior year. The change was primarily due to an increase in cash used for capital expenditures for the year ended December 31, 2015 compared to the prior year.

Net cash used in financing activities

Net cash used in financing activities decreased by RUB 124,282 million, or 47%, to RUB 138,305 million for the year ended December 31, 2015 compared to RUB 262,587 million for the prior year. This change was primarily due to excess of proceeds from borrowings over cash used for repayment of borrowings for the year ended December 31, 2015.

Working capital

The working capital surplus (current assets less current liabilities) was RUB 1,869,021 million as of December 31, 2015 and RUB 1,605,208 million as of December 31, 2014. The increase in the working capital by RUB 263,813 million in the year ended December 31, 2015 was primarily due to an increase in cash and cash equivalents and inventories. These effects were partially offset by an increase in current portion of long-term borrowings.

The increase in inventories by RUB 132,448 million was mainly caused by an increase in cost of gas in pipelines and underground gas storages and an increase in balances of raw materials.

Management believes that the working capital is sufficient to meet the requirements of the Group for at least next twelve months. However, we are dependent on the short-term credit markets to finance our working capital.

Capital expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segment for the year ended December 31, 2015 and 2014 in nominal RUB terms, amounted to the following:

(RUB million)	Year ended December 31,	
	2015[(1)]	**2014**[(1)]
Transport	568,470	519,819
Production of crude oil and gas condensate	373,825	253,816
Production of gas	306,067	306,278
Refining	159,773	151,907
Electric and heat energy generation and sales	113,675	91,343
Distribution	32,041	27,424
Gas storage	56,931	17,820
All other segments	82,519	54,801
Total	**1,693,301**	**1,423,208**

Note:

(1) The capital expenditures in the present analysis differ from the capital additions disclosed within the Group's business segments in IFRS consolidated financial statements of PJSC Gazprom primarily due to VAT.

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) increased by RUB 270,093 million, or 19%, from RUB 1,423,208 million for the year ended December 31, 2014 to RUB 1,693,301 million for the year ended December 31, 2015.

Debts

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable, net of cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations) increased by RUB 432,487 million, or 26%, from RUB 1,650,633 million as of December 31, 2014 to RUB 2,083,120 million as of December 31, 2015. This increase resulted from change in foreign currency exchange rates (appreciation of U.S. dollar and euro against the Russian Ruble).

The following table shows our borrowings and promissory notes as of December 31, 2015 and December 31, 2014:

(RUB million)	As of December 31, 2015	As of December 31, 2014
Long-term borrowings		
Fixed interest rate borrowings	2,431,823	2,044,351
Weighted average interest rates for fixed rate borrowings	6.3%	6.15%
Variable interest rate borrowings	958,390	591,553
Weighted average interest rates for variable rate borrowings	3.9%	2.98%
Total long-term borrowings	**3,390,213**	**2,635,904**
RR denominated borrowings	362,400	289,984
Foreign currency denominated borrowings	3,027,813	2,345,920
Total long-term borrowings	**3,390,213**	**2,635,904**
Less: current portion of long-term borrowings	(594,370)	(411,862)
Total long-term debt obligations	**2,795,843**	**2,224,042**
Short-term borrowings		
Fixed interest rate borrowings	17,710	21,330
Weighted average interest rates for fixed rate borrowings	9.76%	12.19%
Variable interest rate borrowings	34,292	31,590
Weighted average interest rates for variable rate borrowings	2.09%	3.10%
Total short-term borrowings	**52,002**	**52,920**
RR denominated borrowings	12,766	14,718
Foreign currency denominated borrowings	39,236	38,202
Total short-term borrowings	**52,002**	**52,920**
Add: current portion of long-term borrowings	594,370	411,862
Total short-term debt obligations	**646,372**	**464,782**
Total borrowings	**3,442,215**	**2,688,824**

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

	As of December 31, 2015	As of December 31, 2014
U.S. dollar denominated (expressed in millions of U.S. dollars)	27,494	26,479
Euro denominated (expressed in millions of U.S. dollars)[(1)]	13,539	14,707
Other currencies denominated (expressed in millions of U.S. dollars)	510	513
Total long-term foreign currency denominated borrowings expressed in millions of U.S. dollars	**41,543**	**41,699**
Total long-term foreign currency denominated borrowings expressed in millions of RUB[(2)]	**3,027,813**	**2,345,920**

Notes:

(1) Converted at euro to U.S. dollar exchange rates of 1.09 and 1.21 as of December 31, 2015 and 2014, respectively.

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

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

(RUB million)	As of December 31,	
	2015	**2014**
Between one and two years	472,657	404,096
Between two and five years	1,452,110	970,608
After five years	871,076	849,338
Total	**2,795,843**	**2,224,042**

SHAREHOLDER STRUCTURE AND STOCK MARKET OF PJSC GAZPROM

PJSC Gazprom's charter capital amounts to RUB 118,367,564,500, consisting of 23,673,512,900 ordinary registered shares with a nominal value of RUB 5 each. There are no preference shares.

The following table presents the shareholder structure of PJSC Gazprom:

	As of December 31,	
	2015	**2014**
Russian Federation represented by the Federal Agency for State Property Management	38.37	38.37
OAO Rosneftegaz[(1)]	10.97	10.97
OAO Rosgazifikatsiya[(2)]	0.89	0.89
ADR holders[(3)]	27.83	28.05
Other entities	21.94	21.72

Notes:

(1) As of December 31, 2014 and December 31, 2015, the share of the Russian Federation represented by the Federal Agency for State Property Management in OAO Rosneftegas was 100%.
(2) As of December 31, 2014 and December 31, 2015, OAO Rosneftegas owned 74.55% shares of OAO Rosgazifikatsiya.
(3) Bank emitting ADR issued against PJSC Gazprom's ordinary shares – the Bank of New York Mellon.

PJSC Gazprom's shares were included in the first (top) level quotation list of Russian ZAO MICEX Stock Exchange and PAO Saint Petersburg Exchange.

ADRs on PJSC Gazprom's shares are traded on London, Berlin and Frankfurt exchanges, ZAO MICEX Stock Exchange, the US OTC market, and on the Singapore OTC market among qualified institutional buyers (QIBs). London Stock Exchange (LSE) accounts for the bulk of trade in PJSC Gazprom's ADRs.

The following table summarises quotations for PJSC Gazprom's shares and ADRs:

	As of December 31,		Change, %
	2015	**2014**	
MICEX			
Closing price for share, RUB	136.09	130.31	4
Minimum	130.90	117.87	11
Maximum	163.00	153.25	6
Average daily trading volume, mln.	32.45	52.5	-38
Average daily trading volume, RUB billion.	4.67	7.2	-35
LSE			
Closing price for ADR, USD	3.69	4.65	-21
Minimum	3.62	3.73	-3
Maximum	6.24	9.06	-31
Average daily trading volume, mln.	16.43	27.6	-40
Average daily trading volume, mln. USD	78.26	204.4	-62

In 2015, PJSC Gazprom's market capitalisation increased by 4% y-o-y; as of December 31, 2015, it was RUB 3.2 tn, or USD 44.2 billion. PJSC Gazprom's average market capitalisation in 2015 also increased by 4% y-o-y in the rouble equivalent to RUB 3.4 tn, or USD 56.2 billion.

As of December 31, 2015, dividends paid in 2015 based on PJSC Gazprom's performance results for 2014 are as follows:

	Accrued, RUB thousand	Paid, RUB thousand	Unpaid dividends, RUB thousand[(1)]	Proportion of unpaid and accrued dividends,%
Total	170,449,293	169,886,970	562,323	0.33
including dividends on shares:				
owned by the Russian Federation represented by the Federal Agency for State Property Management	65,407,152	65,407,152	–	–
owned by individuals and legal entities whose rights to the shares are recorded in the register	24,318,994	24,134,145	184,849	0.76
owned by individuals and legal entities whose rights to the shares are recorded by a depositary and which have a nominee account in the issuer's register[(2)]	80,723,049	80,345,673	377,376	0.47
owned by undefined holders	98	–	98	100.00

Notes:

(1) Dividends were not paid to individuals and legal parties who did not provide the data required for dividend payments as per para 5, Article 44 of Federal Law No. 208-FZ "On Joint Stock Companies" of December 26, 1995. Dividends accrued on shares of unidentified holders shall be paid upon establishment of the shareholders' rights for such securities.

(2) Dividends paid by PJSC Gazprom to nominal holders on July 30, 2015 within the actions performed to implement the decisions made by the General Shareholders' Meeting, held on June 26, 2015, on payment of dividends for 2014 performance results amounted to RUB 80,723,049 thousand. As of December 31, 2015, dividends for which nominal holders failed to perform their obligation to transfer dividends provided for by Russian securities legislation for reasons beyond their control (para 8, Article 42 of Federal Law No. 208-FZ of December 26, 1995) amounted to RUB 377,376 thousand.

CORPORATE GOVERNANCE

The rights of PJSC Gazprom shareholders and regulation of PJSC Gazprom management activity are determined by and carried out in accordance with the Russian Federation laws and may differ from the regulating practice in the companies registered in Great Britain.

Key documents of PJSC Gazprom which provide for the shareholders' rights include:

- Articles of Association of Public Joint Stock Company Gazprom;
- Code of Corporate Governance (Behaviour) of OAO Gazprom;
- Code of Corporate Ethics of OAO Gazprom;
- Regulation on the General Shareholders Meeting of OAO Gazprom;
- Regulation on the Board of Directors of OAO Gazprom;
- Regulation on the Board of Directors' Audit Committee of OAO Gazprom;
- Regulation on the Management Committee of OAO Gazprom;
- Regulation on the Chairman of OAO Gazprom's Management Committee;
- Regulation on the Audit Commission of OAO Gazprom;
- Regulation on the Internal Control System of OAO Gazprom;
- Procedures for Documenting of Proposals and Requests of Shareholders Related to the Convocation of the General Shareholders Meeting;
- Dividend Policy of OAO Gazprom;
- Regulation on Information Disclosure of OAO Gazprom;
- Procedure for Shareholders' Familiarisation with Information on OAO Gazprom;
- Regulation on the Hotline for Reporting Incidents of Perceived Fraud, Corruption or Theft in Gazprom Group.

All the above documents and PJSC Gazprom's Charter can be found on PJSC Gazprom's official web-site www.gazprom.com or in the shareholders' affairs division, whose details can be found on PJSC Gazprom's official web-site.

Development of PJSC Gazprom's corporate governance in 2015

In 2015, PJSC Gazprom continued efforts to improve its corporate governance standards; specifically, measures were taken to ensure compliance with the the Code of Corporate Governance, approved by the Bank of Russia's Board of Directors on March 21 2014, recommendations that PJSC Gazprom discloses information on the record date for the General Meeting of Shareholders at least seven days prior to such date. Amendments to PJSC Gazprom's Articles of Association were prepared to include in Paragraph 20.2 a provision stipulating that information on the record date for the General Meeting of Shareholders shall be disclosed seven days prior to such date. The new version of the Articles of Association incorporating, inter alia, the above amendments, was approved by the annual General Shareholders Meeting on June 26, 2015 (Minutes No. 1 dated June 29, 2015).

By Resolution No. 2621 dated November 6, 2015, the Board of Directors approved PJSC Gazprom's Regulation on Internal Audit based on the Code's recommendations.

Efforts were continued to further improve incentive schemes for the PJSC Gazprom's management. By Resolution No. 2523 dated April 15, 2015, the Board of Directors approved the new version of the Guidelines on Remuneration of the Board of Directors of OAO Gazprom, developed in line with international best practice. In calculating the remuneration amount the

Guidelines take into account, inter alia, the Total Shareholder Return and Return on Equity corporate KPIs; they also set out a clearer remuneration structure (the bonus part of remuneration, which is linked to the achievement of KPIs, was put into a separate segment), and the balance between different parts of remuneration was changed, with the base for calculating the bonus part increased to motivate the directors to further improve PJSC Gazprom's performance.

In addition, by Resolution No. 2641 dated December 9, 2015, the Board of Directors approved the Guidelines on Remuneration of Members of the Audit Commission of PJSC Gazprom.

In 2015, a number of other important internal regulations were developed and implemented, including PJSC Gazprom's Risk Management Policy (approved by Resolution of the Board of Directors No. 2619 dated October 30, 2015), and Regulation on Gazprom Group's Risk Management System (approved by Resolution of the Board of Directors No. 2628 dated 26 November 2015).

The list of information (materials) circulated to shareholders ahead of the General Shareholders Meeting was expanded by Resolution of the Board of Directors No. 2547 dated May 19, 2015. The list of information (materials) shall include progress reports on the Long-Term Development Programme of PJSC Gazprom and achievement of approved KPIs.

To improve communication with our shareholders and investors PJSC Gazprom upgraded its corporate website based on the recommendations of The Bank of New York Mellon and insights from a benchmark analysis of the websites of the world's largest companies initiated by PJSC Gazprom.

PJSC Gazprom will take further steps to improve its corporate governance framework and practice, in particular, to increase transparency of the PJSC Gazprom's operations and streamline business processes, procedures and internal regulations.

Management structure of PJSC Gazprom

PJSC Gazprom's corporate governance pillars include management and supervisory bodies: the General Shareholders Meeting, the Board of Directors, the Management Committee, the Chairman of the Management Committee, and the Audit Commission. The PJSC Gazprom's financial and business performance is independently reviewed by an external auditor.

Corporate secretary functions are shared between PJSC Gazprom's business units according to their scopes of authority. Most such functions are vested in the Board of Directors' Secretariat which ensures smooth operation of the Board and its committees and commissions, the Administration of the Management Committee, and the department charged with asset management and corporate relations.

Supervision of PJSC Gazprom's long-term investments in different business lines is the responsibility of various business units of PJSC Gazprom depending on their competence.

The department charged with asset management and corporate relations is responsible for coordination of the activities of, and organisational and methodological support to, representatives of PJSC Gazprom and its subsidiaries in the management bodies of its investees.

In order to maintain a transparent and constructive dialogue with the investment community, PJSC Gazprom has established the Coordinating Committee for Shareholder and Investor Relations. The Committee is led by A.V. Kruglov, Deputy Chairman of PJSC Gazprom's Management Committee. The Committee also includes heads of business units responsible for the development and implementation of the relevant strategy. Relations with the investment community are governed by the annual plan of the Coordinating Committee.

The Board of Directors and the Management Committee

The below table presents the information on members of the Board of Directors of PJSC Gazprom as of December 31, 2015:

Name	Year of Birth	Position
Viktor A. Zubkov	1941	Chairman of PJSC Gazprom's Board of Directors Russian Special Presidential Representative for Cooperation with Gas Exporting Countries Forum Deputy Chairman of OOO Gazprom Gazomotornoe Toplivo's Board of Directors
Alexey B. Miller	1962	Deputy Chairman of PJSC Gazprom's Board of Directors Chairman of PJSC Gazprom's Management Committee
Andrey I. Akimov	1953	Chairman of the Management Committee of Gazprombank (Joint Stock Company)
Farit R. Gazizullin	1946	Member of PJSC Gazprom's Board of Directors
Timur A. Kulibayev	1966	Chairman of the Presidium of the National Chamber of Entrepreneurs of Kazakhstan "Atameken" Chairman of the Legal Entities Association "Kazakhstan Association of Oil, Gas and Energy Sector Organizations "KAZENERGY"
Vitaly A. Markelov	1963	Deputy Chairman of PJSC Gazprom's Management Committee
Victor G. Martynov	1953	Rector of "Gubkin Russian State Oil and Gas University", the Federal State-Funded Educational Institution of Higher Professional Education (National Research University)
Vladimir A. Mau	1959	Rector of "The Russian Presidential Academy of National Economy and Public Administration", the Federal State-Funded Educational Institution of Higher Professional Education
Alexander V. Novak	1971	Minister of Energy of the Russian Federation
Mikhail L. Sereda	1970	Deputy Chairman of the Management Committee – Head of the Administration of PJSC Gazprom's Management Committee

The below table presents the changes in the Board of Directors in 2015:

Name	Changes
Alexander V. Novak	Member of the PJSC Gazprom's Board of Directors since June 26, 2015
Andrei Yu. SapeOAOlin	Member of the PJSC Gazprom's Board of Directors before June 26, 2015
Valery A. Musin	Member of the PJSC Gazprom's Board of Directors before December 22, 2015. Membership of PJSC Gazprom's Board of Directors terminated on December 22, 2015 owing to death.

In 2015, 66 meetings of the Board of Directors were held (11 in person, and 55 in absentia). During these meetings 183 decisions were made, including 39 decisions at in-person meetings and 144 decisions by voting in absentia.

In 2015, three members of the PJSC Gazprom Board of Directors – Farit R. Gazizullin, Valery A. Musin and Mikhail L. Sereda – served on the Board of Directors Audit Committee. The Committee was chaired by V.A. Musin (Committee membership terminated on 22 December 2015 owing to death).

During 2015, the Audit Committee held seven meetings and considered 13 issues.

The table below presents information on members of the Management Committee as of December 31, 2015:

Name	Year of birth	Position
Alexey B. Miller	1962	Chairman of PJSC Gazprom's Management Committee
Elena A. Vasilieva	1959	Deputy Chairman of PJSC Gazprom's Management Committee – PJSC Gazprom's Chief Accountant
Valery A. Golubev	1952	Deputy Chairman of PJSC Gazprom's Management Committee
Alexander N. Kozlov	1952	Deputy Chairman of PJSC Gazprom's Management Committee
Andrey V. Kruglov	1969	Deputy Chairman of PJSC Gazprom's Management Committee
Vitaly A. Markelov	1963	Deputy Chairman of PJSC Gazprom's Management Committee
Alexander I. Medvedev	1955	Deputy Chairman of PJSC Gazprom's Management Committee
Sergei F. Khomyakov	1953	Deputy Chairman of PJSC Gazprom's Management Committee, General Director of PJSC Gazprom's Corporate Protection Service Branch in Moscow
Oleg E. Aksyutin	1967	Head of Department (prospective development)
Nikolay N. Dubik	1971	Head of Department (legal support)
Vladimir K. Markov	1955	Head of Department (relations with the Russian Federation government authorities)
Elena V. Mikhailova	1977	Head of Department (asset management and corporate relations). Deputy Director General for Corporate Relations and Asset Management at OOO Gazprom Mezhregiongaz.
Vyacheslav A. Mikhalenko	1965	Head of Department (gas transportation and underground storage)
Sergei F. Prozorov	1958	Head of Department (managing construction of production facilities)
Kirill G. Seleznev	1974	Head of Department (marketing, gas and liquid hydrocarbons processing, developing electric power and heat generation), General Director of OOO Gazprom Mezhregiongaz
Igor Y. Fedorov	1965	General Director of OOO Gazprom Komplektatsiya

Name	Year of birth	Position
Vsevolod V. Cherepanov	1966	Head of Department (hydrocarbon exploration and production)

The below table presents information about the changes in the Management Committee in 2015:

Name	Changes
Vyacheslav A. Mikhalenko	Elected by the Board of Directors' decision of September 25, 2015, No 2606
Dmitry V. Lyugai	Termination by the Board of Directors' decision of September 25, 2015, No 2605

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RUB 4,801 million and RUB 4,393 million for the years ended December 31, 2015 and December 31, 2014, respectively. Government officials, who are directors, do not receive remuneration from the Group.

The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

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

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

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

Liability insurance for the members of the Board of Directors and the Management Committee

PJSC Gazprom maintains liability insurance of members of the Board of Directors (including independent directors but excluding directors who hold public office) and the Management Committee. The insurance covers damages to shareholders, lenders or other persons resulting from unintentional errors (omission) committed by policyholders in their management roles.

Insurance premiums paid under the insurance agreement signed in 2015 remained unchanged against 2014 at USD 1.57 million, while the coverage amount was USD 100 million.

The insurance coverage under the current agreement for liability insurance of members of PJSC Gazprom's Board of Directors and Management Committee is in line with PJSC Gazprom's requirements and Russian and international insurance standards for this type of insurance in terms of insured risks and indemnity limits.

Shares owned by members of the Board of Directors and the Management Committee of PJSC Gazprom

As of December 31, 2015, the total interest of members of the Board of Directors and members of the Management Committee in PJSC Gazprom's equity was 0.011836%.

Internal control system and internal audit

PJSC Gazprom's internal control system is an aggregate of bodies and internal control methods, rules of conduct and acts of employees in achieving PJSC Gazprom's objectives.

Internal control is exercised by PJSC Gazprom's Board of Directors, Audit Committee, Audit Commission, executive bodies (the Management Committee and its Chairman), heads of business units and other employees of PJSC Gazprom.

The Revision Commission in number of 9 persons is elected by the General Meeting of Shareholders.

Internal audit in PJSC Gazprom supports the Board of Directors and PJSC Gazprom's management in their efforts to improve PJSC Gazprom's management procedures and boost financial and business performance by applying a structured and consistent approach to analysis and assessment of the risk management system, internal control and corporate governance to gain reasonable assurance that PJSC Gazprom's goals will be achieved. Duties related to organising and conducting internal audits in PJSC Gazprom are assigned to PJSC Gazprom's Department; in PJSC Gazprom's subsidiaries and entities these duties are assigned to internal audit departments of such subsidiaries and entities.

The Department of PJSC Gazprom charged with internal audit is functionally accountable to the Board of Directors' Audit Committee, and administratively accountable to the Chairman of the Management Committee within the Administration of the Management Committee. Head of the Department is appointed and removed from office by the Chairman of the Management Committee upon recommendation of the Deputy Chairman of the Management Committee – Head of the Administration of the Management Committee approved by the Board of Directors' Audit Committee.

Activities of the Department are governed by internal auditors' Code of Ethics (approved by Resolution of the Board of Directors No. 1956 dated March 14, 2012), OAO Gazprom's Internal Audit Development Concept (approved by the Audit Committee on June 25, 2015), Regulation on the Department (approved by the Audit Committee and OAO Gazprom's Order No. 341 dated June 23, 2015), International Standards for the Professional Practice of Internal Auditing, and methodological guidelines on internal auditing of the Federal Agency for State Property Management.

PJSC Gazprom selects its external auditor annually by a public tender in accordance with applicable Russian laws.

In 2015, OOO FBK won the public tender among audit firms to conduct statutory annual audit of PJSC Gazprom and was approved as auditor by the annual General Shareholders Meeting on June 26, 2015.

The contract price offered by the winner was RUB 204,000,000 (net of VAT) and was approved by Resolution of the Board of Directors No. 2544 dated May 14, 2015.

Corporate ethics and anti-fraud initiatives

PJSC Gazprom has in place the Code of Corporate Ethics, developed with due account for Russian and international best practice in corporate governance. The Code sets forth PJSC Gazprom's underlying corporate values and critical business conduct rules that exclude conflict of interest and corruption.

The Code's provisions are mandatory for PJSC Gazprom's employees (including all members of the Management Committee and the Board of Directors who are PJSC Gazprom's employees) and corporate entities controlled by the PJSC Gazprom. For employees of corporate entities with PJSC Gazprom's shareholdings, which are not controlled, and employees of PJSC Gazprom's

counterparties the Code's provisions are recommendatory only. The Code contains certain restrictions, including restrictions related to employees' employment with competing companies.

PJSC Gazprom's permanent Corporate Ethics Commission set up in 2014 is authorised to supervise compliance with the Code's requirements and provisions.

PJSC Gazprom has embedded and fosters a culture of zero tolerance to corruption. PJSC Gazprom's Corporate Protection Service takes consistent, ongoing effort to prevent and identify cases of corrupt practices in Gazprom Group's entities, working in cooperation with subsidiaries' corporate protection units, PJSC Gazprom's departments charged with internal audit, asset management, corporate relations and corporate costs management, and Russian law-enforcement agencies.

Since November 2014, PJSC Gazprom has operated a Hotline to report incidents of perceived fraud, corruption and theft in Gazprom Group. A dedicated support team within the Corporate Protection Service is responsible for the Hotline operation. Information received via the Hotline is analysed to identify signs or instances of corruption in Gazprom Group's entities. Reports received in 2015 do not suggest signs of corruption as defined by Russian laws. Similar arrangements are in place in a number of subsidiaries, such as PAO Gazprom Neft, OOO Gazprom transgaz Surgut, OOO Gazprom invest, OOO Gazprom pererabotka, OOO Gazprom VNIIGAZ and some others.

The Corporate Protection Service and subsidiaries' corporate protection units continuously support contractual work in PJSC Gazprom and its subsidiaries to identify signs of risks related to possible affiliation of executives authorised to make decisions with participants in competitive procurement. In 2015, in the competitive procurement process, 34 cases involving affiliated persons were identified which could have led to a conflict of interest. No contracts were signed with participants in respective competitive procedures.

PJSC Gazprom's risk management system is defined as an aggregate of the organisational structure, internal regulations, corporate culture standards, methodologies and procedures aimed at providing adequate assurances that PJSC Gazprom's goals will be achieved, and supporting the management and employees of PJSC Gazprom's business units and subsidiaries in decision making in an uncertain environment. As an integral part of PJSC Gazprom's corporate governance framework, it covers all management levels and business lines across PJSC Gazprom.

RISK MANAGEMENT

PJSC Gazprom's risk management system is defined as an aggregate of the organisational structure, internal regulations, corporate culture standards, methodologies and procedures aimed at providing adequate assurances that PJSC Gazprom's goals will be achieved, and supporting the management and employees of PJSC Gazprom's business units and subsidiaries in decision making in an uncertain environment. As an integral part of PJSC Gazprom's corporate governance framework, it covers all management levels and business lines across PJSC Gazprom.

The Board of Directors, the Board's Audit Committee, the Management Committee and Gazprom Group's business units and entities are involved in the operation of the risk management system. Risk owners are PJSC Gazprom's business units, Gazprom Group's entities or employees responsible for the development, implementation and monitoring of risk management activities. The risk management and internal control systems are interrelated.

PJSC Gazprom's business units and subsidiaries are charged with risk identification and assessment, development and implementation of risk management activities, monitoring of risks and activities.

Strategic and country risks

Risks related to the global economy

An unfavourable economic environment can lead to a slowdown in energy demand and drive the cost of borrowed capital.

*Risk management/mitigation***.** To ensure growth of revenue from energy sales PJSC Gazprom diversifies its markets and sales channels and expands the uses of natural gas. To maintain financial stability PJSC Gazprom optimises leverage.

European gas market risks

The EU pursues a policy of diversifying its gas supply sources and increasing the share of natural gas exchange trade, which affects PJSC Gazprom as one of the main suppliers of natural gas to the EU countries.

*Risk management/mitigation***.** PJSC Gazprom ensures reliable and flexible gas supplies through long-term contracts. In October 2015, OOO Gazprom export held a gas auction to try out a new mechanism of gas sales in Europe. Additionally, to minimise the risk of lower supply levels a set of initiatives continues to be implemented to both build new infrastructure and bolster demand for natural gas, as well as strengthen PJSC Gazprom's position in the sectors with a potential for extra supplies.

Political risks

Starting from 2014, Russia is under sanctions imposed by the EU, the United States and other countries over the conflict in Ukraine. The continuation of the conflict is very likely to extend both the list of restrictive measures and the duration of the sanctions.

*Risk management/mitigation***.** PJSC Gazprom pursues a policy of ensuring technological independence and import substitution to reduce the impact the economic restrictions imposed / reintroduced against Russia have on PJSC Gazprom.

Natural gas transit risks

Gas transit via the FSU countries, in particular Ukraine, is associated with the risk of the counterparties defaulting on their transit obligations, which exposes Gazprom Group to the risk of improper performance of its obligations under gas supply contracts.

*Risk management/mitigation***.** A number of measures are taken to reduce reliance on transit countries, including diversification of export routes, expanding access to UGSF abroad, and development of LNG trade.

Russian regulatory risks for the gas industry

PJSC Gazprom's operations as a natural monopoly are regulated by Federal Law No. 147-FZ dated August 17, 1995 On Natural Monopolies. The Government holds an interest of over 50% in the share capital of PJSC Gazprom.

*Risk management/mitigation***.** A dialogue with government authorities is maintained to improve the pricing policy and taxation of companies in the gas industry; objective supporting cases are prepared to inform decision making by the Board of Directors.

Unconventional gas development risks

Unconventional gas production has been growing over the last ten years, primarily from shale deposits in the US, along with limited volumes in several other regions around the world.

In North America, it stimulated the development of local LNG export projects, which had a notable effect on the structure of gas consumption.

South America, Europe and South-East Asia remain interested in unconventional gas production; however, the risk that these regions will discontinue gas imports in the mid-term is assessed as insignificant.

*Risk management/mitigation***.** PJSC Gazprom continuously monitors the evolution of the shale gas industry and developments in other unconventional hydrocarbons industries around the world.

The monitoring results, including the economics of unconventional gas production and its potential as a competition to PJSC Gazprom in its existing or prospective markets, are reviewed by the Board of Directors on an annual basis, which enables PJSC Gazprom to build an effective region-specific marketing policy relying on different distribution mechanisms.

Renewable energy risks

Renewable energy output can be expected to grow in some countries, which may squeeze gas consumption in these markets.

*Risk management/mitigation***.** The use of natural gas, inter alia, for power generation offers consumers economic, technological and environmental benefits, which, PJSC Gazprom believes, will support natural gas as the most common energy source. In most cases, renewable power generation supplements power generation from other sources and may entail certain risks for the natural gas market if aggressive policies of subsidising renewable energy are maintained at the national and/or supranational level.

Customs, currency and tax regulation risks

Risk of changes in the Russian currency regulation and tax legislation

Given the challenging economic situation in Russia due to volatility in FX and commodity markets and the resulting growth of the government's budget deficit, the risks of changes in currency regulation and tax legislation persist, along with the risk of a heavier tax burden on companies in the fuel and energy sector. Changes in the Russian currency regulation and tax legislation may affect PJSC Gazprom's operations.

*Risk management/mitigation***.** Changes in currency regulation and tax legislation are monitored, and relevant requirements are strictly complied with. PJSC Gazprom liaises with government authorities to ensure timely adjustment of its operations in line with changes in Russian laws.

Risks related to changes in Russian rules on customs control and duties

Following the execution of the Treaty on the Eurasian Economic Union (EEU) in May 2014, a new EEU Customs Code is expected to be enacted. Since the Code is not yet finalised and its enactment is postponed to 2017, the risk of additional customs requirements cannot be ruled out if customs authorities make amendments to the rules of customs control and export duty payment.

*Risk management/mitigation***.** PJSC Gazprom complies with the requirements of customs laws, tracking proposed amendments to regulations at the earlier drafting stages, and submits its proposals while interacting with government authorities and stakeholders.

Financial risks

Foreign exchange, interest rate and inflation risks

High exchange rate volatility coupled with income and expenses denominated in different currencies affect PJSC Gazprom's performance.

*Risk management/mitigation***.** To minimise losses from exchange rate volatility, PJSC Gazprom hedges its foreign exchange and interest rate risks.

Credit and liquidity risks

Delayed or incomplete discharge of contractual obligations by some counterparties entails risks for PJSC Gazprom's operations.

*Risk management/mitigation***.** An open policy is pursued to ensure the performance of contractual payment obligations in respect of supplies. Relations with credit institutions are subject to credit risk limits revised on a regular basis and reflecting, inter alia, the credit rating calculated by PJSC Gazprom, its subsidiaries and entities.

Market risks

With oil being the base product, falling oil prices put a downward pressure on prices for natural gas and energy in general. If oil prices drop even further or remain at the current level over a long period of time, resulting risks may lead to a decline in revenues. There are also volume risks associated with a certain flexibility that buyers have in terms of gas offtake.

*Risk management/mitigation***.** These risks are managed by modifying existing, or entering into new, contracts, and by determining approved types of transactions and financial instruments and counterparties to enter into such transactions.

PJSC Gazprom's operating risks

Risks of early termination and suspension of subsoil licenses

Non-compliance with the licence agreements exposes PJSC Gazprom to risks of early termination or suspension of subsoil licences for the survey, exploration and production of hydrocarbons.

*Risk management/mitigation***.** Regular monitoring, control of compliance with licence requirements and timely amendment of licence agreements minimise the likelihood of licence revocation and suspension.

Cost risks

Increased prices for equipment, technical devices, spare parts, as well as works and services, which form the actual cost of capital construction projects, constitute one of the most significant investment risks.

*Risk management/mitigation***.** Competitive procurement, whereby the suppliers offering goods of adequate quality and submitting the lowest price bids are selected, helps cut the costs of procurement and sourcing of feedstock, materials, spare parts, works and services.

Facilities risks

The key operations, including hydrocarbon production, transportation, processing/refining and storage, carry process and engineering, natural and climatic risks, as well as risks of adverse actions by personnel or third parties.

*Risk management/mitigation***.** The Unified Gas Supply System (UGSS) ensures reliable gas supplies. Stable operation of the system is achieved by implementing advanced and innovative diagnostic methods, carrying out timely overhaul and maintenance, revamping and upgrading existing facilities. Insurance coverage is provided to protect subsidiaries' property interests, which includes property insurance (including offshore facilities), business interruption insurance for GPPs, and liability insurance for construction, repair and operation of production facilities.

Hydrocarbon reserve estimation risks

PJSC Gazprom's strategic and financial goals depend on hydrocarbon reserves, and inaccuracies in reserve estimation entail risks for PJSC Gazprom's operations.

*Risk management/mitigation***.** Independent reserve estimation procedures have been developed and are implemented in accordance with the Petroleum Resources Management System (PRMS) standards. PJSC Gazprom's reserves estimated under Russian reserves classification standards are recorded in its books only after the annual review and approval by the State Reserves Commission of the Russian Ministry of Natural Resources.

Environmental risks

The key operations, including hydrocarbon production, transportation, refining/processing and storage, carry environmental risks that may lead to legal, financial and reputational implications.

*Risk management/mitigation***.** PJSC Gazprom is committed to maintaining its environmental policy, implementing programmes and initiatives to reduce its environmental footprint, carrying out environmental activities, taking out environmental risk insurance, and introducing environmental protection technologies. Most subsidiaries have in place and continuously improve environmental management systems certified to ISO 14001:2004.

BRANCHES AND REPRESENTATIVE OFFICES OF PJSC GAZPROM

Below is the information on branches and representative offices of PJSC Gazprom as of December 31, 2015:

Name	Location
Branch Avtopredpriyatie of PJSC Gazprom	Moscow
Branch Corporate Premises Management of PJSC Gazprom	Moscow
Branch Bogorodskoye Reception House	Moscow
Branch Souyz Holiday Hotel	Moscow Region
Branch Morozovka Holiday Hotel	Moscow Region
Branch Corporate Security Services of PJSC Gazprom	Moscow
Branch Central Interregional Security Division of PJSC Gazprom	Moscow Region
Branch North-Western Interregional Security Division of PJSC Gazprom	St. Petersburg
Branch Southern Interregional Security Division of PJSC Gazprom	Krasnodar
Branch Volga Interregional Security Division of PJSC Gazprom	Samara
Branch North Urals Interregional Security Division of PJSC Gazprom	Novy Urengoi
Branch South Urals Interregional Security Division of PJSC Gazprom	Yekaterinburg
Branch Siberian Interregional Security Division of PJSC Gazprom	Tomsk
Branch Far Eastern Interregional Security Division of PJSC Gazprom	Khabarovsk
Representative office in Ukraine	Kyiv
Representative office in the Sakhalin Region	Yuzhno Sakhalinsk
Representative office in the People's Democratic Republic of Algeria	Algiers
Representative office in the Islamic Republic of Iran	Tehran
Representative office in Republic of Turkey	Ankara
Representative office in the People's Republic of China	Beijing
Representative office in India	New Delhi
Representative office in the Federative Republic of Brazil	Rio de Janeiro
Representative office in Qatar	Doha
Representative office in Kingdom of Belgium	Brussels
Representative office in Japan	Tokyo
Representative office in Turkmenistan	Ashgabat
Representative office in Republic of Latvia	Riga
Representative office in the Republic of Kazakhstan	Astana
Representative office in Republic of Moldova	Kishinev
Representative office in the Kyrgyz Republic(1)	Bishkek
Representative office in the Republic of Belarus(2)	Minsk

Notes:

(1) On November 25, 2015, the employment contract with the head of PJSC Gazprom's representative office in the Kyrgyz Republic (in Bishkek) was terminated due to the office shut-down.

(2) On December 29, 2015, the employment contract with the head of PJSC Gazprom's representative office in the Republic of Belarus (in Minsk) was terminated due to the office shut-down.

CONVERSION TABLE

Metric measure	U.S. measure
1 bcm of natural gas	35.316 billion cubic feet (bcf) of natural gas
1 bcf of natural gas	0.028 bcm of natural gas
1 metric ton of crude oil	1,000 kilos
	2,204.6 pounds
	7.33 barrels of crude oil
	8.18 barrels of gas condensate
	1.43 ton of fuel equivalent
1 barrel of crude oil	0.1364 metric ton of crude oil
1 kilometre	Approximately 0.62 miles
1 ton of fuel equivalent	866.6 cm of natural gas
	0.7 ton of gas condensate
	0.7 ton of crude oil
1 mcm of natural gas	1.154 ton of fuel equivalent
1 mcm of natural gas	5.89 barrels of oil equivalent (boe)
1 ton of gas condensate	8.18 barrels of gas condensate
1 barrel of gas condensate	1 barrel of oil equivalent (boe)

GLOSSARY OF MAJOR TERMS AND ABBREVIATIONS

Terms and abbreviations	Description
Brent	Benchmark brand of oil produced in the North sea
ISO 14001:2004	International Organization for Standardization
Urals	Russian brand of export oil mixture
Adjusted EBITDA	Earnings before interest, taxes, depreciation, and amortization adjusted by changes in impairment provisions
ADR of PJSC Gazprom	American Depositary Receipt issued for PJSC Gazprom shares
APG	Associated petroleum gas
Asia Pacific	Asia-Pacific Region, which includes inland countries of Asia, America and Pacific Ocean Area
Associated undertaking	Associated undertaking is a company over which Gazprom Group has significant influence – 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
bcm	Billion cubic meters
boe	Barrel of oil equivalent
bboe	Billion barrels of oil equivalent
BFLC	Broad fractions of light hydrocarbons
Category ABC_1 hydrocarbon reserves	Explored reserves, according to the Russian reserves system. Gas reserves in categories ABC_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.
Category C_2 hydrocarbon reserves	Category C_2 represents reserves of a deposit the crude oil or gas content of which is calculated on the basis of geological and geophysical data within the known gas areas. Category C_2 reserves are preliminary estimated reserves and represent a basis for exploration work at a particular field.
Central Europe	Bulgaria, Bosnia-Herzegovina, Hungary, Macedonia, Poland, Romania, Serbia, Montenegro, Slovakia, Slovenia, Croatia, Czech Republic
cf	Cubic feet
CIS	Commonwealth of independent states – former Soviet Union republics excluding Latvia, Lithuania and Estonia
cm	Cubic meter of natural gas measured under pressure of 1 bar at the temperature of 20°C
CS	Compressor station
EEU	Eurasian Economic Union
EMS	The Environmental Management System
EU	European Union
EurAsEC	Agreement on the Foundation of Eurasian Economic Community
Europe	For the purposes of the Report includes Western and Central Europe
Europe and other countries	Countries other than Russia and the FSU countries.
FSU	Former Soviet Union republics, except for the Russian Federation
Fuel equivalent	Natural equivalent measuring unit used to compare different types of fuel. Recalculation of certain type of fuel to fuel equivalent is made by the ratio of enthalpy of that fuel (1 kg) to enthalpy of fuel equivalent (1 kg); the latter equals to 29.3076 Mega joule

Terms and abbreviations	Description
Gazprom Group, Group, Gazprom	An aggregate of entities which includes PJSC Gazprom (Head Office) and its subsidiaries
Gazprom Neftekhim Salavat Group	An aggregate of entities which includes Gazprom Neftekhim Salavat (Head Office) and its subsidiaries. Gazprom Group controls the Gazprom Neftekhim Salavat Group.
Gazprom Neft Group	An aggregate of entities which includes PJSC Gazprom Neft (Head Office) and its subsidiaries. Gazprom Group controls the Gazprom Neft Group.
GTS	Gas Transportation System
IFRS	International Financial Reporting Standards accepted in EU
Joint operation	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.
Joint venture	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.
KPI	Key performance indicator
kWh	Kilowatt-hour
LHG	Liquefied hydrocarbon gases
LNG	Liquefied Natural Gas
LSE	London Stock Exchange
mcm	Thousand cubic meters
mmcm	Million cubic meters
m	metre
MICEX	Moscow Interbank Currency Exchange
MTBE	Methyl tert-butyl ether
MW	Megawatt
Net debt	The sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities, 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
Return on capital employed	Calculated as operating and non-operating profit before interest, net of income tax to the average capital employed. Average capital employed is calculated as the average of total equity and total debt at the beginning and at the end of year.
Rosnedra	Federal Subsoil Resources Management Agency (Rosnedra)
RUB	Russian Rouble
PRMS Standards	International classification and assessment of hydrocarbon reserves under PRMS (Petroleum Resources Management System). These standards do not only include the assessment of physical presence of hydrocarbons but also provide the economic viability of recovering the reserves and consider the period of commercial development of fields (term of development license).
sq. km	Square kilometer
tcf	Trillion cubic feet

Terms and abbreviations	Description
tcm	Trillion cubic meters
ton	Metric ton
Total debt	Long-term and short-term loans and borrowings, long-term and short-term promissory notes, restructured tax payable
TPP	Thermal Power Plant
USA	United States of America
UGSF	Underground Gas Storage Facility
UGSS	Unified Gas Supply System of Russia
USD	The United States Dollars
VAT	Value Added Tax
WECM	Wholesale electricity and Capacity market
Western Europe	Austria, Andorra, Belgium, Germany, Greece, Denmark, Ireland, Iceland, Spain, Italy, Cyprus, Liechtenstein, Luxembourg, Malta, Monaco, The Netherlands, Norway, Portugal, San Marino, the United Kingdom , Turkey, Finland, France, Switzerland, Sweden

ADDRESSES AND CONTACTS

Full name

Public Joint Stock Company Gazprom

Abbreviated name

PJSC Gazprom

Location: Moscow, Russian Federation

Mailing address: 16 Nametkina str., Moscow, GSP-7, 117997

Phone: +7 (495) 719-30-01 (information). Fax: +7 (495) 719-83-33

Web-site: www.gazprom.ru in Russian, www.gazprom.com in English

E-mail: gazprom@gazprom.ru

Certificate on entry in the Unified State Register of Legal Entities issued by the Interregional Inspectorate of the Russian Ministry of Taxes and Levies for the Moscow city on 2 August, 2002,

OGRN - 1027700070518

Taxpayer's identification number (INN): 7736050003

Information for shareholders

Phone: +7 (812) 609-76-51

Contact for investors:

Ivan V. Khromushin

Phone: +7 (495) 719-34-83

E-mail: ir@gazprom.ru

Auditor of PJSC Gazprom

FBK Ltd.

Member of non-profit partnership «Audit Chamber of Russia» (NP ACR) being a self-regulatory organization of auditors

Member of the self-regulated organisation Non-Profit Partnership Audit Chamber of Russia.

Location and mailing address: 44/1 Myasnitskaya St. bdg. 2 AB, Moscow, 101990, Russian Federation

Phone: +7(495) 737-53-53.

Registrar

Closed Joint Stock Company Specialized Registrar – Holder of the register of gas industry (ZAO DRAGa)

Location and mailing address: 71/32, Novocheryumushkinskaya str., Moscow 117420, Russian Federation

Phone: +7 (495) 719-39-29. Fax: +7 (495) 719-45-85

Web-site: www.draga.ru

Depository bank (ADR of PJSC Gazprom)

The Bank of New York Mellon

Phone (the US only): 1-888-BNY-ADRS (1-888-269-2377).

Phone (other countries): 201-680-6825

E-mail: shrrelations@bnymellon.com

Web site: www.bnymellon.com/shareowner