

Sustainability  
Report  
2008/2009



Natural Gas – Energy for Present and Next Generations



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### Note

Hereinafter the terms "Gazprom", "Gazprom Group", "the Group" refer to the group of companies comprised of OAO Gazprom and its subsidiaries. The terms "OAO Gazprom" and "the Company" refer to the parent company of *Gazprom Group*, i.e. Open Joint Stock Company Gazprom (excluding representative offices and service branches).

## Message from Alexey Miller, OAO Gazprom Management Committee Chairman



For the first time in the corporate history Open Joint Stock Company Gazprom presents its Sustainability Report.

Today *Gazprom* is a global energy company, the world's largest natural gas producer and a leader of the Russian economy.

*Gazprom's* large-scale activities have an impact on the lives of millions of people. This fact predetermines both an immense responsibility of *Gazprom* and a considerable public interest in a variety of *the Company's* development aspects that are sometimes beyond the scope of statutory reports. In this Report we have strived to provide a thorough insight into the principles we adhere to in the process of identifying our *Company's* development ways.

The long-lasting history of *Gazprom* shows that the strategy pursued by *the Company* is in line with the sustainable development model which has recently gained wide public recognition. We believe that the primary challenge in achieving sustainability is balanced and efficient use of production resources to the benefit of the present and future generations.

The sustainable development benchmarks help us build *the Company's* business in the context of the global efforts aimed at addressing such critical international problems as energy efficiency, emissions reduction and social progress acceleration.

The comprehensive analysis of the economic, environmental and social indicators of *Gazprom's* performance carried out during the preparation of this Report has confirmed that *the Company* adheres to the basic principles of sustainable development.

**Reliability.** *Gazprom's* status of a reliable blue fuel supplier combines a solid and fast-growing resource base, unrivalled technologies of gas production under harsh environmental and geological conditions, a potent and constantly developing gas transmission infrastructure, a well-established system of long-term contractual arrangements with partners.

**Rationality.** Efficiently meeting current and future needs of consumers is our main driver in determining gas production volumes. This is the only approach to making balanced decisions on the order of priority for large-scale field development projects and their synchronization with gas transmission development. A reasonable approach to devising gasification schemes for Russian regions allows us to comprehensively take into account local geographic and demographic features as well as the specificity of regional fuel balances.

Rational use of production resources by *Gazprom* is an explicit indicator of *the Company's* efficiency and, ultimately, competitiveness. Resource conservation is therefore an integral element of the production processes and falls within our permanent focus of attention.

**Safety.** The industry specificity predetermines stringent health, safety and environmental (HSE) requirements for *Gazprom's* companies.

The process safety management system introduced at ОАО Gazprom's facilities is based on international standards, and the extensive corporate standardization system sets safety requirements for all lifecycle stages of gas production, transmission, processing and utilization facilities.

In 1995 *Gazprom* was one of the first Russian companies to develop a corporate Environmental Policy. The restated version of this document was endorsed in 2008. The Policy updates the environmental protection challenges and outlines additional obligations assumed for securing sustainable development.

**Social Responsibility.** Having operations in over 80 constituents of the Russian Federation, we endeavor to ensure that the sustainable development of our business contributes to socioeconomic progress, a better environmental situation and greater prosperity of people in Russia's regions.

The large-scale social programs implemented by *the Company* are not an abstract "social burden" but indispensable investments in social stability which is a prerequisite for long-term business development.

We look upon the publication of ОАО Gazprom Sustainability Report as an important factor for enhancing the corporate governance structure, a good way of self-analysis and an efficient communicative tool. We look forward to receiving extensive feedback that will help us better understand what people expect from our *Company's* performance.

**Alexey Miller**  
Management Committee Chairman



The background of the slide features a large, stylized number '1' formed by a blue and yellow industrial scene. The top half of the '1' is a blue archway containing a network of pipes and valves. The bottom half is a yellow archway containing a close-up of a pressure gauge with a white face and black markings, and a yellow pipe. A solid blue horizontal band crosses the middle of the '1', serving as a background for the title text.

# About Report

and Reporting Procedures

## Sustainable Development Concept

Sustainable development is construed as a modern society development pattern which implies meeting the needs of the present without compromising the ability of future generations to meet their own needs. The ideas and principles of sustainable development are set forth in the UN Action Plan for Sustainable Development known as Agenda 21<sup>1</sup>.

The main goal declared in this document is to improve the living standards of the world's population without increasing the use of natural resources to the extent exceeding the potential of the Earth as an ecosystem. The program areas of sustainable development approved by all of the countries that have participated in the concept related conferences and other events include:

- economic growth and equity: promoting long-term economic growth by way of changing the natural resource consumption pattern and producing life essentials for people, ensuring access to natural resources for all people worldwide;
- conservation of natural resources and environmental protection: searching for economically viable solutions to the problems of reducing resource consumption, environmental pollution and preserving natural habitat;
- social development: meeting employment, education, health care demands of people and all other essentials of life; preserving the cultural and social diversity, observing the rights of workers; ensuring that all members of the society could participate in making decisions affecting their future, etc.

States, companies, organizations and people altogether must contribute to sustainable development by achieving an optimal balance of activity goals, means and results in each of the areas.

## Report Content

The first OAO Gazprom Sustainability Report (the Report) analyzes the corporate activities in natural gas exploration, production, storage, transmission and marketing from the standpoint of sustainable development goals.

Pertinent information on *Gazprom's* development strategy and approaches to corporate governance are contained in the Gas Energy – Foundation for Sustainable Development section.

Issues concerning the production chain management are presented in the Reliability and the Rationality sections. *Gazprom's* environmental activities and its safety policy are specified in the Safety section.

The Responsibility section describes a social aspect of sustainable development in *Gazprom's* activities and *the Company's* role in the regions where its subsidiaries are present; the section also contains information on social projects, sponsorship and charity, together with policies and programs intended for *Gazprom's* employees.

## Reporting Period

The Report covers the period of calendar years 2008 through 2009. The Report also mentions events that took place before or after this period and may be important for comprehension of the information presented in the Report.

## Report Scope and Boundary

**Geography.** The Report presents *Gazprom's* activities in the Russian Federation. Information on certain aspects of the international business is contained herein if it is deemed substantial for in-depth perception of the Report.

<sup>1</sup> Adopted at the United Nations Conference on Environment and Development, Rio de Janeiro, June 3–14, 1992 (<http://www.un.org/esa/sustdev/documents/agenda21/english/Agenda21.pdf>).



**Business Segments.** The Report reflects the operating results achieved by natural gas production, transmission, underground storage, processing and marketing companies.

The companies within the Report boundary were determined on the following grounds:

- control exerted by OAO Gazprom over the companies in this business segment (companies 100 % owned by OAO Gazprom were covered by the Report);
- significant impact made by the companies on OAO Gazprom's financial, social and environmental performance in this business segment, namely:
  - the Report companies' share in natural gas production (91.3–93.5 % in 2008–2009);
  - the Report companies' share in total headcount (55.8–59.6 % in 2008–2009);
  - the Report companies' share in gross indicators of key environmental impacts (it was 75.9–78.3 % of the gross emissions and 45.1–57.7 % of the disturbed lands area in 2008–2009).

Unless otherwise stated, information and facts cited in the text refer to OAO Gazprom (excluding its representative offices and service branches) and the following subsidiaries:

|                                      |                                    |
|--------------------------------------|------------------------------------|
| 000 Gazprom dobycha Astrakhan        | 000 Gazprom transgaz Surgut        |
| 000 Gazprom dobycha Krasnodar        | 000 Gazprom transgaz Tchaikovsky   |
| 000 Gazprom dobycha Nadym            | 000 Gazprom transgaz Tomsk         |
| 000 Gazprom dobycha Noyabrsk         | 000 Gazprom transgaz Ufa           |
| 000 Gazprom dobycha Orenburg         | 000 Gazprom transgaz Ukhta         |
| 000 Gazprom dobycha Urengoy          | 000 Gazprom transgaz Volgograd     |
| 000 Gazprom dobycha Yamburg          | 000 Gazprom transgaz Yekaterinburg |
|                                      | 000 Gazprom transgaz Yugorsk       |
| 000 Gazprom transgaz Kazan           |                                    |
| 000 Gazprom transgaz Kuban           | 000 Gazprom pererabotka            |
| 000 Gazprom transgaz Makhachkala     | 000 Gazprom UGS                    |
| 000 Gazprom transgaz Moscow          |                                    |
| 000 Gazprom transgaz Nizhny Novgorod | 000 Gazprom export                 |
| 000 Gazprom transgaz St. Petersburg  | 000 Mezhhregiongaz                 |
| 000 Gazprom transgaz Samara          |                                    |
| 000 Gazprom transgaz Saratov         |                                    |
| 000 Gazprom transgaz Stavropol       |                                    |

The Report does not contain data on *Gazprom Group's* oil and power generation segments for the following reasons:

- OAO Gazprom neft, as *the Group's* core oil business, regularly publishes its own corporate sustainability reports;
- 2008–2009 integration process for *Gazprom Group's* generating companies ran in parallel with the reporting harmonization and temporary absence of the required comparability of individual parameters.

## Non-Financial Reporting Framework

The Report was prepared with the use of the Sustainability Reporting Guidelines version 3.0 compiled by the Global Reporting Initiative (GRI). *The Company* self-declares the Report to GRI Application Level B.

## Principles for Defining the Report Content

### Materiality

During the identification of the Report fundamentals an analysis was performed on:

- gas industry development aspects in Russia and worldwide;
- interaction between *the Company* and its stakeholders over the course of core business operations;
- results of a stakeholders survey, particularly with regard to their expectations and attitudes towards *Gazprom*;
- publications on the Internet and in print media;
- oil and gas sector reporting practices in Russia and globally.



As a result, several issues were identified that may be relevant for *the Company's* stakeholders with a high degree of probability. *The Company* made an effort to cover them in this Report.

#### Stakeholder Inclusiveness

A stakeholders survey was completed at the preparatory stage of the reporting process. Considering the fact that this is *the Company's* first Sustainability Report, it covers the issues and subjects which may be of interest to the largest possible number of stakeholders.

#### Comprehensiveness

The Report does not miss any significant information which could seriously impact the perception of *the Company's* performance.

### Principles for Ensuring Report Quality

#### Balance

*The Company* endeavored to cover in the Report the issues of greatest concern to key stakeholders.

#### Comparability

The Report presents a series of indicators for the last several years.

#### Accuracy

The Report presents information officially recognized by *the Company* and corroborated with internal documents and publicly available materials.

#### Clarity

Generally, the Report neither contains professional terminology nor provides information requiring special knowledge for comprehension. One of the Report goals is to explain *the Company's* business specificities and the character of its decisions to the largest possible number of stakeholders.

### Third-Party Assurance Statement

The Report has undergone a third-party assurance procedure. The respective final statement is enclosed with this Report.

## Gazprom Group Profile

### Gazprom: on Solid Foundation of Experience

It is possible to fully understand *Gazprom's* operations, its decisions and future plans only by taking into consideration one historical fact – *Gazprom* was not originally founded as a free market company. *The Company* followed a difficult path of stagewise transformation from a government agency, a ministry, into a commercial company, a global energy market player.

Transformation from a ministry into an open joint stock company required changes in the approaches to setting strategic priorities, building up production and financial policies, enhancing the research and production base as well as human resources. Having entered the free market, *Gazprom* has not discarded the experience of past years but continues using it, particularly tackling a number of challenges that are nowadays tied together in the sustainable development concept.

Responsible relationship with the society is an inalienable characteristic of *the Company* since social stability and resilience of the country's economic development both in the Soviet period and under the market economy conditions depend on the state of the energy sector where *Gazprom* has always been a key player.

## COMPANY MILESTONES

**1928**

The General Directorate for the Coal and Gas Industry (Glavvuglegaz) was set up under the USSR Council of People's Commissars.

**1933**

The Order by the USSR People's Commissariat for the Heavy Industry established the Directorate for the Gas Industry and Synthetic Liquid Fuels (Glavgaz).

**1943**

The General Directorate for the Gas Industry and Synthetic Liquid Fuels (Glavgaztopprom) was founded under the USSR Council of People's Commissars.

**1943**

The first gas trunkline linking Buguruslan, Pokhvistnevo and Kuibyshev was put into operation in the USSR.

**1944**

The State Gas Technical Inspectorate was set up to supervise and control operations of companies and the rational use of gas by consumers.

**1946**

A 790 km long gas pipeline between Saratov and Moscow was commissioned.

**1946**

Soviet gas from the Staryi field in Western Ukraine was exported to Europe (Warsaw) for the first time ever.

**1957**

The Unified Gas Trunkline System under centralized management was established.

**1963**

The State Committee for the Gas Industry – Gazprom of the USSR – was set up and two years later the Gas Industry Ministry was established.

**1970**

The first long-term contract was signed with Ruhrgas for natural gas deliveries to Germany over a period of 20 years.

**1989**

The USSR Gas Industry Ministry was transformed into State Gas Concern Gazprom.

**1993**

State Gas Concern Gazprom was reorganized into Russian Joint Stock Company (RAO) Gazprom, some shares of which were sold for privatization vouchers.

**1996**

RAO Gazprom shares started to be traded on a special platform of the Federal Stock Corporation. The shares were listed on the US and European stock markets in the form of American Depositary Receipts (ADR).

**1998**

RAO Gazprom was renamed Open Joint Stock Company Gazprom.

**1999**

The Federal Law on Gas Supply in the Russian Federation was adopted setting forth the basis for the Unified Gas Supply System (UGSS)<sup>2</sup> operation and development as well as identifying the authority of OAO Gazprom as the UGSS owner.

**2004**

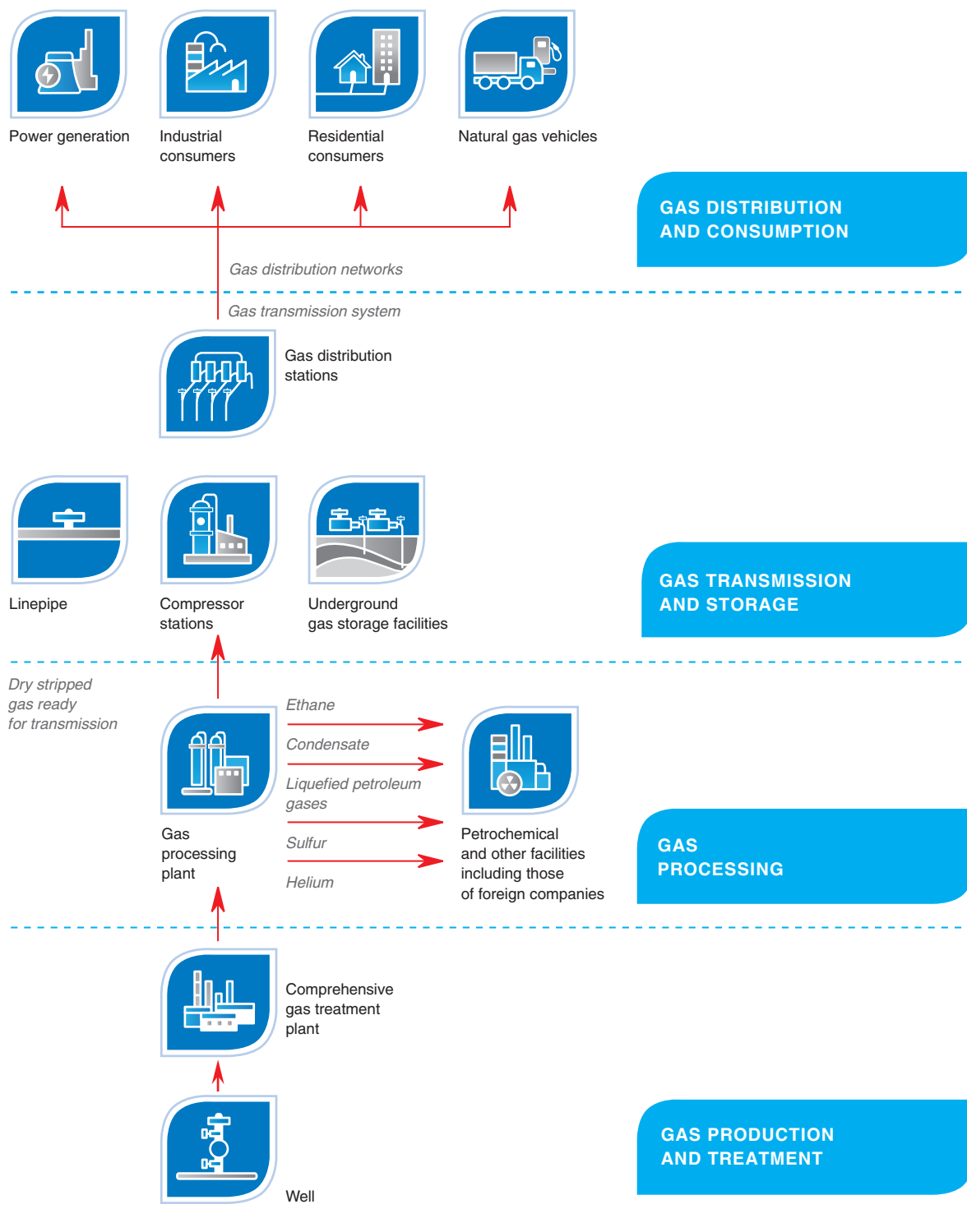
The state-owned stake in OAO Gazprom exceeded 50 %.

**2005**

Amendments to the Federal Law on Gas Supply in the Russian Federation were adopted with a view to liberalizing OAO Gazprom share market.

<sup>2</sup> According to the Federal Law No. 69-FZ on Gas Supply in the Russian Federation dated March 31, 1999: the Unified Gas Supply System is a production asset consisting of technologically, organizationally and economically interrelated and centrally controlled production and other facilities intended for gas production, transmission, storage and supply, and is owned by the organization founded in the organizational and legal form stipulated by civil legislation that has become the owner of the said facilities during the privatization process or has created or acquired them on other grounds provided for in the legislation of the Russian Federation.

## Natural Gas Lifecycle: from Well to Consumer



## Core Activities and Organizational Structure

*Gazprom Group* is a global vertically integrated energy company engaged in geological exploration and production of natural gas, gas condensate and oil, their transmission, storage, processing and marketing in Russia and abroad as well as power generation.

GAZPROM is the parent company within *Gazprom Group* exercising managerial and financial control over its subsidiaries' operations. As of December 31, 2009 GAZPROM held shares (stakes) in 160 companies.

GAZPROM defines the development strategy for *the Group*, plans and organizes the financing and procurement of materials and equipment, controls the key operating areas of subsidiaries and prepares financial statements.

*The Company* operates the UGSS in a real time mode on the territory of Russia and interacts with dispatch centers abroad.

### Gas Production

*Gazprom's* upstream sector is largely represented by *the Company's* wholly owned subsidiaries engaged in natural gas and liquid hydrocarbon fields development.

The bulk of *Gazprom's* oil is produced by its subsidiary GAZPROM NEFT. Production activities mostly take place at fields located in Western Siberia.

Well drilling operations are performed by the subsidiaries GAZPROM BURENIYE and GAZPROM FLOT as well as by drilling contractors.

In 2009 there were 7,310 gas production wells, 6,774 of which were active. In 2008 the identical indicators accounted for 7,214 and 6,723 wells respectively.

### Gas Processing

Natural gas and gas condensate are mainly processed by the wholly owned subsidiaries GAZPROM PERERABOTKA, GAZPROM DOBYCHA ASTRAKHAN and GAZPROM DOBYCHA ORENBURG.

In 2008 *Gazprom Group* acquired 50 % plus one share in GAZPROM SALAVATNEFTORGOSINTSEZ – Russia's largest gas and petrochemical company.

Oil in *Gazprom Group* is mostly refined by Omsk and Moscow Refineries. *Gazprom's* equity stake in GAZPROM NGK SLAVNEFT provides *the Company* with access to the refining capacities of GAZPROM SLAVNEFT – YAROSLAVNEFTORGOSINTSEZ.

### Gas Transmission

GAZPROM is a natural monopoly in the natural gas transmission sector and owns the UGSS.

*Gazprom's* gas transmission system in Russia is comprised of 160.4 thousand km of gas trunklines and branches (46 thousand km), 215 line compressor stations with 3,675 gas compressor units with the total installed capacity of 42 million kW.

Gas is conveyed by regional 100 % owned subsidiaries.

*The Company* is involved in several prominent projects aimed at developing the gas trunkline network in Russia and participates together with international partners in the largest international gas transmission projects – Nord Stream and South Stream.

### Gas Storage

Gas storage operations are carried out by the specialized wholly owned subsidiary GAZPROM UGS at 25 underground gas storage facilities in Russia with the aggregate marketable gas volume of 64 billion m<sup>3</sup>.

### Gas Distribution

Gas distribution implies its transmission via gas distribution networks and subsequent delivery to end users. Gas distribution in *Gazprom Group* is carried out through gas distribution companies controlled by GAZPROM REGIONGAZ, a subsidiary of GAZPROM MEZHREGIONGAZ, as well as through gas transmission subsidiaries owning or operating gas transmission networks.

The total length of gas distribution pipelines operated by *Gazprom Group* reaches some 612 thousand km, which is 82 % of Russia's total. The distribution pipelines convey 217.4 billion m<sup>3</sup> of natural gas – 68.8 % of the overall volume delivered to Russian consumers via distribution networks.

### Gas Marketing

GAZPROM MEZHREGIONGAZ, a subsidiary of GAZPROM, owns stakes in and controls operations of over 50 regional gas companies which along with affiliates provide contractual gas deliveries to all

## Gazprom Group Structure



\* Processing activities are also carried out by 000 Gazprom dobycha Astrakhan and 000 Gazprom dobycha Orenburg.

categories of domestic consumers in 65 constituents<sup>3</sup> of the Russian Federation, keep record of gas consumption and collect money. In accordance with the Federal Law on Gas Exports, OAO Gazprom as the UGSS owner or its 100 % owned subsidiary have the exclusive right to natural gas exports. Gas is exported by OAO Gazprom and its specialized subsidiary OOO Gazprom export. *Gazprom* supplies gas to eminent wholesale buyers including Europe's largest energy companies: E.ON Ruhrgas AG (E.ON Ruhrgas), Eni S.p.A. (Eni), GDF SUEZ, Gas Terra and others.

#### Power Generation

One-third of the natural gas consumed in Russia is used for power generation purposes. *Gazprom's* participation in the power generation business makes it possible to achieve a significant economic effect through the fuel balance optimization and resources conservation. In the course of the Russian power industry restructuring, *Gazprom* consolidated controlling stakes in large territorial generating companies (TGC) and wholesale generating companies (WGC), such as OAO Mosenergo, OAO TGC-1, OAO WGC-2 and OAO WGC-6. Moreover, after RAO UES of Russia was liquidated, *Gazprom* became the owner of minority stakes in other generating companies. These assets are considered as non-core and will be used in swap transactions to increase stakes in generating facilities that are core for *the Group's* business. *Gazprom's* power generation assets are currently consolidated within OOO Gazprom energoholding.

#### Auxiliary Activities

The vast geographical distribution of *Gazprom's* production and auxiliary assets dictates special requirements to ensure their operational reliability.

A package of services for securing major production operations within *Gazprom* is provided by specialized subsidiaries, such as OOO Gazprom svyaz (communications), OOO Gazprom komplektatsiya (procurement), OOO Gazprom torgservis (food services and retail trading), OOO Gazpromavia (air transport) and OOO Gazpromtrans (liquid hydrocarbons transportation).

### PERFORMANCE INDICATORS OF COMPANIES WITHIN REPORT BOUNDARY\*

|  | 2008    | 2009    |
|--|---------|---------|
| Total gas production, billion m <sup>3</sup>   | 514.08  | 421.43  |
| Natural gas  | 512.96  | 420.33  |
| Associated gas   | 1.12    | 1.1     |
| Gas condensate production, million t   | 10.64   | 9.8     |
| Derivatives production (excluding processing of raw materials supplied by independent producers) |         |         |
| Liquefied petroleum gases, thousand t  | 2,037.3 | 2,025.2 |
| Natural gas liquids, thousand t  | 554.6   | 454.3   |
| Helium, thousand m <sup>3</sup>  | 5,037.9 | 4,892.6 |
| Sulfur, thousand t   | 5,319.8 | 4,322.1 |
| Stable gas condensate (gross), thousand t  | 8,053.9 | 7,625.8 |
| Stable gas condensate (market-grade), thousand t   | 3,126.8 | 2,900.2 |
| Ethane, thousand t   | 327.2   | 362.1   |
| Odorant, t   | 2,979.0 | 3,049.3 |
| Dry stripped gas, billion m <sup>3</sup>   | 26.5    | 24.2    |
| Carbon black, thousand t   | 30.4    | 21.1    |

\* Hereinafter, unless otherwise specified, quantitative data is provided only for the companies within the Report boundary. Therefore, the data may not coincide with the information presented elsewhere in *the Company's* public documents and materials (Annual Report, Gazprom in Figures factbook and others).

<sup>3</sup> Regional gas companies of OOO Mezhhregiongaz operate in these Russian Federation constituents, while other suppliers deliver gas to the rest of constituents.

**ECONOMIC VALUE CREATED AND DISTRIBUTED  
IN GAZPROM GROUP<sup>4</sup>, RUB MILLION**

|  | 2008      | 2009      |
|--|-----------|-----------|
| <b>Direct economic value created</b>   |           |           |
| Income*, including   |           |           |
| net income from product and service sales, including   |           |           |
| net sales proceeds**, including  |           |           |
| Russia   | 1,173,388 | 1,142,526 |
| FSU  | 438,724   | 383,778   |
| Europe and other countries   | 1,660,377 | 1,449,199 |
| net income from trading operations   | 4,221     | 8,295     |
| net income from investees, including   |           |           |
| interest income***   | 165,568   | 375,738   |
| share of net profit from associated<br>and jointly controlled companies  | (16,686)  | 62,557    |
| dividend income from unconsolidated companies  | 2,809     | 4,821     |
| rental income  | 12,997    | 15,468    |
| Net income from investee sales   | 24,284    | 11,128    |
| <b>Economic value distributed</b>  |           |           |
| Operating expenses excluding depreciation, allowances,<br>other similar expenses, salaries, and other payments<br>and benefits for employees | 1,488,913 | 1,608,743 |
| Salaries, other payments and benefits for employees  | 259,275   | 276,616   |
| Payments to suppliers of capital, including  |           |           |
| dividend payouts to shareholders   | 68,841    | 9,970     |
| interest expenses***   | 341,179   | 441,487   |
| Payments to the state**** (accrued taxes), including   |           |           |
| Russia   | 1,530,878 | 1,208,306 |
| FSU  | 1,594     | 2,054     |
| Europe and other countries   | 7,391     | 40,040    |

\* Net of VAT, customs duties, excise taxes.

\*\* Excluding rental income presented below in a separate line.

\*\*\* Including exchange rate differences.

\*\*\*\* Including VAT, customs duties, excise taxes.



Detailed information on Gazprom Group's operations is published on its official website at [www.gazprom.com](http://www.gazprom.com).

<sup>4</sup> The data was prepared on the basis of the 2008 and 2009 IFRS audited consolidated financial statements of *Gazprom Group* using the accrual method. The existing technique for consolidated IFRS statements compilation involves transformation of the accounting statements prepared in conformity with the Russian legislation and does not permit to accurately generate consolidated data on created and distributed economic values within the consolidation perimeter which corresponds to the Report boundary stated.



The image features a large, stylized number '9' in the background. The top loop of the '9' is a solid blue semi-circle. The bottom loop is a circular cutout revealing an industrial scene with a tall white chimney and a complex network of pipes and metal structures. A horizontal blue bar crosses the middle of the '9', containing the text 'Gas Energy – Foundation for Sustainable Development'. To the right of this bar, another circular cutout shows a different industrial view with multiple tall distillation columns and a dense web of pipes.

# Gas Energy –

Foundation for Sustainable Development

## Strategic Goal and Mission

*The Company's strategic goal is to establish OAO Gazprom as a leader among global energy companies by entering new markets, diversifying its activities and ensuring reliable supplies.*

In order to demonstrate the extent to which *the Company's* strategy is compatible with the sustainable development goals, one has to understand what the stated leadership formula implies, how the interests of key stakeholders are taken into account in *the Company's* strategy.

*Gazprom* arranges its operations so as to meet the energy needs of the Russian economy and foreign states, and make the maximum use of opportunities emerging on international energy markets.

When defining its strategic goal, *Gazprom* is guided by global trends: the energy demand of the Earth's population will increase with the growth of the global gross product. A temporary decline in energy consumption in 2008–2009 driven by the financial crisis and slower economic growth rates did not change the obvious trend – world gas consumption will increase.

*Gazprom* understands leadership in the global energy sector as not only the highest production and innovation performance indicators. *The Company* expands the concept of leadership to also include the ability of responding to pressing issues in the modern energy sector faster than others and with a guarantee of a positive outcome in any scenario.

Today, the international community faces the need to resolve the problem of providing energy to the Earth's population with minimal possible damage to the natural environment and future generations. When offering its response, *Gazprom* takes a realistic and grounded position and acts based on the conviction that fossil fuels will continue dominating in the world energy balance in the 21<sup>st</sup> century. Currently, natural gas is the most preferable component of the "energy basket" as it will be in the nearest future.

There are reasonable grounds for such a conclusion:

- gas is the safest type of hydrocarbon feedstock from the environmental standpoint;
- gas reserves are significant, therefore they can meet the Earth's population demand given any of the energy sector development scenarios;
- considerable time and investments will be required to make renewable and unconventional energy resources a real alternative to hydrocarbon fuels;
- with the development of gas production and transportation technologies (including liquefied natural gas – LNG), and the emergence of new natural gas products based on the gas-to-liquids (GTL) technology, gas is getting closer to the consumer in all regions of the world and the gas market has become global.

*Gazprom's* concept of leadership also includes the goal of taking and retaining such positions on the international market, which will enable to develop *the Company's* potential by seizing opportunities associated with new technology emergence. *Gazprom* is a major innovative company in the global energy sector and aims at constantly increasing its technology development level.

Thus, the strategic goal of attaining leadership includes several aspects.

**Geography.** Retaining *the Company's* share of the traditional European market provided that the necessary sales profitability is ensured as well as increasing participation in international projects and developing operations on new markets.

**Resources.** Maintaining reserves at the level sufficient to fulfill all contract obligations.

**Technology.** Making efforts to create conditions for rapid implementation of new technologies at every stage of the process chain in case there are incontestable arguments demonstrating that such innovations are necessary and justified.

**Management.** Streamlining corporate management and improving interaction with stakeholders.

**Environment and Society.** Developing *the Company's* business taking into consideration the need to protect the environment and participating in socioeconomic advancement of the regions where *the Company* is present.

Balanced decision making is the requirement that *Gazprom* top managers impose upon themselves. One can not take hasty steps, supported neither by experience nor scientifically substantiated calculations, in the business where today's decisions determine the development for many years ahead. *Gazprom* is guided by considerations akin to the major goal of sustainable development, which is to meet the needs of the present without compromising the ability of future generations to meet their own needs.

## VIEWPOINT



**VALERY YAZEV**

VICE SPEAKER OF THE STATE DUMA,  
PRESIDENT OF THE RUSSIAN GAS SOCIETY

ОАО Газпром's strategy is positive in the medium and long term. The world's largest gas reserves, the longest gas transmission network and a multiyear experience in gas exports prove *the Company's* reliability as a supplier.

*Gazprom* deserves appreciation of all stakeholders for its entrepreneurial courage as it executes the Nord Stream

and South Stream projects in parallel with the coordination and implementation of the state-run Eastern Gas Program which is of historical importance for the development of Eastern Siberia and the Far East.

The crisis-induced decline in natural gas consumption by OECD countries, the redundancy of liquefied and unconventional gases on the market under these conditions and the methane price drop may be considered as temporary factors. The following global trends speak well for the strategy chosen by *Gazprom*:

- Steady growth of energy consumption worldwide and escalation of competition for access to natural gas sources;
- Depletion of indigenous natural gas fields in Europe. Gradual decommissioning of coal-fired and nuclear power plants;
- Growing demand for power plants capable of operating in switching modes with high efficiency;
- Rapid growth of natural gas utilization as a transport fuel;
- Threshold levels of renewables development and fewer opportunities for respective state subsidies;
- Toughening requirements for greenhouse gas emissions;
- Finalization of the low-cost energy saving period and increase in energy efficiency.

It is quite possible that eventually liquefied natural gas supplies, GTL technologies and compressed natural gas use as a transport fuel will play a far greater role in ОАО Газпром's strategy.

The primary expectations of *the Company's* stakeholders are still associated with the gas business. This is mostly explained by the fact that *Gazprom* is Russia's key gas producer and occupies a distinguished position in global gas production.

To this end, ОАО Газпром sees its mission in providing consumers with reliable, efficient and balanced supply of natural gas, other types of energy resources and their derivatives.

*Gazprom's* hydrocarbon reserves and gas transmission system help accomplish this mission. *Gazprom* considers its activities aimed at developing the resource base and the transmission system, including participation in the international projects for natural gas conveyance under the Baltic and Black Seas, as a contribution to providing Europe with greater energy supply guarantees.

The processing sector development is another means for accomplishing the mission. Natural gas is a source of components that can be used to produce valuable and innovative products.

In accordance with the Development Strategy for Gas Chemical and Gas Processing Complexes<sup>5</sup>, *Gazprom* plans to improve the extractability and effective use of valuable components of produced feedstock and expand its product range. These plans are also in accord with top-priority objectives of the national economy development.

Therefore, in its strategy *the Company* aims at developing the gas business and attaining such goals of sustainable development as ensuring consumer access to energy sources and the reliability of their supply as well as the rational use of natural resources and the development of new products based upon them.

### Correlation between Russia's Energy Strategy and Gazprom's Long-Term Plans

At all stages of its history *Gazprom* has played a key role in the state energy policy implementation. From the time *Gazprom* became a joint stock company, it began perceiving its corporate interests and the state interests taking account of the fact that it had new stakeholders represented by non-state shareholders and investors.

At the same time, the commonality of the mission to ensure the national energy stability was preserved. *The Company* therefore pursues a policy of close cooperation and interaction with the state which is one of its key stakeholders.

In its strategy *Gazprom* takes into consideration the goals defined in Russia's Energy Strategy to 2030. *The Company* participated in preparing this document and its proposals were taken into account in the Integrated Plan of Actions Stipulated by the State Energy Policy with regard to:

- optimizing the fuel and energy balance;
- diversifying the energy export markets;
- diversifying the exports structure, including proposals to increase the LNG share in gas exports.

Thus, *the Company's* long-term plans are aimed at:

- creating new centers for raw hydrocarbons production and processing in Russia's eastern regions;
- untapping the hydrocarbon potential of the continental shelf in the Arctic seas and northern regions of Russia;
- developing and spatially diversifying the energy infrastructure;
- promoting the non-fuel energy sector;
- energy saving.



Russia's Energy Strategy to 2030 is published on the official website of the Energy Ministry of the Russian Federation ([www.minenergo.gov.ru/activity/energostrategy/](http://www.minenergo.gov.ru/activity/energostrategy/)).

<sup>5</sup> Approved by OAO Gazprom Board of Directors in 2008.

## VIEWPOINT



**SERGEY SHMATKO**  
ENERGY MINISTER  
OF THE RUSSIAN FEDERATION

*Gazprom* is a crucial partner of the Russian Energy Ministry. The Government of the Russian Federation is interested in the efficient operation of *the Company* since it is the largest producer and supplier of resources for the national economy. *Gazprom's* performance has a significant impact on the industrial, social and environmental features of the Russian energy sector. Besides, *the Company* is one of the largest taxpayers in the Russian Federation. Therefore, OAO *Gazprom* as a key element of the governmental energy policy remains in the focus of attention.

We positively assess a responsible approach by OAO *Gazprom* top management toward its mission of providing Russian consumers with uninterrupted gas supply. I would like to point out *Gazprom's* efforts within the Russian Regions Gasification Program aimed at wider use of natural gas as the most environmentally friendly fossil fuel.

The executive branch of the Russian Government and OAO *Gazprom* leadership have constructive partnership relations supporting the resolution of numerous state-level issues. The netting principle is a basis for addressing the matters related to state regulation in the energy sector, e.g. tariff regulation and taxation matters.

Correct prioritization and consistent movement toward a goal contribute to *Gazprom's* efficient activities. The strategic development objectives of the Russian energy sector are directly linked with OAO *Gazprom's* development goals. In fact, this is demonstrated by the mineral resource base development, hydrocarbon use efficiency enhancement, transition to novel technologies and products, reinforcement of Russian companies' positions in international markets and diversification of interaction with foreign partners in the energy sector.

I would like to note that *Gazprom* acts in close cooperation with the state regarding the above activities. The cooperation results have specific, tangible forms. The elaboration of the General Scheme for the Gas Industry Development to 2030 – the document determining a development strategy for the Russian gas sector – may serve as a good example.

I believe the Eastern Gas Program implementation projects can also be considered as positive examples of cooperation between the executive branch of the Russian Government and OAO *Gazprom*, including the development of gas production centers in Eastern Siberia and the Far East as well as the preparation and implementation of the Comprehensive Development Program for the Yamal Peninsula and Adjacent Offshore Areas.

We find the efficiency of our interaction with *Gazprom* to be quite high when tackling sustainable development issues of *the Company* itself, the Russian energy sector and the Russian economy in general. Giving due consideration to the noticeable role *Gazprom* plays in the European gas market, the Russian Energy Ministry is ready to back *the Company's* efforts to ensure Europe-wide energy security.

Our daily activities prove that the state and OAO *Gazprom* have a common strategic goal – ensuring better future for Russians and foreign citizens by developing a safe and efficient energy sector.

## Managing Operations to Achieve Strategic Goals

Pursuing its strategy, *the Company* employs a modern approach based on a planning system using strategic performance indicators.

Goals of the investment, financial and operational activities are integrated within the strategic planning process. A tool for achieving this integration is *Gazprom's* strategic financial and economic model enabling to shape *the Company's* Development Program over a 10-year period. In the budgeting system, plans are worked out in greater detail for periods from one to three years. This makes it possible to balance budget indicators and orient them toward achieving *the Company's* strategic goals.

Several strategic performance indicators of the first and the second levels directly correspond to the sustainable development goals, namely:

- indicators reflecting effectiveness of the measures aimed at energy saving and resource conservation (reserves replenishment ratio, specific process losses);
- environmental indicators (pollutants and greenhouse gas emissions level);
- safety indicators (incident and accident rates);
- socially significant indicators (data on employee training).

The first level strategic performance indicators are approved by the Board of Directors. The formulated goals achievement on the basis of strategic performance indicators is taken into account when evaluating performance of *the Company's* top management and heads of structural units.

## Financial Resources and Investments Management

The financial resources and investments management pursues the goal of maintaining *the Company's* sustainability and its ability to implement the development strategy.

The crisis developments on global financial markets were a robustness test that proved that *the Company* was able to promptly adopt measures making it possible to continue the activities indispensable for achieving its goals.

In 2008 OAO Gazprom Board of Directors approved the general principles of an anti-crisis financial strategy and timely introduced changes to certain performance parameters.

In 2009 the anti-crisis financial strategy of OAO Gazprom covered the following aspects:

- multiple budget versions;
- prompt adjustment of the investment program allowing to concentrate financial resources on the most significant projects;
- administrative expenses cutdown;
- internal financial resources mobilization and external borrowings shrinkage;
- management of accounts receivable, working capital and debt;
- non-core assets divestiture and asset management structure improvement;
- financial risks management.



The anti-crisis financial strategy is presented in greater detail in the Annual Report and securities reports.



## VIEWPOINT



### ALEXEY MAKAROV

ACADEMICIAN OF THE RUSSIAN ACADEMY OF SCIENCES (RAS), DIRECTOR OF THE RAS ENERGY RESEARCH INSTITUTE, MEMBER OF RUSSIA'S ENERGY STRATEGY DEVELOPMENT TEAM

The global financial and economic crisis has revealed significant changes in the natural gas industry:

- progressive deceleration in demand growth on the key markets and its transition to the power generation sector;
- LNG supply outgrowing its demand;
- rising production of unconventional gas (coalbed methane, shale gas), the considerable potential resources of which are believed to be geographically wide-spread;
- increasing efficiency of natural gas as a fuel for vehicles and a raw material for the petrochemical sector.

The new situation requires innovations in *Gazprom's* strategy. It is mandatory to rapidly diverge from the current role of a primarily pipeline methane supplier by way of expanding LNG production and, specifically, high-level processing of associated hydrocarbons for domestic consumption and potential exports. Therefore, the helium-bearing fields development in Siberia and Yakutia is of paramount significance for the gas industry.

A prospective transition to the domestic gas pricing on the basis of equal profitability with export deliveries will almost inevitably force to give up the prioritized strategy of increasing pipeline gas exports to Europe (and then to China) in favor of equally profitable, yet far less risky, domestic consumption. It will be necessary to adjust the policy of restraining gas supply to power plants and to boost the blue fuel consumption by motor vehicles, in the form of GTL fuel inclusive, particularly in gas production regions.

The gas from Russian fields may ultimately turn out to be the most cost-intensive in the European and Northeast Asian markets. Therefore, the efficient production of Russian gas in the decades to come will not exceed 800–850 billion m<sup>3</sup>, and OAO Gazprom will have to sustain its current leadership position by means of more active participation in international gas production, processing, distribution and marketing projects.

It could be promising for *Gazprom* to use the advanced infrastructure and unique experience of its Unified Gas Supply System operation in an effort to create a control and regulation system for the rapidly developing Eurasian gas market.



## Corporate Governance

*The Company* maintains a systematic approach to pursuing the best corporate governance practices.

### Share Capital Structure

*The Company's* share capital amounts to RUB 118,367,564,500 and is divided into 23,673,512,900 ordinary registered shares with a par value of RUB 5 each. The total number of persons registered in *the Company's* shareholder register was 46,988 as of December 31, 2009.

*The Company's* shareholder structure was shaped as a result of the privatization and subsequent circulation of shares on the domestic market and on international trading floors in the form of American Depositary Receipts (ADR). The Russian Federation Government is currently the largest shareholder of OAO Gazprom.

#### OAO GAZPROM SHARE CAPITAL STRUCTURE, %

|   | December 31, 2008 | December 31, 2009 |
|---|-------------------|-------------------|
| The stake controlled by the Russian Federation, including | 50.002            | 50.002            |
| The Russian Federation represented by                     |                   |                   |
| the Federal Agency for State Property Management          | 38.373            | 38.373            |
| OAO Rosneftgaz  | 10.740            | 10.740            |
| OAO Rosgazifikatsiya                                      | 0.889             | 0.889             |
| ADR holders   | 22.150            | 24.350            |
| Other registered entities                                 | 27.848            | 25.648            |

Being the principal shareholder, the state plays a determining role in the strategic management of *the Company*, has significant influence on its operations and exercises control over the implementation of adopted decisions. In 2008 and 2009 there were 6 representatives of the state on the Board of Directors (in total, the Board consists of 11 members).

Even though ADR holders are minority shareholders of *the Company*, they are capable of exerting considerable influence on the decision making process. Taking a proactive position, they voice their suggestions or criticisms contributing to a higher level of *Gazprom's* corporate governance and transparency. The decision to produce this Report is another proof of this fact.

Over the last four years the share of ADR holders (over 500 international funds<sup>6</sup>) has significantly increased (from 4.42 % in early 2006 to 24 % in early 2010).

### Governing Bodies

*The Company's* governing bodies include the General Shareholders Meeting (supreme decision making body), the Board of Directors and executive bodies – the Management Committee (collegial executive body) and the Management Committee Chairman (sole executive body).

The powers of the governing bodies are defined in OAO Gazprom Charter and internal documents. The General Shareholders Meeting and the Board of Directors determine *the Company's* strategy, manage assets and exercise control. Executive bodies organize the implementation of decisions adopted by the General Shareholders Meeting and the Board of Directors.

In compliance with the best international practices, under the Board of Directors there is an Audit Committee headed by an independent director<sup>7</sup>.

<sup>6</sup> As of April 2010.

<sup>7</sup> In 2008–2009 the Board of Directors included one independent director.

The Board of Directors meetings raise the issues related to achieving results under energy saving and energy efficiency, safety and environmental programs as well as to *the Company's* social obligations<sup>8</sup>.



A detailed description of the governing bodies' functions, their composition and other significant information are presented on *the Company's* website ([www.gazprom.com](http://www.gazprom.com)) and in the Annual Report.

## Corporate Governance Principles

The corporate governance principles are set forth in OAO Gazprom Code of Corporate Management (Conduct)<sup>9</sup>. The Code protects the rights and interests of shareholders and investors, ensures their fair treatment by *the Company* and transparency in decision making, together with professional and ethical responsibility of the Board of Directors members, other officers of OAO Gazprom and its shareholders. The Code also calls for a greater information transparency and the development of ethical norms in business.

Pursuant to the legislation regulating activities of open joint stock companies, shareholders of OAO Gazprom are entitled to:

- receive information on *the Company's* operations;
- participate in the General Shareholders Meeting with a voting right on all issues within the General Shareholders Meeting competence;
- receive dividends.

## Information Disclosure

*The Company* discloses information on its activities in compliance with requirements imposed by existing legislation, regulators of Russian and international stock markets and on the basis of internal documents.

General principles are set forth in OAO Gazprom Provision on Information Disclosure<sup>10</sup> and provide for:

- disclosure regularity and promptness;
- availability to shareholders and other stakeholders;
- reliability and completeness of the content with a reasonable balance maintained between *the Company's* transparency and its commercial interests.

OAO Gazprom has also developed the Procedure for Information Disclosure to Shareholders<sup>11</sup>.

In practice, information disclosure principles are reflected in multiple ways of interaction with stakeholders and feedback methods. In particular, at the parent company's level, briefings with *the Company's* top managers, online conferences for representatives of the investment and financial community, meetings of *the Company's* leadership with heads of leading regional electronic and print media, publication of official press releases, and press tours for Russian, regional and international journalists are organized on a regular basis.

*The Company's* stance, information on current activities and future plans are presented in official public statements, the Gazprom in Figures factbook and the corporate Gazprom magazine.

## Participation in Management and Decision Making

Shareholders participate in managing *the Company* by electing members of the governing bodies and making proposals related to its activities. *Gazprom* adopted the Procedure for Documenting Shareholders' Proposals and Demands Related to OAO Gazprom General Shareholders Meeting Convocation<sup>12</sup>.

A two-percent stake gives a shareholder or a group of shareholders the right to nominate candidates to the Board of Directors and the Audit Commission as well as to make proposals with regard to issues to be included on the agenda of an annual General Shareholders Meeting. A shareholder or a group of shareholders in possession of a ten-percent stake can initiate an extraordinary shareholders meeting.

<sup>8</sup> Issues concerning cooperation with Russian regions and large projects of public significance such as Gazprom to Children are also brought for consideration of the Board of Directors and the Management Committee.

<sup>9</sup> Approved by OAO Gazprom Annual General Shareholders Meeting in 2002.

<sup>10</sup> Approved by OAO Gazprom Board of Directors in 2005.

<sup>11</sup> Approved by OAO Gazprom Management Committee in 2007.

<sup>12</sup> Approved by OAO Gazprom Board of Directors in 2007.

## VIEWPOINT



**DR. BURCKHARD BERGMANN**  
MEMBER OF OAO GAZPROM BOARD  
OF DIRECTORS

*What are the prioritized sustainable development issues for Gazprom?*

It is *Gazprom's* task and responsibility to ensure secure and affordable supplies of natural gas for Russia and its international customers, which will meet demand in the long term.

This will require *Gazprom* to explore for new gas reserves, step up production and expand the gas transmission infrastructure.

*The Company* needs to continue its efforts to minimize the environmental impact of its gas production, transmission and marketing activities. *Gazprom* is to be the cornerstone of a modern and sustainable energy future, pointing the way towards new green and efficient technologies.

*The Company* has to shoulder its social responsibility for Russia and for its own customers and employees.

*Gazprom* needs to create value for its shareholders, and hence especially for the Russian state.

*What are the benefits of independent directors for the Gazprom Board of Directors in terms of the management quality?*

It is a worldwide standard for large companies to have independent directors on the Board.

Independent directors are not influenced by specific interests hence they can give objective advice.

Well qualified independent directors who do not simply serve as window dressing can contribute substantially not only to specific business topics, but also to governance, organization, risk management, etc.

Independent directors can only be effective if they know and respect the specifics of the political and social framework of Russia.

The more *the Company* expands its international business, the more international independent directors can contribute with their specific experience in foreign markets.

The General Shareholders Meeting decisions are adopted by the majority vote of the voting shareholders participating in the General Shareholders Meeting<sup>13</sup>.

Owners of ordinary shares are entitled to vote at a General Shareholders Meeting. Any shareholder has the right to participate in a General Shareholders Meeting either in person or through his representative. The meeting is considered to be legally competent if shareholders owning in total over a half of voting rights participate in it.

To protect the rights of minority shareholders, the Board of Directors members are elected through cumulative voting<sup>14</sup>.

### Dividend Policy

The Dividend Policy<sup>15</sup> defines a transparent procedure for net profit distribution in the reporting period and attests to a prudent approach of OAO Gazprom leadership to managing financial resources for the purpose of *the Company's* development.

A share of net profit equivalent to 2 % of *the Company's* capitalization but no more than 10 % of net profit is used for dividend payouts, which is a guaranteed part of dividend payouts to shareholders.

Moreover, one half of the net profit amount remaining after the funds reservation for technical upgrading, advanced technology introduction, R&D, environmental protection, working capital replenishment and other similar purposes (50 to 75 % of net profit) and the reserve fund formation (no less than 5 % of the authorized capital), is used for dividend payouts.

The decision on annual dividend payouts, their amount and type of payment is adopted by the General Shareholders Meeting following a recommendation of the Board of Directors. The annual dividend amount can not exceed the amount recommended by the Board of Directors.

### Top Management Remuneration

OAO Gazprom has adopted a system of incentives for top management, which includes an annual bonus and *the Company's* Equity Award Program.

The annual bonus system is applied to executives starting from the level of OAO Gazprom division head and higher as well as to directors general, their deputies and chief accountants of the subsidiary companies involved in core activities. The amount of annual bonuses is determined by the extent to which key performance indicators and goals, both individual and corporate, have been attained.

The first three-year cycle (2008–2011) of *the Company's* Equity Award Program for top managers was launched in December 2008. The Program embraces 70 top managers of OAO Gazprom and directors general of subsidiary companies. Awarding equity creates an additional financial incentive for senior officials from *the Company* and its subsidiaries to improve *Gazprom's* business competitiveness and sustainability.

Top executives may also be paid bonuses for accomplishing very important tasks based on the actual contribution by each of them.

### Corporate Information Use for Private Interests

*The Company* takes steps to prevent the use of insider information by management in accordance with the statutory requirements and the principles set forth in OAO Gazprom Provision on Information Disclosure.

Managers and members of governing and supervisory bodies, if they possess such information, may not transfer insider information and information based on it to third parties or give third parties recommendations on transactions with securities. They have to provide *the Company* with information on OAO Gazprom securities in their possession and on transactions with those securities.

<sup>13</sup> Unless otherwise provided for in the Federal Law on Joint Stock Companies for a decision to be adopted.

<sup>14</sup> Cumulative voting is a voting procedure at a General Shareholders Meeting when the number of votes of each shareholder is multiplied by the number of persons to be elected to the Board of Directors (Supervisory Board) and the shareholder is entitled to give the resulting number of votes to one candidate or distribute them between two or more candidates.

<sup>15</sup> Approved by OAO Gazprom Board of Directors decision No. 219 on April 24, 2001.

## Shareholder and Investor Relations

ОАО Газпром equally treats all of its shareholders (Russian and international) regardless of the amount of shares in their possession.

The strategic goal in shareholder and investor relations is to further develop trust and transparency, and improve *the Company's* investment appeal.

The Coordinating Committee for Investor and Shareholder Relations, with *the Company's* department heads as members, was established in 2009 for these purposes. The Coordinating Committee develops a strategy for interaction with financial markets on a regular basis.

*The Company* thoroughly analyzed key stakeholder groups, their expectations and interests: Russian and international private and institutional investors in ordinary shares or ADRs (individuals and legal entities), portfolio managers from different funds, analysts from investment banks or broker companies, and rating agencies.

The nature of *the Company's* interaction with these groups is based on their interests and expectations, such as:

- elucidation and understanding of *the Company's* strategy and key business factors;
- an opportunity to maintain a direct dialog with top managers or take part in events with the participation of *the Company's* leadership;
- involvement in managerial decision making;
- receiving financial and other significant information.

Shareholders and investors have an opportunity to express their suggestions on improving the interaction quality during personal meetings with managers and in their public comments.

The Asset Management and Corporate Relations Department replies in writing to the questions received, provides consultations by phone and in person as well as prepares information materials on the basis of requests. Answers to the most pressing and frequently asked questions are published on *the Company's* website. When cooperating with investment companies, banks, brokers and rating agencies, the Department for Finance and Economics takes into account opinions of *the Company's* structural units ensuring completeness and comparability of the information provided.



Answers to the most urgent and frequently asked questions are published on ОАО Gazprom's website (<http://www.gazprom.com/investors/faq/>).

## Shareholder and Investor Relations

| COMMUNICATION<br>TYPE                  | INTERACTION<br>FORM   | RESPONSE<br>MEASURES   |
|--|---|--|
| INFORMATION<br>SHARING                 | <p><b>STATUTORY INFORMATION DISCLOSURE:</b><br/>annual IFRS statements and Management Report, securities reports, notices of corporate actions, lists of affiliated entities, Annual Report, annual accounting statements, share issue prospectus, notices of annual general meetings.</p> <p><b>VOLUNTARY INFORMATION DISCLOSURE:</b><br/>Sustainability Report, Environmental Report, Gazprom in Figures factbook and Gazprom Databook. The potential of mass media is broadly used by Gazprom to rapidly provide information to shareholders and investors. Briefings with the participation of <i>Gazprom's</i> top managers and online conferences are organized annually for representatives of the investment and financial community, Russian, regional and international media; press tours are organized to production facilities and in connection with specific projects; up to 450 official press releases are published. Information on <i>Gazprom's</i> activities is presented on <i>the Company's</i> official website (circa 300,000 unique visitors per month), on the pages of the corporate Gazprom magazine and in over 50 corporate regional media. Meetings of OAO Gazprom leadership with chief editors of regional media are held annually; 400 representatives from leading electronic and print media from almost all of the Russian Federation constituents participated in such a meeting held in 2009.</p> | <p>Monitoring and analysis of publications and public statements made by stakeholders, information transparency and rating studies, etc.</p> <p>Members of the Management Committee (including the Chairman), heads of departments and other structural units take part in events intended for investors. Feedback to inquiries.</p> <p>Consideration of suggestions when devising strategies and policies in operational areas, development of internal documents and regulations, expansion of reporting, introduction of new interaction tools (e.g. Power Industry Day celebration in 2009).</p> |
| MEETINGS IN THE FORM<br>OF DIALOGS     | <p><b>AS REQUIRED BY THE RUSSIAN LEGISLATION:</b><br/>annual shareholders meetings.</p> <p><b>ON THE INITIATIVE OF GAZPROM:</b><br/>quarterly teleconferences (presentation of financial results), meetings in person (there were 85 such meetings in 2008 and 130 in 2009), annual Investor Day, press conferences, fact-finding tours to facilities.</p> <p><b>ON THE INITIATIVE OF STAKEHOLDERS:</b><br/>meetings of investors and analysts with <i>the Company's</i> representatives (including one-on-one meetings), participation in conferences and fora organized by Russian and international investment banks.</p>  |  |
| PARTICIPATION /<br>PRESENCE IN RATINGS | Information provision upon request.   |  |

### **TAKING INTO ACCOUNT AN INVESTOR'S OPINION. ОАО ГАЗПРОМ SHARE MARKET LIBERALIZATION**

From the beginning of ОАО Gazprom privatization, international investors on multiple occasions suggested removing restrictions from the circulation of *the Company's* shares. *Gazprom* also spoke in favor of the exemption from such restrictions.

In 2005 regulatory documents were adopted to remove previously imposed legal restrictions. In particular, quotas for purchasing ОАО Gazprom shares by international holders and restrictions on trading such shares on Russian stock exchanges were repealed.

Since 2006 international investors have been able to purchase ОАО Gazprom shares on Russian stock exchanges and depositary receipts for shares on international stock exchanges. *The Company* implemented a program to issue Level I American Depositary Receipts (Level I ADRs) with the option of converting ОАО Gazprom ordinary shares into ADRs and back. The Bank of New York Mellon served as the depositary bank of the program. ОАО Gazprom shares are currently in free circulation on the US over-the-counter stock market and on such European trading floors as the London Stock Exchange, the Berlin-Bremen Stock Exchange and the Frankfurt Stock Exchange.

## **Innovation Activities**

*Gazprom* links its future to advanced technology development. In accordance with the development strategy, *the Company* continues the traditions of the gas industry science by creating conditions for the application of cutting-edge engineering solutions, which is one of the basic ways to attain the sustainable development goals. With nearly six thousand people employed, the corporate sci-tech complex embracing nine organizations is an instrument of *Gazprom's* sci-tech policy.

*Gazprom* invests in R&D to use the results in all of its business segments. New ideas, products and technologies create new values and improve the business processes quality. Special attention is given to high-tech projects.

Sustainable development goals are pursued in tackling R&D challenges that include:

- creating technologies for efficient development of small gas fields and unconventional resources;
- creating state-of-the-art automated process control systems to maintain a desired level of safety and reliability, to increase the UGSS facilities operation efficiency;
- creating new products based on advanced processing of raw hydrocarbons, and placing these products on the market.



## VIEWPOINT



**DR. JURGEN HAMBRECHT**  
CHAIRMAN OF THE BOARD  
OF EXECUTIVE DIRECTORS, BASF SE

For BASF, sustainable development means combining long-term commercial success with environmental protection and social responsibility. Ensuring sustainable development is an integral part of our business and firmly anchored in our corporate strategy. Our goal is to minimize risks and explore new business opportunities. Reliable partners like *Gazprom* are crucial in that process.

### *PURSuing SUSTAINABILITY GOALS TOGETHER*

Our relationship – which goes back more than 20 years – is unique, spanning exploration and production of natural gas in Western Siberia, transportation via Nord Stream and distribution via the gas pipeline network in Germany and other European countries. The launch of our Achimgaz and Yuzhno-Russkoye projects in 2003 extended the successful marketing of natural gas to natural gas production as well. In addition to reliable long-term deliveries of Russian natural gas, our joint production projects in Russia contribute toward securing Germany's and Europe's future

supply of natural gas: our subsidiary Wintershall produces together with *Gazprom*. Our joint venture with *Gazprom*, WINGAS, imports natural gas to Europe with a focus on distribution in Germany. Among those fossil fuels, which will continue to remain the major energy source in the future, natural gas has the best carbon balance and is therefore likely to see its importance grow. Changing the fuels used for generating electricity and heat from less climate-friendly energy sources to natural gas will be more attractive with an increasing supply of natural gas. *Gazprom* and BASF will make an important contribution towards this.

Even in the energy mix beyond 2020, natural gas will still have an important role to play in combination with energy efficiency and renewable energy because it is storable and can compensate for fluctuations in the supply of renewable energy.

### *EVALUATING PROJECTS AND MAKING ACHIEVEMENTS QUANTIFIABLE*

Long before our involvement in running exploration sites and pipelines, we factored ecological and social concerns into our investment decisions.

Before we initiate construction projects, we assess the suitability of a geographical location for pipeline construction and subsequent recultivation.

We use data and experience gathered from several projects over many years to develop reliable forecasts on environmental impacts and the likely quality of recultivation. Prior to the planned construction of the Nord Stream pipeline that will transport Russian natural gas across the Baltic Sea to the German coast, an eco-efficiency analysis was carried out in 2009 to assess the sustainability of this investment.

The method developed by BASF and validated by independent experts shows that, both ecologically and economically, the new transit corridor for Russian gas across the Baltic Sea, the Nord Stream pipeline, is far superior to alternative overland transit routes.

Assuming a service life of 50 years, the planned route saves a total of up to 70 billion m<sup>3</sup> of fuel gas and 200 million t of carbon emissions versus overland pipelines.

We are also committed to reducing carbon emissions in collaboration with our partner *Gazprom*. A good example is the Mallnow gas compressor station near the German-Polish border where we use the waste heat from three existing gas

turbines to operate a new steam turbine, thereby saving on cost-extensive propulsion energy, making use of state-of-the-art technology and reducing specific carbon emissions. We are especially proud of having stopped routine flaring of the gas released during oil production in our joint Libyan oil fields.

The gas is now converted to energy. It makes us one of the first oil producers in Libya to have ceased flaring during production, and has enabled us to reduce greenhouse gas emissions by about 2 million metric t of CO<sub>2</sub> equivalents annually.

Our joint venture WINGAS shares its sustainability expertise with customers, for instance by analyzing and publishing the eco-efficiency of different heating systems in private households on a regular basis.

#### *BUILDING THE FUTURE TOGETHER*

Successful partnerships are based on excellence in a variety of areas that ideally complement each other. Experts from *Gazprom* and BASF have joined forces since 1992 in “Science and Technology Cooperation” teams that have become a key stimulus for business operations. Their expertise includes, for example, environmental protection, energy efficiency and work and operations safety throughout the entire value chain of natural gas as a source of energy.

They ensure that sustainability concerns are systematically integrated into our joint business activities.

The long-standing partnership between *Gazprom* and BASF combines unique knowledge, trust and determination to meet the challenges of the global competition together. That is the best combination for joint success and to create sustainable solutions for the future.

The GTL technology for fuel production from synthesis gas<sup>16</sup> with the use of a catalyst, which doubles the equipment productivity in terms of the marketable product output compared to the conventional technology, is currently being prepared for production implementation.

Purification technologies have been developed and are being introduced as part of the Gazprom Clean Water environmental program for mineral and organic pollutants abatement at the atomic and molecular level. These technologies guarantee quality drinking water production.

In view of the growing number of operations in hard-to-access northern and eastern regions, the role of airspace information has increased in business processes support.

As part of the R&D Program, new technologies are being developed to monitor territories and engineering facilities as well as to detect risk zones and geodynamic activity zones in gas fields.

Among the promising research areas are operations to improve efficiency and reduce nitrogen oxide emissions of gas turbine engines and vehicle engines running on natural gas by enriching the main fuel with hydrogen-containing synthesis gas.

The technological foundations are being developed to produce, store, convey and use gas in a hydrated state. In addition, ongoing research is aimed at harnessing the energy of gases exhausted by gas turbine units with the use of Stirling technologies. Targeted R&D is being coordinated in the area of hydrogen energy.

### Cooperation with Partner Companies

Cooperation with international private and public companies ensures the modernization of the Russian industry, introduction of new technologies in the gas sector and new consumer products.

Such well-known companies as E.ON Ruhrgas, BASF Wintershall AG, Verbundnetz Gas AG, Siemens AG (Germany), DNV, Gasunie (the Netherlands), GDF SUEZ (France), China National Petroleum Corporation (China) and KOGAS (Republic of Korea) are among OAO Gazprom's partners in R&D activities.

It is planned to establish partner relationships with Eni (Italy), EUROPIPE GmbH (Germany), Statoil (Norway) and the Agency for Natural Resources and Energy under Japan's Ministry of Economy, Trade and Industry.

#### INNOVATION ACTIVITY INDICATORS

|  | 2008 | 2009 |
|--|------|------|
| Number of patents registered   | 79   | 86   |
| Number of developments that found practical application                        | 796  | 726  |
| R&D budget, RUB billion  | 4.9* | 6.8* |
| Expected economic effect of R&D completed in the reporting year**, RUB billion | 1.7  | 5.8  |

\* Net of VAT.

\*\* Estimated period of achieving economic effect is up to 10 years.

Data is provided with regard to the Report scope and boundary (see page 7).

<sup>16</sup> Synthesis gas is a mixture of gases with carbon monoxide (CO) and hydrogen as principal components. Synthesis gas is produced in the process of natural gas and petrochemicals conversion; it is used to produce GTL lubricants, GTL fuels, etc.

## ARSENAL OF TECHNOLOGIES FOR EARTH SURVEYING FROM SPACE

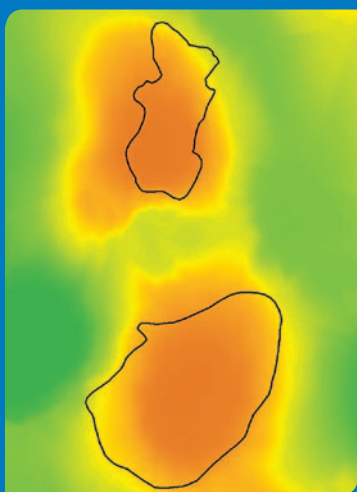
A geological exploration technology has been developed to assess the oil and gas bearing capacity of licensed areas, to identify locations for exploration drilling at the pre-investment stage and to make decisions on licensing. The technology features the comprehensive use of space survey data as well as geological and geophysical information.

It considerably (by an order of magnitude) reduces geological exploration costs and improves efficiency. Six licensed areas of fields located in the Republic of Sakha (Yakutia) were evaluated with the help of this technology.

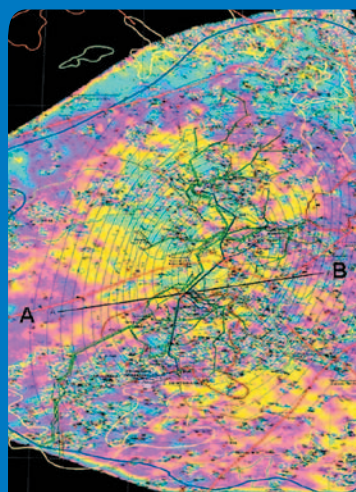
16 areas for exploration drilling were identified; for each of them  $D_{110c}$  category resources were assessed.

In order to ensure the field operation safety, a technology to control field development by radar interferometry has been developed; it ensures effective control over the development process and reduces emergency risks at infrastructure facilities.

It enables millimeter-precise evaluation of the Earth surface displacement with the use of a satellite surveying technology (differential GPS/Glonass). This makes the Earth surveying and geodetic monitoring of fields much more informative and accurate. The technology is used during operations at the Urengoykoye, Tazovskoye, Zapolyarnoye and Sobinskoye fields.



Promising areas  
(Yakutia)

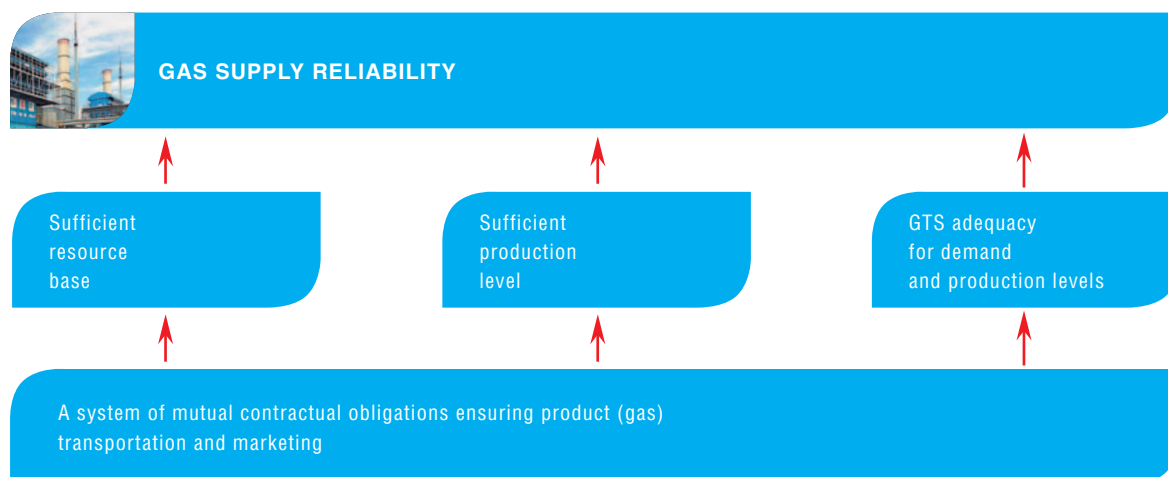


Surface  
displacement map  
(Zapolyarnoye field)



Reliability

Guaranteed supply of resources is dependent on a number of factors such as the replenishment and expansion of a resource base determining probable production volumes; the availability of gas transmission capacities and opportunities to reduce transit risks in third countries; long-term relations with consumers enabling to secure a needed level of investments.



## Resource Base

*Gazprom* holds about 18 % of global gas reserves. At current production rates, these reserves will be sufficient for another 70 years.

Forward-looking reserve replenishment is the basis of *the Company's* long-term policy. The resource base expansion compensates for production volumes. The amount of reserves is increased through geological exploration, field development licenses and assets acquisition. *The Company's* goal with regard to reserves replenishment is stated in the strategy and the first-level strategic performance indicators: the approved level of the reserve replenishment rate should be no less than 100 %.

Another positive fact is that the specific cost of *Gazprom's* reserves growth in 2008 (USD 0.37/boe<sup>17</sup>) was 2.5 to 8 times lower if compared to international petroleum majors (USD 0.92–3/boe).

### GAZPROM GROUP'S GAS RESERVES REPLENISHMENT THROUGH GEOLOGICAL EXPLORATION, (% of annual production)

| 1999–2001 | 2002–2004 | 2005–2009 |
|-----------|-----------|-----------|
| 16–34     | 68–95     | 102–108   |

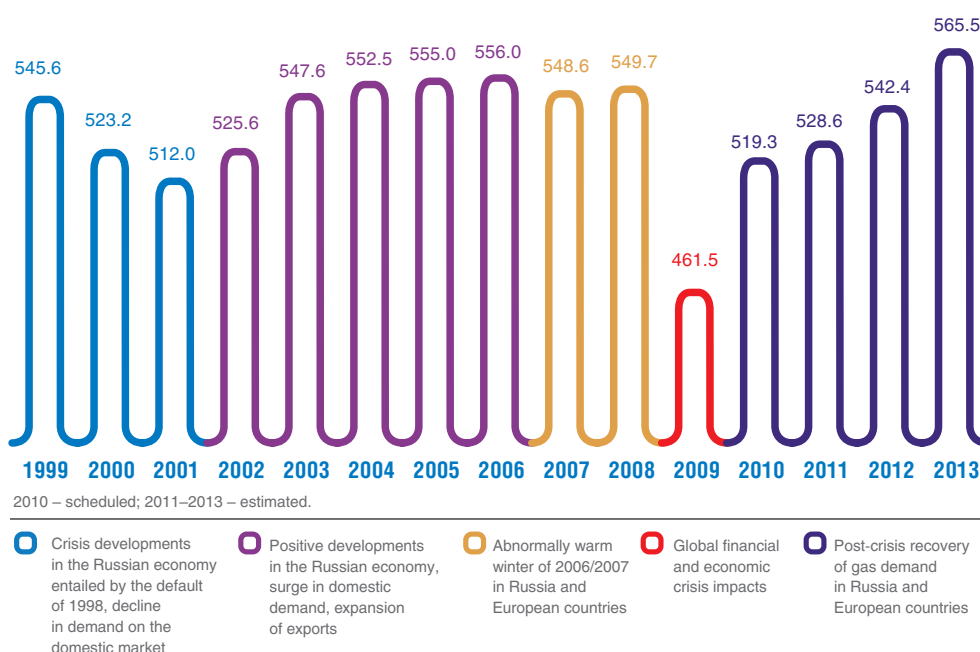
Besides geological exploration, efforts were made in 2008–2009 to build up reserves by acquiring assets and obtaining licenses for the right to use subsoil areas. As a result, *the Company's* reserves increased by 3,910.6 billion m<sup>3</sup>.

<sup>17</sup> boe – barrel of oil equivalent.

## Gas Production

According to various estimates, in 2008–2009 *Gazprom* accounted for 16 to 18 % of the global gas output and around 70 % of gas production in the Russian Federation. Maximally intense utilization of upstream capacities makes it possible to annually produce up to 600 billion m<sup>3</sup> of natural gas and to reliably fulfill gas supply contracts both in Russia and abroad. The gas production rates reflect the demands of the economy. Over the last ten years *Gazprom* has been increasing its natural gas output. The production level fluctuations (a temporary decline) in certain periods were driven by a volatile situation on the domestic and foreign gas markets.

### Gas Production by Gazprom Group, billion m<sup>3</sup>



In order to maintain the needed gas output levels in 2001–2009, new fields with the total annual capacity of 214.2 billion m<sup>3</sup> were brought onstream in Western Siberia, including: the Zapolyarnoye (100 billion m<sup>3</sup>), the Tab-Yakhinskoye (5 billion m<sup>3</sup>), the Yen-Yakhinskoye (5 billion m<sup>3</sup>), the Vyingayakhinskoye (5 billion m<sup>3</sup>), the Yety-Purovskoye (15 billion m<sup>3</sup>), the Pestsovoye (27.5 billion m<sup>3</sup>) fields, the Aneryakhinskaya (10 billion m<sup>3</sup>) and the Kharvutinskaya (18.2 billion m<sup>3</sup>) areas of the Yamburgskoye field, the Yuzhno-Russkoye (25 billion m<sup>3</sup>) field and the Achimov deposit of the Urengoyevskoye (3.48 billion m<sup>3</sup>) oil, gas and condensate field. Upstream operations in new gas production regions are planned in proportion to the depletion of resources in traditional regions. In the Nadym-Pur-Taz region, where *Gazprom* has traditionally extracted natural gas, all large fields will reach full capacity in 2010–2013 and subsequent production buildup will be associated with the development of deep-seated structures or deposits. The North and the East of the country characterized by extremely severe environmental and climatic as well as engineering and geological conditions (Yamal Peninsula, Eastern Siberia and the Far East) are becoming primary gas production regions. Operations in these regions require state-of-the-art technologies and extensive environmental protection measures. Offshore production in the Arctic (Barents and Kara Seas, Ob and Taz Bays) and the Far Eastern seas requires using expensive floating drilling platforms and waterborne vehicles.

Realizing that objective gas extraction conditions entail an increase in complexity and costs of production processes, *Gazprom* takes into account not only volumetric indicators, but also qualitative market changes and price targets.



## Gazprom Group's Major Promising Fields in Russia



Provided there is effective demand from Russian consumers and favorable conditions on foreign markets, natural gas production may reach up to

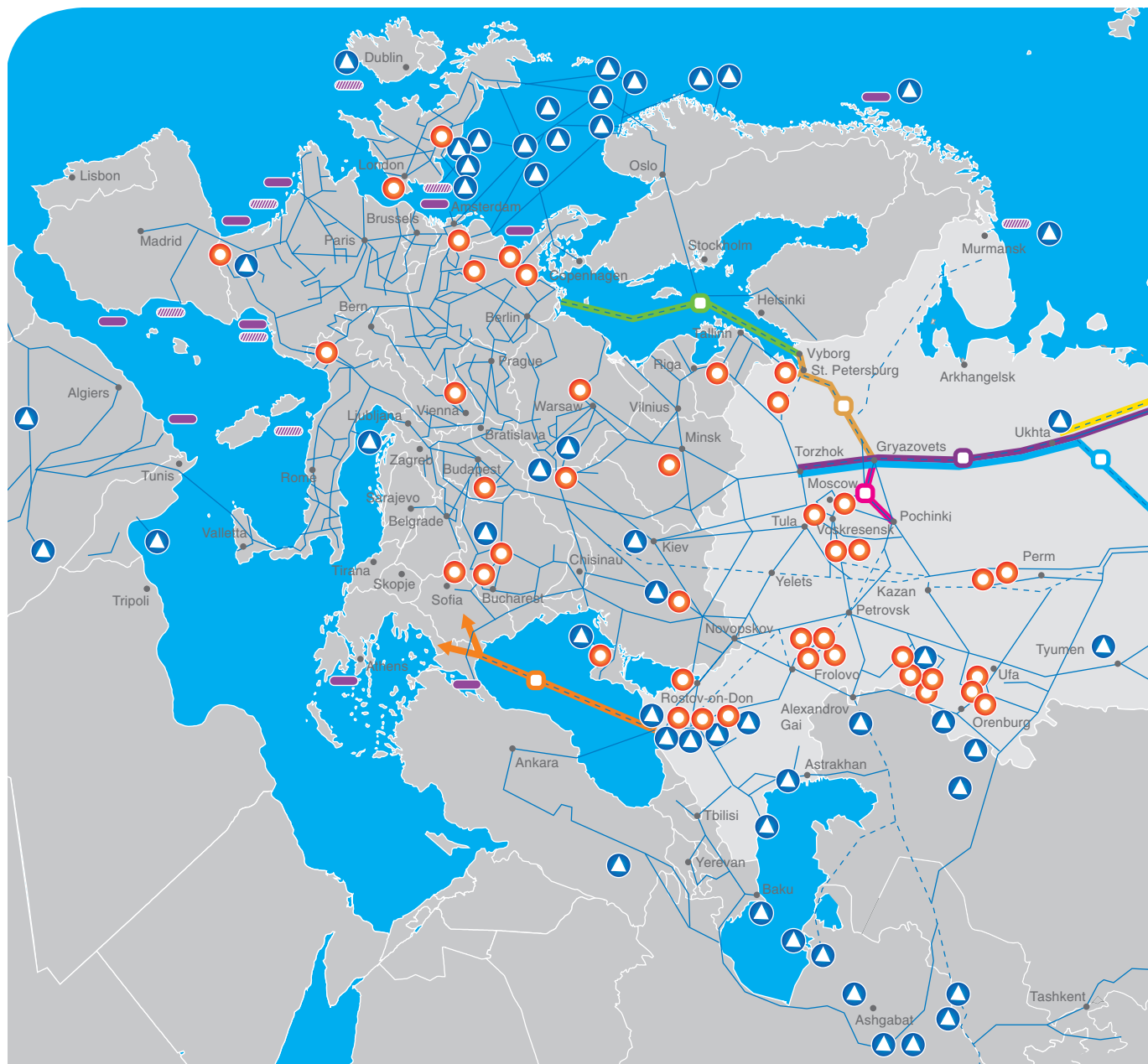
650–670 billion m<sup>3</sup> by 2020 with the development of operations in Russia's Eastern Siberia and Far East.

### Purchasing Gas on Market

*Gazprom* uses gas resources from Central Asia and the Caspian region. Gas purchases are a tool for maintaining the gas balance by commercially reasonable means. They make it possible to manage product deliveries in a more rational way and, at the same time, to optimize implementation timelines for capacity development projects.

*Gazprom's* key partners are Turkmenistan, which accounted for the bulk of gas purchases till 2009, along with Uzbekistan and Kazakhstan. These countries jointly supplied *Gazprom* with a total of 66.2 billion m<sup>3</sup> in 2008 and 37.3 billion m<sup>3</sup> in 2009. *Gazprom* started purchasing gas from Azerbaijan in 2010.

## Gazprom's gas transmission projects

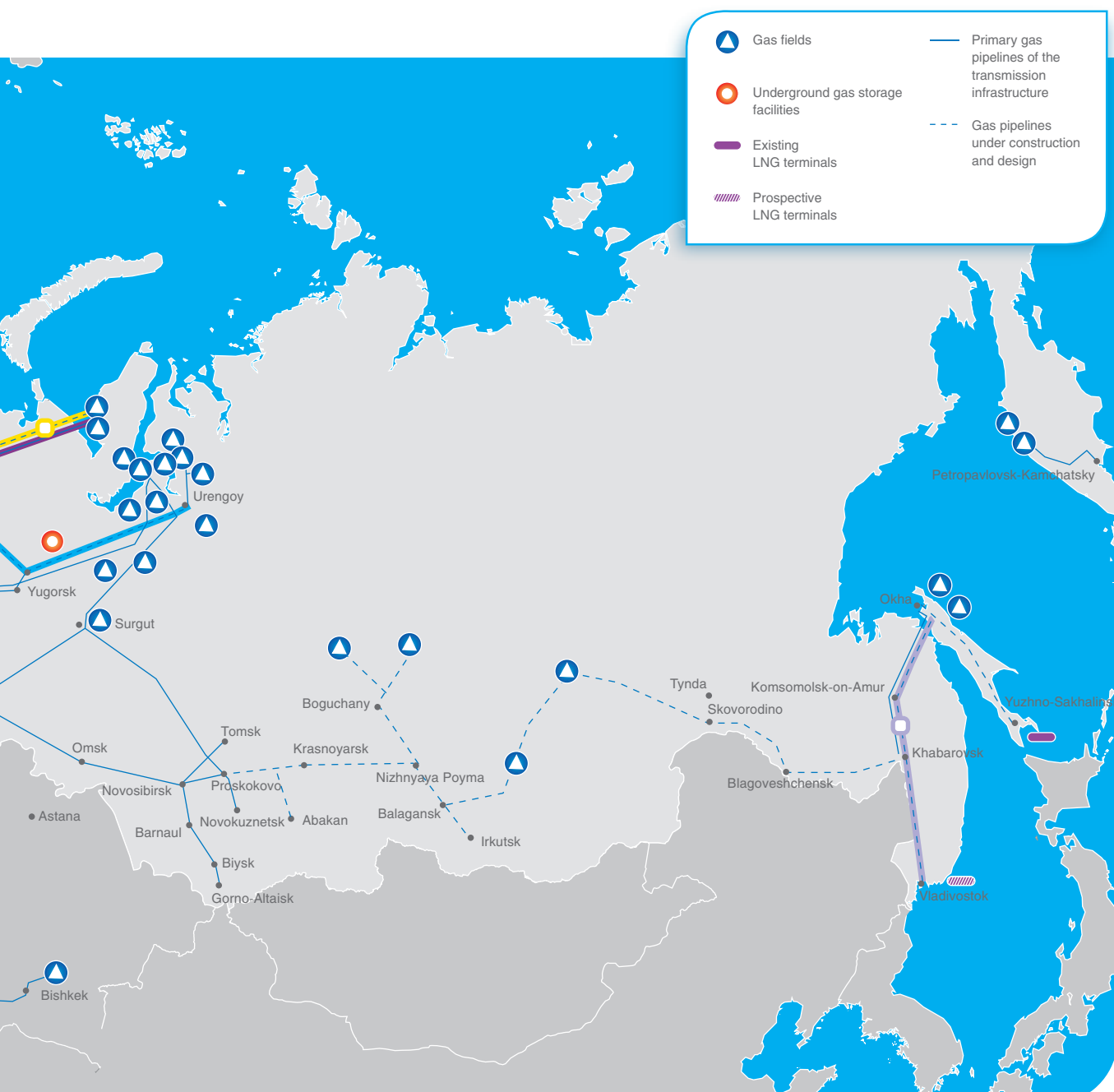


**POCHINKI – GRYAZOVETS GAS PIPELINE**  
Length – 638 km. Construction startup – September 2007.  
Phase 1 completion – 2012.

**NORTHERN TYUMEN REGION (SRTO) – TORZHOK GAS PIPELINE**  
Length – 2,200 km. Construction startup – 1995. Completion – 2012.

**GRYAZOVETS – VYBORG GAS PIPELINE**  
Length – 917 km. Construction startup – December 2005.  
The gas pipeline will be commissioned in stages from 2011.  
Full capacity will be reached in 2012.

**BOVANENKOVO – UKHTA GAS PIPELINE (STRING 1)**  
Length – 1,107.7 km. Construction startup – 2007.  
Phase 1 commissioning (linear part and Baidaratskaya compressor station) – Q3 2012. Completion – 2013.



**UKHTA – TORZHOK GAS PIPELINE (STRING 1)**  
Length – 1,371 km. Commissioning of the 962 km long linear part and 2 compressor stations – Q4 2012. Completion – 2013.

**NORD STREAM GAS PIPELINE**  
Length – over 1,200 km. Construction startup – April 2010. String 1 commissioning – 2011, string 2 commissioning – 2012.

**SOUTH STREAM GAS PIPELINE**  
The offshore section of the gas pipeline will run under the Black Sea. Length – about 900 km.

**SAKHALIN – Khabarovsk – Vladivostok GAS PIPELINE**  
Length – 1,837 km. Construction startup – July 2009. The first startup complex commissioning – 2011.

## Gas Transmission Infrastructure

Gas pipelines are a link connecting consumers with production regions, providing access to resources and ensuring their reliable deliveries. The gas transmission system (GTS) comprising a gas trunkline network, which covers the area from production fields in Siberia to Russia's western and southern borders, is the backbone of *Gazprom's* gas transmission infrastructure.

The GTS reliability and capability to guarantee uninterrupted gas supplies even during seasonal peak loads or emergencies are assured owing to its manifold structure along with the centralized and technologically advanced control system enabling, when necessary, to arrange alternative routes for gas conveyance in an optimal and prompt manner.

The LNG transport system is a new component of the gas transmission infrastructure. *Gazprom* debuted in LNG carrier operation within the Sakhalin II project when selling the LNG volumes contracted by *Gazprom* Global LNG. So far, *Gazprom* Global LNG has chartered three LNG carriers. The LNG transport system will be developed as and when necessary for ensuring supplies from LNG projects, including during field development in the Arctic shelf.

### Gas Storage

Underground gas storage (UGS) facilities are an important element guaranteeing *Gazprom's* reliability as the gas resources supplier and an advantage enabling uninterrupted gas deliveries to consumers in Russia and abroad.

Being an integral part of the Unified Gas Supply System, UGS facilities are located in key gas consumption regions. UGS facilities allow regulating seasonal fluctuations in gas consumption, reducing peak loads in the UGSS and ensuring gas supply flexibility and reliability.

Nowadays, UGS facilities are capable of storing up to 10 % of the annually produced gas volume. In 2009 *Gazprom* operated 25 UGS facilities in Russia. *The Company* builds up gas storage capacity in accordance with the 2005–2010 Work Program for Underground Gas Storage in the Russian Federation.

In order to ensure stable gas supplies under export contracts *Gazprom* uses UGS capacities in Armenia, Austria, Belarus, France, Germany, Latvia and the UK.

#### INDEPENDENT GAS PRODUCERS (IGPS)

*Gazprom* is interested in developing the gas market and increasing gas volumes extracted by independent producers. This enables to meet effective demand from

Russian consumers and fulfill Russia's international commitments for natural gas deliveries.

Russia's Energy Strategy envisages an increase in the share of independent gas producers and oil companies in the overall gas production from 17 % in 2008 to 27 % in 2030.

Over recent years *Gazprom* has provided independent producers with steady access to the GTS consistent with its technical capabilities. A reduced share of IGPs in gas transmission in 2009 is primarily explained by the conditions prevailing on the Russian market. Along with a general decline in gas consumption, consumers were mostly interested in purchasing gas at state-regulated prices and ignored offers from companies exceeding that level of prices.

#### GAS TRANSMISSION BY COMPANIES OUTSIDE GAZPROM GROUP

|   | 2007  | 2008  | 2009  |
|---|-------|-------|-------|
| Number of companies                                 | 28    | 31    | 29    |
| Transmission volume, billion m <sup>3</sup>         | 106.1 | 111.2 | 60    |
| Total volume fed to the GTS, billion m <sup>3</sup> | 706.7 | 714.3 | 589.7 |
| Share of IGP gas in total volume, %                 | 16.95 | 15.57 | 10.17 |

### Gas Transmission System Development

The Company's paramount objective is to ensure reliable gas deliveries. Therefore, *Gazprom* carries out large-scale operations aimed at developing the GTS in sync with the gas production capacities buildup.

The following operations are in line with *Gazprom's* strategy:

- building gas pipelines to diversify the export routes;
- ensuring Yamal gas transmission in sync with production capacity commissioning;
- expanding the Gryazovets gas transmission hub to improve the GTS operational reliability and flexibility in the Northwestern and Central regions;
- constructing gas transmission facilities within the Eastern Gas Program<sup>18</sup>;
- reconstructing and upgrading the gas transmission facilities in operation so as to improve the GTS capacity and reliability, and mitigate adverse environmental impacts.

The establishment of respective gas trunkline system facilities is envisaged in a draft General Scheme for the Gas Industry Development to 2030, which defines economically feasible strategic areas of the gas industry development so as to ensure reliable gas deliveries to Russian and international consumers.

The selection of gas trunkline routes and parameters is not based solely on the market demands analysis. The need to preserve natural habitats, historical monuments and sites of social and cultural importance is also taken into consideration.

The design and approval process for the Nord Stream gas pipeline is the most vivid example of *Gazprom's* compliance with the sustainable development goals in its approach to the gas transmission infrastructure construction.



More detailed information is presented on the Nord Stream AG website ([www.nord-stream.com](http://www.nord-stream.com)).

### Liquefied Natural Gas

*Gazprom* develops LNG production and transportation capacities in accordance with one of the sustainable performance principles – the Company's products availability principle. LNG makes *Gazprom's* products available in regions where existing production and transportation capacities cannot, for various reasons, be connected by means of pipelines.

*Gazprom's* LNG production and transportation capacity buildup rates stem from the objective need to ensure exports and follow the rationality principle in developing new business segments.

<sup>18</sup> The full name is the Development Program for an Integrated Gas Production, Transportation and Supply System in Eastern Siberia and the Far East, Taking into Account Potential Gas Exports to China and Other Asia-Pacific Countries.

### GAZPROM'S LNG: INCREASING RUSSIAN GAS AVAILABILITY

*Gazprom* began LNG trading operations in 2005 when *Gazprom Marketing & Trading* sent the first LNG carrier to the US market. Later on, LNG was supplied to the UK, South Korea, Japan, Mexico, India and China.

In 2008, in view of the increased importance of LNG trading and marine transportation, *Gazprom Group* spun this business off into a separate subsidiary, *Gazprom Global LNG* (a fully owned subsidiary of *Gazprom Marketing & Trading*).

To accelerate its entrance into the LNG production segment, *Gazprom* seized the opportunity of joining an existing project.

In 2007 *Gazprom* became a partner in the Sakhalin II project; Russia's first LNG plant was commissioned in February 2009 as part of this project. The plant output is totally contracted by consumers in Japan, South Korea and North America on the basis of long-term contracts. The first carrier with Sakhalin LNG arrived to Japan in April 2009.

Also in 2009 Shell Eastern Trading LTD and *Gazprom Global LNG* signed contracts for Sakhalin LNG.

Under these contracts, Sakhalin Energy Investment Company Ltd will annually deliver to each customer about 0.9 million t of LNG within the 2009–2028 timeframe.

A 20-year contract was signed at the same time for *Gazprom* to deliver an equivalent amount of pipeline gas to Shell in Europe.

This contract is meant to strengthen *Gazprom's* position on the LNG market. *Gazprom* reinforced its portfolio with the LNG volumes formally contracted for delivery to the US market, which are still successfully rerouted to premium Asia-Pacific and European markets though. In addition, within the available volumes, *Gazprom Group's* subsidiary



companies were granted the right to use regasification capacities at the Energia Costa Azul LNG terminal (Baja California, Mexico) and gas transmission capacities which will enable to deliver gas to the Southern California market. Having joined the Sakhalin II project, *Gazprom* has made another step in pursuance of OAO *Gazprom's* strategy, marked its entrance into the LNG production segment and obtained access to respective technologies. At the same time, the long-term LNG supply contract in its portfolio allows *Gazprom Group* to enter a self-sustained long-term LNG marketing segment. Thus, *Gazprom* is currently represented across the entire LNG value chain – from upstream to downstream.

## Commercial Conditions of Gas Deliveries

Throughout its history, *Gazprom* has been delivering natural gas to meet consumer needs within and beyond Russia. Over the past 20 years the terms and conditions of domestic and foreign deliveries have considerably changed. Since gas production and supply volumes in the USSR were determined on the basis of plans and directives, the industrial and residential sectors were supplied with gas regardless of its production and delivery efficiency. The situation drastically changed when *Gazprom* started transforming into a commercial company. This contributed to growing economic interest in its performance. Another important factor came into play on the foreign market – the gas market became global. Producers from different regions of the world started

competing with each other. Nowadays, pipeline gas from Siberia competes with pipeline gas and LNG from around the world.

Legislative changes aimed at the gas market liberalization have been taking place on the European market in recent years. Among other things, liberalization implies the development of spot trading mechanisms. *Gazprom* aspires to meet its European consumers' expectations. In view of the ongoing changes, *the Company* has, inter alia, excluded restrictions on Russian gas resale from supply contracts as well as began to actively work on spot trading platforms through Gazprom Marketing & Trading Ltd.

The number of companies delivering gas to the European market has considerably increased in the first decade of the 21<sup>st</sup> century mainly due to LNG exporters. Liquefied gas started directly competing with pipeline gas. A notable factor impacting the situation on the European market in 2009 was reduced consumption related to the economic crisis amid the growing gas supply due to the new LNG facility commissioning and unconventional gas production growth (primarily, shale gas) in the USA. As a result,

excessive LNG volumes were rerouted to the markets of Europe, Asia-Pacific and the Middle East. In consequence, spot prices temporarily went down on the European trading floors. Gas demand growth in Europe in spring 2010 had a stabilizing effect on this market.

The gas market is affected by changing perceptions of consumer properties of natural gas as a product. Over the last 10 years, environmental requirements for the products available on the European market have become more stringent. An understanding has emerged that it is necessary to use gas as it is the fuel which causes the least environmental damage and is a valuable raw material for the chemicals industry. In this respect, *Gazprom* lends support to its European partners' projects aimed at promoting wider use of natural gas.

## Russian Market

The Russian gas market is currently comprised of two sectors: regulated and deregulated. The share of gas sold at deregulated prices is permanently increasing, particularly owing to the growth of gas sales by independent producers. The volume of supply to the Russian market, amounting to more than 60 % of the gas produced by *the Company*, makes it the largest one for *Gazprom*. At the same time, the bulk of gas is sold at state-regulated prices. *Gazprom* is, in fact, the only gas supplier in the regulated market sector. The domestic gas market development and its adjustment to present-day economic conditions are important both for *the Company* and the Russian economy in general. The development plan envisages a gradual introduction of market mechanisms – improvements in the pricing and the use of natural gas exchange trading technologies. The ultimate goal of this process is the liberalization of prices on the domestic market.

### Gas Pricing

Natural gas is presently the only type of primary fuel resources whose price is regulated by the state. State regulation is applied to OAO Gazprom as a monopoly and the owner of gas trunklines and is exercised by the Federal Service for Tariffs. Despite the annual indexation carried out from 2000, the level of wholesale gas prices is still low if compared to other major types of fuel (coal and fuel oil)<sup>19</sup>.

Price distortions have promoted gas to the dominant position in the national fuel balance. From the standpoint of sustainable development, it can be perceived as a positive factor, since the use of gas helps improve the environmental situation. On the other hand, the problem of non-renewable energy conservation has now become evident; therefore, the introduction of commercial incentives for solving this problem appears to be quite justifiable. This comprehensive approach satisfies the interests of *the Company's* closest stakeholders and contributes to meeting the global challenge of reducing greenhouse gas emissions as well as improving the energy efficiency of the Russian economy.

<sup>19</sup> The optimal price ratio between gas and steam coal is 2.0:1.0, the actual ratio is 1.34:1.0.



## VIEWPOINT



**GUNTER ETTINGER**  
THE EUROPEAN  
COMMISSIONER  
FOR ENERGY

The Russian Federation is the most important external gas supplier for the European Union. In 2008 the Russian Federation provided for 24 % of the EU's gas consumption. European companies have developed over the past decades long-standing and trustful relations with *Gazprom* as a key supplier of the EU. Although the economic and financial crisis has reduced EU consumption in 2009 and consequently gas imports also from the Russian Federation, gas will remain an important energy resource in the future. In this context, Russia will stay an important supplier for the European Union. As the domestic resources of natural gas in the EU will diminish over the next decades, the role of imported gas within the EU will increase. It is therefore a key objective of the European Union to further strengthen the energy cooperation with Russia based on the principles of transparency, reliability, reciprocity, sustainability and competitive markets. The European and world gas

markets are currently undergoing profound changes, including as a result of the economic crisis. In order to remain competitive, all market players will have to adapt to the new situation. Consumers and suppliers will have to find a new balance between the requirements of competitive markets, security of supply and increased environmental protection and sustainability. A key challenge will be to ensure the modernization and construction of the necessary infrastructure under the new market conditions. International cooperation mechanism such as the EU-Russia Energy Dialog should be actively used and expanded in order to find mutually acceptable ways to face the current challenges – with the active input from industry. Moreover, we need to strengthen the legal framework(s) to ensure stable and reliable energy relations at bilateral and multilateral level. Sustainable development of the industry will not be possible without a high degree of transparency and clear competitive rules for all global market players. Political and regulatory objectives such as the objective of the European Union to work towards a low-carbon economy by 2050 and its 20/20/20 objectives (reducing greenhouse gas emissions by 20 %, increasing the share of renewable energy to 20 % of consumption, and improving energy efficiency by 20 % by 2020), but also the completion of a single European energy market will give the framework for the activity of industry players. At international level, the follow-up to the Copenhagen Accord will determine many of our activities in this area. As a relatively clean fuel, gas can contribute in a significant way to the sustainable development of our economies. The gas industry can support this by developing and applying on the ground modern technologies thus making – for example with respect to gas flaring – the industry more efficient and sustainable.



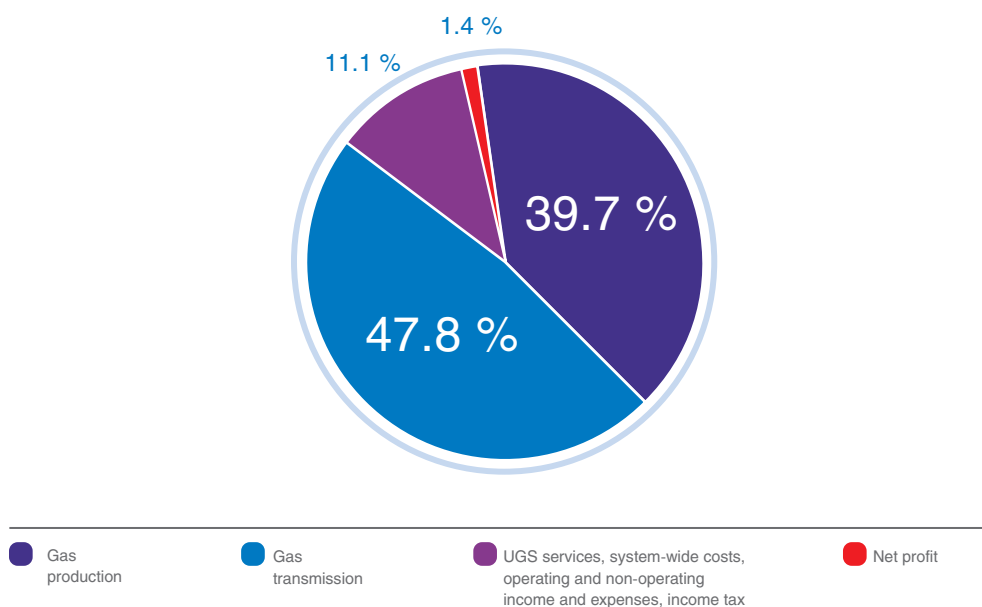
### Gas Pricing System Improvement

*Gazprom* and the Russian Government in cooperation with other stakeholders take steps to improve the gas pricing system.

In the process of these activities they have come to an understanding of the need for a transition from regulated to market based pricing which is based on the principle of equal sales profitability between the domestic and foreign markets. This goal is expected to be achieved in 2014.

However, the market principles will be fully applied only to industrial companies. The state will reserve the right to regulate wholesale gas prices for the household sector.

### Breakup of an Average Regulated Price of Gas Delivered by Gazprom to Russian Consumers



With the existing regulated wholesale gas prices, the net profit received covers only 30 % of the investments necessary to develop the UGSS and to maintain its operability.

### Exchange Trading

According to the Russian Federation Government's resolutions, from November 2006 to December 2008 experimental electronic trading in natural gas at market prices was conducted on the electronic trading platform (ETP) of OOO Mezhhregiongaz in the one-day-ahead, ten-days-ahead and one-month-ahead modes. In 2008 *Gazprom* and its affiliated companies were allowed to sell up to 7.5 billion m<sup>3</sup> of natural gas there.

The trading results demonstrated that sales prices were on an average 38 % higher than regulated prices. The experiment led to an important understanding of the fact that even now there are a number of consumers willing to pay for gas above the state-set price.

After the effective period of the respective resolution expired, gas trading at the electronic trading platform ceased from January 1, 2009. The issue whether trading should resume is being presently considered by the Russian Government. If such an authorization is granted, *Gazprom* will have the right to sell up to 12.5 billion m<sup>3</sup> of gas at an exchange or at an electronic trading platform in 2010 and up to 17.5 billion m<sup>3</sup> starting from 2012.

## Foreign Markets

*Gazprom* deems production of non-renewable natural resources advisable when the necessity of their use is supported by actual demand on the part of the economies of those countries where consumers are located. The most reliable criterion in this issue is consumer readiness to close deals.

That is why *Gazprom* has stated on multiple occasions that “gas will not be produced until it is sold”. *The Company* has always operated in line with actual market demand and its aspiration to rationally use natural resources complies with the sustainable development goals.

This is a key to understanding *the Company's* position: in future there is room not only for innovations, but also for time-tested types of business operations including long-term contracts.

As of today, the portfolio of signed long-term contracts<sup>20</sup> guarantees the sale of some 3 trillion m<sup>3</sup> of gas beyond the FSU.

The system of long-term contracts with prices pegged to a crude oil basket had been developed long before Russia (USSR back in the early 1970s) became a major natural gas supplier to Western Europe.

Long-term contacts are concluded on the following terms:

- a price formula takes into account changes in oil product prices during the preceding 6 to 9 months;
- unilateral termination of contracts is impossible except in cases of prolonged force majeure;
- the take-or-pay principle is applied to significant contract volumes and stipulates that the customer

partially pays for a certain amount of gas offtaken during the year below a minimum annual volume specified in the contract. This volume may further be offtaken upon an appropriate extra payment after the minimum contract-stipulated amount of gas is supplied in a relevant year.

*Gazprom* operates according to the European market rules which help nowadays, just like they did before, solve a number of issues relating to interaction between the supplier and the consumer.

For all companies a crucial problem that can be solved through long-term contracts is return on investments in gas production and transmission.

It takes 20 years from obtaining an exploration license to bringing a large field to its full capacity. Exceeding as a rule 30 years, the gas field development period determines the investment cycle length, while the payback period is many years longer.

When planning investments for so long, *the Company* must be sure that the produced gas will be sold to a consumer. *Gazprom* considers long-term contracts fundamental for the sustainable development of relationships with partners and consumers in Europe because these contracts ensure the European gas market stability.

At the same time, long-term contracts provide for certain possibilities to adjust contractual terms in order to adapt them to changes in market conditions.

<sup>20</sup> Excluding prospective volumes to be delivered by the South Stream gas pipeline.

Long-term contracts contain in most cases a provision for potential adjustment of the contract price in case the European energy market situation considerably changes. If either party claims that the market situation differs considerably from the anticipated one, then the parties begin negotiations to review the contract price. Long-term contracts for LNG deliveries may stipulate a provision for a permissible range of oil prices to which LNG prices are pegged: if the oil price goes beyond the range, either party may initiate talks to review the contract price, etc.

It is also possible to follow the practice of some European wholesale buyers of Russian gas, i.e. the practice of purchasing gas on the spot market and its resale under contracts. Such transactions play the role of a mutually beneficial tool enabling to reduce losses from changes in the market conditions.

Finally, it seems natural and necessary to peg prices of a portion of marketed gas to gas indices in those countries where such practice has long been in existence. For example, when gas enters the liberalized US or UK gas markets, the US Henry Hub and the UK National Balancing Point inevitably become pricing benchmarks for gas contracts. This practice is nothing new for *Gazprom* at all, since international companies of *Gazprom Group* operating in the UK and the USA, inter alia, possess such experience. In continental Europe, long-term gas contracts remain an indispensable attribute of gas trade. However, *Gazprom* is willing to take the consumers' opinion into consideration and to pursue a flexible trading policy if the difference between contract and spot prices becomes significant. For instance, in spring 2010 some of *Gazprom's* partners in Europe had a chance to purchase a portion of the contracted gas at spot prices.



# Rationality

An important aspect of *Gazprom's* development strategy is the hydrocarbon resource base expansion and the resources conservation including energy saving management, utilization of related products such as associated petroleum gas, coalbed gas, etc., and creation of new products on the basis of natural gas. *Gazprom* also pays attention to unconventional energy sources.

## Energy Saving

Energy saving helps preserve natural resources for future generations by reducing their consumption and helps mitigate the anthropogenic impact on climate change. Moreover, the task of improving the energy efficiency of the Russian economy formulated by the Russian Government emphasizes the need for large industrial companies to take practical steps in this direction.

*Gazprom* is comparable to the world's largest energy companies by its energy supply capacity and energy consumption. Energy saving by *Gazprom's* businesses implies a qualitatively new level of production and consumption and a significant contribution to improving the energy efficiency of the Russian economy.

The bulk of energy resources are consumed in long-distance gas transmission. Natural gas, electric and thermal power are the main types of the resources consumed.

*Gazprom* handles the task of energy saving at each and every stage of *the Company's* process facilities lifecycle: during design, construction (reconstruction) and operation (including all types of repairs).

Special-purpose energy saving activities started in 2000 with the development of OAO Gazprom Energy Saving Concept for 2001–2010. The development of the Energy Saving Concept for 2011–2020 is nearly completed.

The Concept identified the following goals:

- releasing gas resources for their supply to consumers;
- partially offsetting the need to commission new gas production and transmission capacities;
- reducing the operating costs and the energy component in the end product;
- reducing greenhouse gas emissions.

*Gazprom's* major objective in energy saving is to reduce gas losses and process gas consumption by optimizing the operation of facilities and introducing new energy saving technologies and equipment.

In accordance with the Concept, the processes aimed at managing energy saving activities have been implemented. 23 corporate standardization system documents (STO Gazprom) have been prepared and implemented to regulate different aspects of energy saving activities (15 of them in 2008–2009).

Three-year programs are implemented. At present, the third Energy Saving Program of OAO Gazprom for 2007–2010 is being carried out<sup>21</sup>.



Additional information on energy saving and energy efficiency is provided in OAO Gazprom Environmental Report presented on *the Company's* website (<http://www.gazprom.com/nature/environmental-reports/>) and in the Energy Saving section (<http://www.gazprom.com/nature/energy/>).

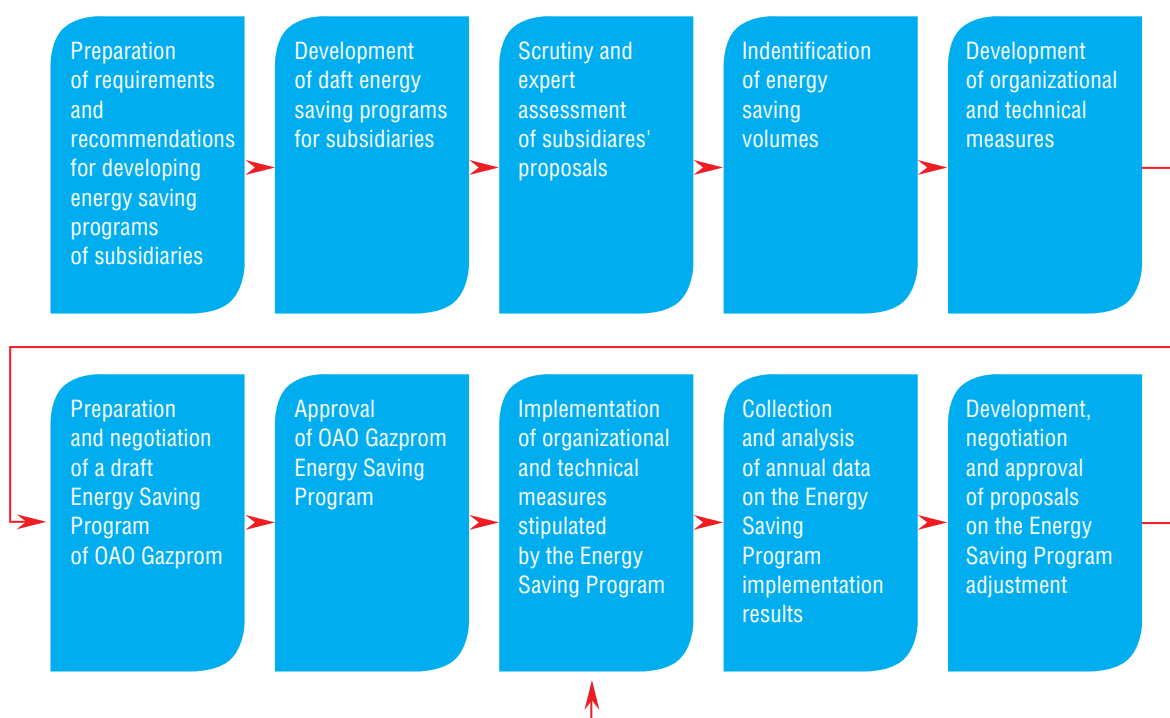
<sup>21</sup> All subsidiaries included in the Report boundary are participants of the Program with the exception of OOO Gazprom export and OOO Mezhtregiongaz. The consolidated data on energy saving includes the indicators for facilities of OAO Gazpromregiongaz – a 99 % owned subsidiary of OOO Mezhtregiongaz.

### FAIR GAS PRICES AS A STIMULUS FOR ENERGY SAVING

The existing regulated wholesale gas prices in Russia don't reflect the consumer properties of gas, objective price ratios for comparable fuels, demand and supply behavior. Under these conditions gas prices don't arouse consumers' economic interest in saving measures and make actions aimed at introducing gas and energy saving technologies and equipment inefficient. A long period of underestimated prices in natural gas accounts has resulted in the deformation of Russia's fuel balance and the national economy lagging behind developed countries in terms of several energy efficiency indicators. For instance, gas and energy intensity per GDP unit is considerably higher than the same indicators in European countries. Economically substantiated gas pricing is a prerequisite for reducing the energy intensity of the national economy and increasing its energy efficiency.

The implementation of federal programs targeted at energy saving and higher energy efficiency is possible only in case energy consumers have real economic incentives to save it. The biggest incentives stem from fair market energy prices inducing consumers to introduce energy and gas saving technologies and equipment. A phased transition to market based pricing in the gas industry is planned for this purpose between 2011 and 2013.

### ОАО Gazprom Energy Saving Program Development and Implementation



The implementation mechanism for an energy saving program – integration of organizational and technical measures with other programs<sup>22</sup> of *Gazprom* and overhaul schedules of its subsidiaries.

| KEY FUEL AND ENERGY RESOURCES CONSUMED |  |                                |                                 |  |
|--|--|--------------------------------|---------------------------------|--|
|  | NATURAL GAS,<br>million m <sup>3</sup> | ELECTRIC POWER,<br>million kWh | THERMAL POWER,<br>thousand Gcal | TOTAL,<br>thousand t of fuel<br>equivalent |
| 2008                                   | 60,184.1                               | 17,374.6                       | 22,133.0                        | 77,418.5                                   |
| 2009                                   | 44,180.2                               | 12,401.7                       | 21,041.5                        | 57,401.9                                   |

| KEY FUEL AND ENERGY RESOURCES SAVED |  |                                |                                 |  |
|-------------------------------------|--|--------------------------------|---------------------------------|--|
|                                     | NATURAL GAS,<br>million m <sup>3</sup> | ELECTRIC POWER,<br>million kWh | THERMAL POWER,<br>thousand Gcal | TOTAL,<br>thousand t of fuel<br>equivalent |
| 2008                                | 2,352.3                                | 230.5                          | 161.4                           | 2,779.6                                    |
| 2009                                | 2,177.7                                | 153.8                          | 163.8                           | 2,555.9                                    |

| KEY FUEL AND ENERGY RESOURCES SAVING POTENTIAL FROM 2011 THROUGH 2020<br>(PRELIMINARY ESTIMATES) |  |                                |                                 |  |
|--|--|--------------------------------|---------------------------------|--|
|  | NATURAL GAS,<br>million m <sup>3</sup> | ELECTRIC POWER,<br>million kWh | THERMAL POWER,<br>thousand Gcal | TOTAL,<br>thousand t of fuel<br>equivalent |
|  | 21,905                                 | 4,749                          | 6,354                           | 26,464                                     |

## Associated Petroleum Gas

Many experts consider associated petroleum gas (APG) as a resource enabling to meet the demand for gas in Russian regions or as a raw material for the chemicals industry. Moreover, the reduction of APG volumes released into the air or flared helps minimize greenhouse gas emissions. According to official data, Russia currently produces over 55 billion m<sup>3</sup> of APG and less than a third of that amount is processed. The legislative requirement demanding to capture up to 95 % of APG by 2011 will probably increase the APG volume slated for utilization. *Gazprom* is actively involved in meeting the challenge of APG use. APG production by OAO Gazprom and OAO Gazprom neft currently amounts to 7 billion m<sup>3</sup> and is expected to reach 17 billion m<sup>3</sup> by 2030. At present, *Gazprom* purchases a comparable volume of gas from Uzbekistan. In 2008 the *Company* devised the Concept for the Creation and Development of a Comprehensive APG Utilization System within the OAO Gazprom System and prepared the Top-Priority Measures to Increase the APG Utilization Degree at *Gazprom Group's* Fields. Technical solutions ensuring an at least 95 % degree of APG use up to 2030 were offered for each field.

<sup>22</sup> Integrated programs:

- Comprehensive program for the reconstruction and technical upgrading of gas transport facilities and compressor stations of underground gas storage facilities;
- Comprehensive program for the reconstruction and technical upgrading of gas production facilities;
- Program of underground gas storage operations in the Russian Federation;
- Comprehensive program for the reconstruction and technical upgrading of gas facilities;
- Comprehensive targeted program to create an industry inspection and maintenance system for gas transport equipment of compressor stations;
- Comprehensive targeted program for metrological support to production and technological processes during gas and liquid hydrocarbons production, transportation, processing, treatment, storage and supply.

## APG RESOURCES AND UTILIZATION VOLUMES IN 2009

| SUBSIDIARY                    | RESOURCES,<br>MILLION M <sup>3</sup> | UTILIZATION,<br>MILLION M <sup>3</sup> | UTILIZATION<br>LEVEL, % |
|-------------------------------|--------------------------------------|--|-------------------------|
| OOO Gazprom dobycha Orenburg  | 29.1                                 | 29.0                                   | 99.8                    |
| OOO Gazprom dobycha Urengoy   | 1,212.6                              | 984.3                                  | 81.2                    |
| OOO Gazprom pererabotka       | 23.3                                 | 23.3                                   | 100.0                   |
| OOO Gazprom dobycha Krasnodar | 71.1                                 | 65.1                                   | 91.5                    |
| TOTAL                         | 1,336.1                              | 1,101.7                                | 82.4                    |

## New Types of Energy

*Gazprom* believes that the most important factor determining the production prospects for unconventional energy resources is the economic viability of their exploitation and supply to consumers. Today the cost of unconventional gas<sup>23</sup> production is significantly higher in Russia than that of conventional gas production. Therefore, in the medium term, gas production through conventional methods will not only maintain its competitiveness but will also be the most widespread technology.

Nevertheless, *Gazprom* considers a possibility to use unconventional energy resources. The relevant obligations of *the Company* are set forth in the Environmental Policy and the Reserves Development Strategy; an example of practical action in this area is the launch of pilot coalbed methane production in Kuzbass.

### Coalbed Methane

Coalbed methane (CBM) reserves of Kuzbass fields<sup>24</sup> are estimated in C<sub>1</sub>+C<sub>2</sub> categories at 45.8 billion m<sup>3</sup>. Chemically, coalbed gas is 95–100 % methane and therefore it can be allowed into pipelines without preliminary treatment (unlike APG).

In 2009 CBM well completion and gas collection and treatment technologies were developed and tested. *Gazprom* has the potential of producing 4 billion m<sup>3</sup> of CBM by 2020 and around 30 billion m<sup>3</sup> in the long term. Areas of commercial CBM production in the Kuznetsk and Pechora basins are located in proximity to potential gas consumers, which makes CBM the most promising source of unconventional energy. Russia's first CBM production project is underway at the Taldinskoye field in the Kemerovo Region. In 2009 seven prospecting wells were drilled in the Eastern block of the Taldinskaya area. Pilot operation of the wells began in February 2010. Hinging on the Russian technologies, the project solves the task of enhancing occupational safety for miners and has a positive impact on regional development. OOO Gazprom dobycha Kuznetsk (a wholly owned subsidiary of OAO Gazprom) is the project operator.

<sup>23</sup> Unconventional gas or gas of non-standard origin is a product extracted from various geological formations: clay shale (shale gas), coal beds, dense rocks, etc.

<sup>24</sup> Approved by the Natural Resources and Environmental Protection Ministry of the Russian Federation in May 2009. The CBM reserves calculation methodology was developed by OAO Gazprom promgaz and, according to the approach applied in Russia, commercially valuable reserves are classified by a degree of their exploration as explored reserves – A, B, C<sub>1</sub> categories and provisionally estimated reserves – C<sub>2</sub> category. CBM resources are divided according to a degree of their substantiation into prospective – C<sub>3</sub> category, projected localized – D<sub>1loc</sub> category and projected – D<sub>1</sub> and D<sub>2</sub> categories. Evaluation begins with geological survey data (indicators of methane content in coal beds, resource density, individual capacities of beds in the formation, properties of coals and tectonic particularities of the area, etc. are taken into consideration) and then moves on to the results of testing and pilot commercial operations (the permeability of beds, the potential to apply stimulation technologies, environmental considerations of the area and the economic viability of commercial methane production from the evaluated area with regard of the transportation distance are estimated).



## VIEWPOINT



**AMAN TULEEV**  
GOVERNOR  
OF THE KEMEROVO REGION

The Kuznetsk coal basin (Kuzbass) is one of the largest basins of worldwide significance. All 60 coal mines in the Kemerovo Region producing coking and steam coals are methane hazardous. Ten Kuzbass mines show gas ingress of 100 m<sup>3</sup> per minute and higher.

Coalbed methane (CBM) is a threat to miners' health and life mainly due to the hazard of its accumulation explosion that happened to be the reason of all major fatalities in Kuzbass.

That is why we are engaged in commercial production of CBM. We have been the first in Russia to initiate large-scale CBM production and utilization. In February 2010 Russian President Dmitry Medvedev took part in the ceremony of launching this breakthrough project.

I consider this project to be very promising because there is, in fact, a huge "sea of methane" under our feet – CBM reserves of Kuzbass coal fields amount to nearly 13 trillion m<sup>3</sup>.

Presently, methane production from the Taldinskoye field amounts to 12 thousand m<sup>3</sup> a day, seven production wells have been drilled, a gas filling station, a gas-fired boiler house and a modular power plant are in operation. By 2015 we'll be able to reach 1.5 billion m<sup>3</sup> of commercial methane production.

During the last two years nearly RUB 1 billion has been invested in the project, with the total project cost to be above RUB 80 billion.

We pay due attention to CBM utilization for improving energy efficiency in the Kemerovo Region. Produced gas can be supplied to regional combined heat and power plants and this will cut down electricity generation costs and have a beneficial environmental effect. At the moment, the project is underway to put into operation methane-fired power generation plants with low unit capacity. The first plant is scheduled for commissioning as early as in the second half of 2010. We expect that the project implementation will have a great socioeconomic effect and provide a foundation for large-scale gasification of the Kemerovo Region and Southern Siberia.

By tackling the CBM production challenge we save non-renewable natural resources, provide access to a valuable kind of fuel and create new job opportunities. But above all – we ensure safety of mining operations.

Commercial CBM production means sustainable development for the benefit of the present and future generations. Kuzbass is changing drastically, transforming itself into a CBM rather than a coal producing area.

And we made this step together with *Gazprom*.

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*“By launching Russia’s first coalbed gas production project, we have taken an important step towards creating a new sub-industry in the national fuel and energy sector”.*

Alexey Miller, Chairman of OAO Gazprom Management Committee

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### Shale Gas

*Gazprom* is convinced that the prospects for developing Russian shale gas resources require thorough examination. Shale gas can be viewed as an alternative to deliveries of conventional gas to major consumers in areas located far away from the conventional gas production regions.

Considering the significant cost of shale gas, its production becomes economically feasible only when it is sold on a local market.

### Renewable Energy

*Gazprom* is interested in using cost-effective renewable energy sources (RES), especially for the purposes of power supply to remote facilities and localities not supplied with electricity through external networks.

In 2009 *the Company* started developing a draft OAO Gazprom RES Utilization Concept.

The first experience was gained at the Yamburgskoye gas and condensate field where 27 remote terminal units powered by solar modules, wind generators and thermoelectric generators were installed at groups of gas wells. Self-sustained remote terminal units enable to secure continuous control and efficient management of wells irrespective of external power supply sources operation. This solution will help prevent potential gas pipeline accidents caused by power outages.

## Natural Gas Products

Among the products that *Gazprom* nowadays offers to consumers are low-tonnage LNG and gas as a transport fuel. Preparations are underway to launch internal production of synthetic liquid fuel.

### Transport Fuel

Motor vehicles running nowadays in Russia mostly on gasoline and diesel fuel are the principal contaminator of air in cities and towns. The use of natural gas as a transport fuel is much more environmentally friendly from the standpoint of enhancing the performance of vehicle engines and substantially reducing pollutant emissions.

*Gazprom* holds a dominant position on the national natural gas vehicles (NGVs) market. Out of 235 existing NGV refueling compressor stations, 202 are operated by *Gazprom Group’s* companies. In 2009 a total of 297 million m<sup>3</sup> of compressed natural gas (CNG) was sold at these stations, which is almost 90 % of overall sales of this product in Russia. Moreover, in December 2009 a CNG station for converted vehicles from nearby coal mines was taken into operation at the Taldinskoye field in the Kemerovo Region. As of late 2009, 0.46 million m<sup>3</sup> of gas was filled through the station.

However, the scope of CNG use is still relatively insignificant and therefore *Gazprom* strives to change this situation. For this purpose *the Company* endorsed the 2007–2015 Comprehensive Targeted Program for the Development of a Natural Gas Filling Network and a Vehicle Fleet Running on Natural Gas where several areas of pertinent activities are set forth.

### Infrastructure

*Gazprom* plans to build another 200 natural gas filling stations in Russian regions; interaction has already been established with the Nizhny Novgorod, Novgorod, Kaluga, Tambov, Oryol and Kaliningrad Regions as well as with the city of Moscow and the town of Nadym.

### Manufacture of Vehicles

As a result of the purposeful cooperation between *Gazprom* and Russian automakers, OAO Kamaz and GAZ Group have launched batch production of natural gas powered trucks and buses.

### Notification and Promotional Activities

*Gazprom* performs explanatory, educational and promotional activities through the Russian Natural Gas Vehicles Association and the Transport on Alternative Fuel magazine. Informational materials including the Gas Powered and Filling Equipment Catalog as well as the NGV Stations Atlas are published on a regular basis.

## NATURAL GAS VEHICLES

“Blue corridors” – interregional highways where only traffic of vehicles running on natural gas is allowed – are becoming reality. Over the last two years, natural gas vehicles have run the routes from St. Petersburg to Moscow and from Moscow to Sochi. In 2010 the route of an NGV rally will pass by the cities where Russian automobile plants are located: Nizhny Novgorod, Naberezhnye Chelny, Togliatti, Ulyanovsk and Yaroslavl.

Negotiations are currently underway with several international companies to expand the network of NGV stations in Europe. This should facilitate the integration of the national “blue corridors” into the main international traffic routes ensuring free circulation of NGVs.

A gasification program for main-line and switching locomotives has been successfully implemented by *Gazprom* in cooperation with Russian Railways. The first results (obtained in 2009) are quite revealing. A gas turbine locomotive pulled a freight train weighing



15,020 t. This was a world record thrust among autonomous locomotives with one engine unit. The testing results of the gas turbine locomotive confirmed the cost-effectiveness of the innovative project: expenses on fuel (LNG) were 30 % lower compared to diesel fuel.

Pollutant emissions during the tests were five times lower than the European Union's requirements coming into force from 2012 and the noise level did not exceed that of a main-line locomotive with an engine unit of one-third of its power.

# Safety



*Gazprom* considers two main areas where safety must be ensured – process safety and environmental safety. These areas are constantly in the focus of *the Company's* attention.

## Process Safety

*Gazprom* exercises full control over the state of process safety and assumes full responsibility for outcomes of possible incidents. *Gazprom* sets goals and formulates a safety policy, develops and implements ways to achieve a high level of reliability and safety of its facilities.

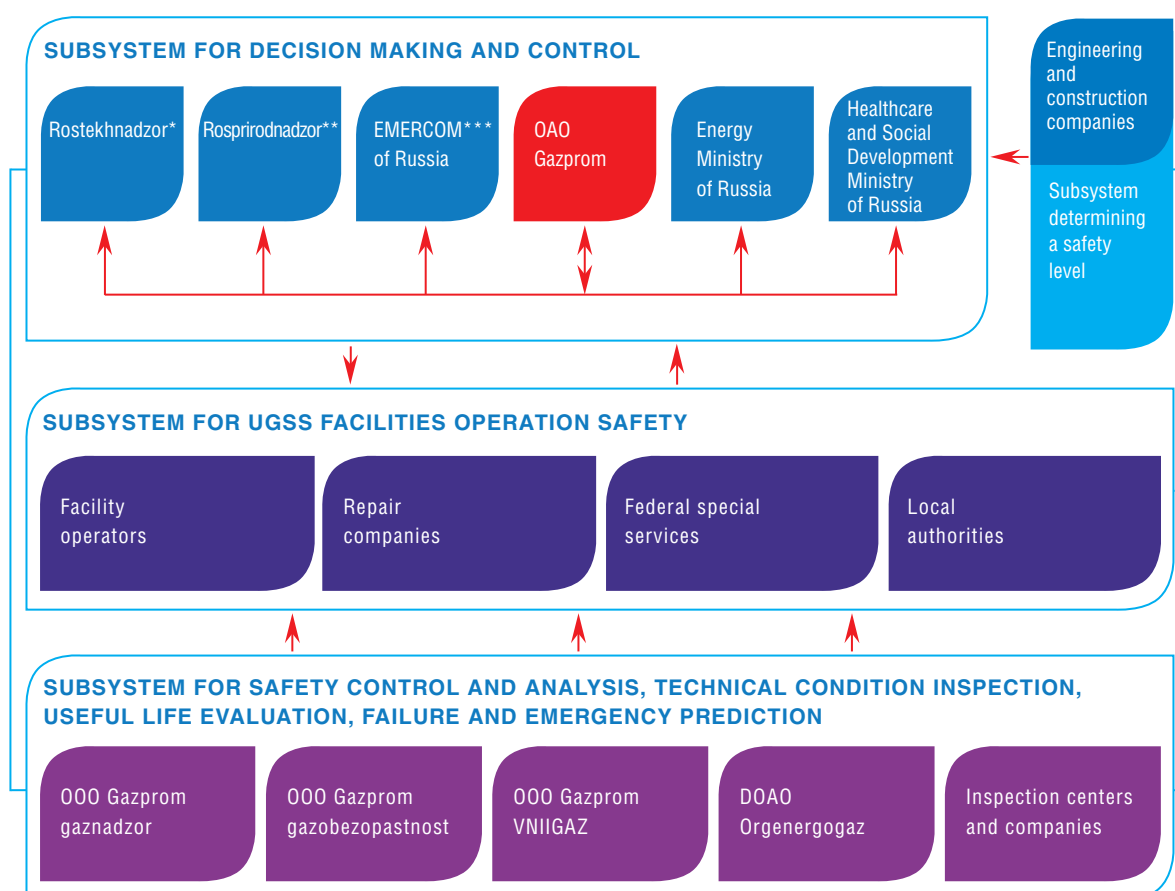
### Process Safety Management System

*The Company* has developed and approved ОАО Gazprom Occupational Health and Safety Policy. Its principal goals include:

- creating safe working conditions and protecting life and health of employees;
- ensuring the operational reliability of hazardous facilities.

These goals are achieved through the Process Safety Management System (PSMS) which is based on the requirements of the ISO 9000 (quality management), ISO 14000 (environmental management) and OHSAS 18001 (occupational health and safety management system) international standards. A significant number of federal, regional and corporate structures are involved in the PSMS.

### ОАО Gazprom's PSMS



\* Federal Service for Environmental, Technological and Nuclear Supervision

\*\* Federal Service for the Oversight of Natural Resources

\*\*\* Emergencies Ministry

*The Company* has distributed safety responsibilities by sectors and organizations:

- supervising the state of process safety (GAZPROM's special commissions, OOO GAZPROM gaznadzor) and fire safety (OOO GAZPROM gazobezopasnost);
- energy safety and efficient use of energy resources: electric and thermal power, water (OOO GAZPROM gaznadzor);
- quality control over products, operations and services (GAZPROM's special commissions, OOO GAZPROM gaznadzor, OOO GAZPROM komplektatsiya, OOO GAZPROM tsentrremont, DOAO Orgenergogaz);
- control over occupational health (OOO GAZPROM gazobezopasnost) and safety (GAZPROM's special commissions, OOO GAZPROM gaznadzor, OOO GAZPROM gazobezopasnost);
- special-purpose inspections of compliance with the requirements of legal documents (GAZPROM's special commissions).

## Corporate Standards

Corporate standards are developed to improve safety at hazardous facilities with account of the risk of natural and industrial catastrophes and other emergencies. The corporate standardization system currently includes over 470 standards (STO GAZPROM) and 150 guidelines (R GAZPROM) which either directly set safety requirements for all stages of the gas production, transmission, processing and utilization facility lifecycle or indirectly influence a safety level. Over 30 safety standards were approved and introduced in the reporting period. The R&D program envisages developing another 40 regulatory documents in the process safety area until 2011.

The need to develop corporate standards will also remain in the future since the technical regulation system reform induces constant changes in the composition and requirements of the basic Russian legal acts, whose application is mandatory.

## Priority Activities

### Preventing Emergencies and Improving Response Readiness

Most emergencies occur at gas trunklines, distribution networks and power generating facilities. Emergency prevention is vested in OOO GAZPROM gaznadzor, OOO GAZPROM gazobezopasnost and other inspection companies. These companies systematically evaluate and analyze the technical risk level during the operation of gas facilities. This makes it possible to predict adverse natural and industrial phenomena and take measures to prevent incidents, accidents and injuries. The companies discharge control functions – from expert evaluations of safety to involvement in the work of commissions responsible for checking the technical state of facilities or commissions in charge of investigating accidents and incidents.

### Reconstruction and Technical Upgrading

Considering that the GTS facilities built back at the times of the USSR have been operated for a long time, *the Company* implements the Comprehensive Program for the Reconstruction and Technical Upgrading of the GTS Facilities for 2007–2010. In the reporting period 5,140 km of gas pipelines and 556 gas distribution stations were overhauled, 653.1 km of gas pipelines underwent reconstruction, 40 gas compressor units were replaced and upgraded.

### Controlling the GTS Technical Condition and Integrity

For the purposes of enhancing the UGSS control efficiency and operational reliability, *the Company* has started developing a system to control the technical condition and integrity of the GTS based on the environmental, technical and economic risk analysis. Similar systems are already in successful operation at such international companies as BASF Wintershall, E.ON Ruhrgas AG, Gasunie and GDF SUEZ.

### Ensuring Equipment Reliability – Detecting Counterfeit Products

To prevent supply and use of counterfeit and defective products at *GAZPROM's* facilities, a number of regulatory documents agreed on with the Federal Service for Environmental, Technological and Nuclear Supervision (Rostekhnadzor) have been issued. Permanent commissions have been set up by OAO GAZPROM to inspect delivered products, conduct tests, agree on product specifications, etc.

## PROMPT RESPONSE TO AN INCIDENT. CHRONICLE

July 24, 2008

### 10.23 pm Moscow time

An explosion followed by a gas blaze took place at the 276.5 km of the Petrovsk – Novopetrovsk gas trunkline operated by the Bubnovsky Linepipe Operation Center with OOO Gazprom transgaz Volgograd.

### 10.25 pm Moscow time

An accident announcement by a Bubnovsky Linepipe Operation Center dispatcher who detected a pressure drop in the gas pipeline was received by OOO Gazprom transgaz Volgograd dispatcher service. Shift personnel of OOO Gazprom transgaz Volgograd dispatcher service reported on the emergency in accordance with a standard notification procedure.

### 10.26 pm Moscow time

The damaged section of the gas pipeline was localized with the use of a remote control system. Due to the accident, gas supplies were suspended to gas pipeline branches running to the town of Novonikolaevsk and villages of Duplyatsky and Hopyorsky Pioneer.

### 11.00 pm Moscow time

The head of the Bubnovsky Linepipe Operation Center with OOO Gazprom transgaz Volgograd arrived at the gas pipeline rupture site.

It was found out that nobody had been killed or injured. The explosion resulted in the formation of a 22 by 12.5 m pit with the maximum depth of 2.5 m. 22 m of the 1,220 mm gas pipeline were destroyed in the trench. The surrounding area of the accident had no inhabitants; the evacuation of people was not therefore carried out.

July 25, 2008

### 1.53 am Moscow time

In order to notify the population and prevent the dissemination of inaccurate information, OOO Gazprom transgaz Volgograd public relations service sent

a press release to information agencies and electronic & print media with an accident notification and established interaction with information sources in the regional Civil Defense and Emergency Situations department.

### 2.00 am Moscow time

OOO Gazprom transgaz Volgograd emergency response teams arrived at the gas pipeline rupture site.

### 4.10 am Moscow time

OOO Gazprom transgaz Volgograd emergency response teams started repairing the damaged section. 69 people and 20 special emergency machinery units were engaged in repair operations.

### 1.09 pm Moscow time

A press release on the progress with repair operations at the gas pipeline rupture site was sent to mass media.

July 26, 2008

### 11.05 am Moscow time

OOO Gazprom transgaz Volgograd emergency response teams fully completed repair operations at the damaged section and resumed gas supplies to consumers. 44 m of the 1,220 mm pipe were replaced during the repair operations.

The company's environmental specialists visited the accident site for the environmental impact assessment (EIA) purposes. With the participation of a specialized company, a statement was issued about the damage area and extent along with recommendations on land restoration. Rehabilitation operations were performed by the company within a month of the accident containment.

When localizing and mitigating the emergency OOO Gazprom transgaz Volgograd management bodies showed the ability to promptly make optimal decisions and effectively manage the workforce and equipment involved.



### Personnel Development

According to the federal legislation and regulatory requirements imposed by state supervisory bodies, the Company's employees pass through a compulsory performance review procedure as well as upgrade their qualification at specialized educational institutions of Gazprom or other establishments.

### Ensuring Contractor Compliance with Safety Standards

By imposing safety requirements on contractors in accordance with its corporate standards, Gazprom not only achieves a high level of safety at its own facilities, but also promotes the culture of safety among its contracting companies.

Gazprom's subsidiaries engage a large number of contractors carrying out the operations to construct, reconstruct and overhaul gas facilities, inspect the technical condition of production facilities, and examine underwater passages as well as other types of operations. Suppliers and contractors are fully bound by the requirements of national and corporate safety standards as well as other regulations in this field.

Essential requirements to contractors are already contained in tender documentation granting the right to conclude contracts for the performance of work/provision of services and are included directly in contracts. In the course of tender procedures it is checked whether a contractor has the necessary permits (certificates and licenses) and whether its employees are appraised and authorized to perform relevant activities. Before commencing the work, the contractor must receive a customer's conclusion on its organizational and technical readiness to carry out the activities.

Over the course of operations Gazprom's authorized companies exert corporate control over contractor compliance with safety regulations. In case of serious non-compliance a prescription to suspend operations is issued. Only after the work is accepted and all detected deficiencies are eliminated by the contractor, a permit is issued to feed natural gas or gas condensate to facilities where construction, reconstruction and capital repairs are completed.

### Results and Indicators

The results of the purposeful work aimed at controlling the state of safety are as follows. During the operation of gas production, transportation, underground storage and distribution facilities in 2009 the number of accidents reduced considerably (33.3 % down versus 2008), while the number of incidents increased slightly less dramatically (21.8 % up versus 2008). This is generally indicative that the actual level of the UGSS safety is stable<sup>25</sup>.

Most accidents occur in long-distance gas transmission. The year 2009 saw 21 cases when a total of 2,237 counterfeit and defective products were supplied to capital construction or capital repair sites of OAO Gazprom. If used, each of these products could have caused an accident or an incident.

The number of detected gross violations by contractors of the existing standards and regulations during the construction, reconstruction and capital repairs of facilities, which resulted in prescriptions to suspend operations, decreased from 47 in 2008 to 19 in 2009.

As compared to 2008, in 2009 injuries increased by 19.2 %, while fatalities decreased by 28.6 %. The growth of injuries stems from an increased number of road accidents. Human factor is the main cause of accidents. The injury rates (the number of injured per 1,000 employees) between 1990 and 2009 declined 2.8 times for injuries and 3.9 times for fatalities.

<sup>25</sup> Major causes of accidents: stress corrosion, latent flaws of construction and installation work as well as incidental mechanical damages.



## NUMBER OF ACCIDENTS AND INCIDENTS

|      | ACCIDENTS | INCIDENTS |
|------|-----------|-----------|
| 2008 | 21        | 74        |
| 2009 | 14        | 90        |

## OCCUPATIONAL INJURIES: NUMBER OF SAFETY INCIDENTS, PERSONS

|                             | GAS PRODUCTION,<br>TRANSPORTATION, STORAGE<br>AND PROCESSING COMPANIES | OTHER<br>COMPANIES <sup>26</sup> | TOTAL |
|-----------------------------|--|----------------------------------|-------|
| <b>Total injuries</b>       |  |                                  |       |
| 2008                        | 74   | 56                               | 130   |
| 2009                        | 100  | 55                               | 155   |
| <b>Including fatalities</b> |  |                                  |       |
| 2008                        | 7  | –                                | 7     |
| 2009                        | 5  | –                                | 5     |

## Environmental Safety

*Gazprom's* environmental protection activities are based on the aspiration to reduce the adverse environmental impacts of its operations and to conserve natural resources.



A detailed description of the environmental management approaches and environmental protection results is presented in OAO Gazprom Environmental Reports 2008 and 2009.

### Environmental Management

In 1995 RAO Gazprom was one of the first Russian companies to develop an Environmental Policy and to assume a number of obligations. Information regarding the fulfillment of these obligations is publicly available in annual Environmental Reports. A restated version of the Policy was approved in 2008, where environmental protection tasks were updated and additional obligations were assumed in the context of sustainable development. For a vertically integrated company such as *Gazprom* the most efficient Environmental Management System (EMS) is the one that follows the top-down principle and covers all business segments of *the Group*: the parent company, production, design & engineering and research & development subsidiaries. This system currently brings together over 2,000 environmental specialists.

For the purpose of enhancing its EMS, in 2007 OAO Gazprom established the Coordinating Committee for Environmental Protection and Energy Efficiency as well as the Environmental Inspectorate. The Coordinating Committee for Environmental Protection and Energy Efficiency oversees the implementation of the Environmental Policy, organizes and coordinates *the Company's* interaction with environmental authorities and NGOs. The Environmental Inspectorate of OAO Gazprom (a specialized structure within OOO Gazprom gaznadzor) is a key element in the corporate system of environmental safety monitoring. The Inspectorate takes part in corporate environmental reviews of project design documents, inspects the state of environmental safety monitoring and checks whether *the Company's* subsidiaries and contractors comply with environmental requirements. A Comprehensive Environmental Program of OAO Gazprom for the period between 2011 and 2015 is currently under development for enhancing the efficiency of environmental protection activities.

<sup>26</sup> Information on injuries in OAO Gazprom, OOO Gazprom export and OOO Mezhhregiongaz is provided from reports on accident insurance contracts.

Under the Environmental Policy, a way to attain strategic goals is to introduce and maintain an effective EMS as required by the ISO 14001 international standard. Several subsidiaries have already obtained the ISO 14001 certification of their environmental management systems<sup>27</sup>. A Working Group was set up by *Gazprom* to further improve the EMS in line with audit recommendations.

One of the tasks set in the Action Plan for the fulfillment of obligations assumed by OAO Gazprom in its Environmental Policy is to enhance control over environmental protection activities of contractors. *The Company* invites stakeholders to participate in this process allowing the public to get involved in meeting the challenge of raising environmental safety.

In 2009, when controlling the implementation of projects in Kamchatka, *Gazprom* jointly with regional community groups conducted a comprehensive inspection of contractor compliance with federal and regional environmental requirements.

Since 2009 the corporate environmental monitoring of contractor performance has been carried out by the Environmental Inspectorate of OAO Gazprom. Special-purpose environmental compliance inspections were conducted on 29 key construction sites including the Bovanenkovo – Ukhta, Dzuarikau – Tskhinval, Sobolevo – Petropavlovsk-Kamchatsky, Sakhalin –



Khabarovsk – Vladivostok, Gryazovets – Vyborg gas trunklines as well as on construction sites at the Bovanenkovskoye, Kshukskoye and Nizhne-Kvakchikskoye fields.

The inspections did not reveal any serious non-compliance.

## Key Operating Results

### Air

Air emissions are the most significant environmental aspect of OAO Gazprom's business in the gas segment. The main components of pollutant emissions are typical to the gas industry and include methane (63.0–71.1 %), carbon oxide (19.4–25.3 %) and nitrogen oxides (6.0–7.8 %).

#### GROSS AIR EMISSIONS, THOUSAND T\*

|  | 2008     | 2009     |
|--|----------|----------|
| Total air pollutants including                 | 2,615.52 | 2,574.32 |
| sulfur dioxide                                 | 66.47    | 58.74    |
| carbon oxide                                   | 661.63   | 498.87   |
| nitrogen oxides (in terms of NO <sub>2</sub> ) | 204.04   | 154.09   |
| methane (excluding volatile organic compounds) | 1,646.86 | 1,829.37 |
| other pollutants                               | 36.52    | 33.25    |

\* The figures are hereinafter given only for companies within the Report boundary. The data presented herein may therefore differ from the information contained in other public documents and materials of *the Company* (Annual and Environmental Reports, Gazprom in Figures factbook, etc.).

<sup>27</sup> OOO Gazprom dobycha Astrakhan, OOO Gazprom dobycha Orenburg, OOO Gazprom transgaz Samara, OOO Gazprom transgaz St. Petersburg, OOO Gazprom transgaz Ukhta.

## VIEWPOINT



**EVGENY SHVARTS**  
DIRECTOR OF CONSERVATION  
POLICY – WWF RUSSIA,  
DOCTOR OF GEOGRAPHY

The Joint Environmental Requirements of Non-Governmental Organizations (NGOs) for Petroleum Companies adopted in 2004 set the stage for expanding the dialog between Russian environmental NGOs and petroleum companies. We note with satisfaction that OAO Gazprom Environmental Policy included a whole set of provisions contained in the environmental NGOs' document serving as a basis for the Russian nature conservation society.

The adoption of *the Company's* new Environmental Policy also points, from our standpoint, to the achievement of a new level in the relationships with environmental NGOs that can be treated as an important contribution to sustainable development. At least, in recent years the work of the Energy Conservation and Ecology Directorate under the Gas Transportation, Underground Storage and Utilization Department has become rather transparent to allow conducting an important and proactive dialog with *the Company's* top management.

However, there are considerable differences in the approaches taken by various subdivisions and subsidiaries of *the Company* toward the dialog with environmental NGOs. Among positive examples one can mention the approaches to conducting dialog with NGOs while designing Nord Stream (carrying out the EIA in a cross-border context), the Sakhalin – Khabarovsk – Vladivostok gas trunkline (setting up a conciliatory committee for the EIA revision by OOO Gazprom invest Vostok, DIEM science and production company, officials from Specially Protected Natural Areas, NGOs and local authorities), a gas pipeline in Kamchatka (OAO Gazprom's assistance to NGOs in performing public environmental monitoring of the construction process) as well as while implementing the Shtokman development project (signing an information disclosure agreement and conducting a regular constructive dialog with the project management). It is essential that this practice be spread over the full range of subdivisions and subsidiaries of *Gazprom* including the ones in the North Caucasus where, according to our evaluations, *the Company's* subdivisions are less open to dialog with non-governmental organizations and the population as well as in the Central Asian states where *Gazprom* implements its projects.

As a result of air protection efforts as well as due to a decline in gas production and transportation volumes in 2009, *Gazprom's* gross emissions decreased primarily owing to a 24 % reduction in emissions of such toxic substances as nitrogen oxide and carbon oxide. Accident caused natural gas losses reduced by 23 % as compared to 2008. Repair operations at trunklines and wells spelled a certain increase in methane emissions but made it possible to raise the reliability of *Gazprom's* process systems.

### Water

Natural gas production, transmission, storage and processing operations do not require intensive use of water. Nevertheless, *Gazprom* systematically reduces process water consumption and develops water recycling and reuse capacities. Over 20 % of water is withdrawn from ground water sources.

**WATER USE INDICATORS<sup>28</sup>, MILLION M<sup>3</sup>**

|   | 2008                                  | 2009                                    |
|---|---------------------------------------|---|
| Water withdrawal                                | 92.26                                 | 77.80                                   |
| Water consumption                               | 50.92                                 | 44.89                                   |
| Total water discharge including                 | 30.45                                 | 25.23                                   |
| water discharge into surface water bodies       | 11.52                                 | 14.60                                   |
| Estimated water flow in water recycling systems | 261.48<br>(283 % of water withdrawal) | 263.21<br>(338.3 % of water withdrawal) |
| Estimated water flow in water reuse systems     | 0.54<br>(0.6 % of water withdrawal)   | 0.53<br>(0.7 % of water withdrawal)     |

Waste waters are discharged into sewer networks, surface and ground water bodies. *Gazprom* endeavors to minimize impacts on water bodies raising the effluents treatment level and reducing their volume. In 2009 discharges into surface waters somewhat increased versus 2008 in light of storm water discharges.

**Waste Disposal**

When disposing wastes *the Company* strives to:

- prevent their generation;
- neutralize and use wastes as secondary material and energy resources;
- transfer wastes for processing;
- decrease wastes at temporary storage sites;
- reduce waste landfilling.

Most wastes produced by *Gazprom* are low-hazard (hazard classes 4 and 5) drilling wastes and solid household wastes generated in gas field camps. A crucial aspect of *the Company's* environmental activities is eco-safe disposal of oil sludge despite its insignificant share (up to 2.5 %) in the overall waste amount. Oily wastes are generated from gas and condensate pipeline, tank as well as effluent cleaning operations. In 2009 the bulk of oily wastes (around 70 %) were transferred to third-party specialized companies for utilization, neutralization or processing.

In total, waste generation has a downward trend. In the reporting period wastes grew mainly due to field development activities on the Yamal Peninsula and changes in the waste accounting regulations in 2009<sup>29</sup>. In 2009 waste utilization increased by 28 % and the amount of accumulated wastes decreased more than twofold as of the year end.

**WASTE DISPOSAL INDICATORS, THOUSAND T**

|   | 2008    | 2009    |
|---|---------|---------|
| Wastes as of the year start (all hazard classes)            | 29.763  | 30.881  |
| Wastes generated in the reporting year (all hazard classes) | 239.320 | 354.610 |
| Wastes received from other companies                        | 12.900  | 23.492  |
| Wastes utilized   | 39.017  | 49.921  |
| Wastes fully neutralized                                    | 15.684  | 11.308  |
| Wastes transferred to other companies                       | 157.491 | 191.790 |
| Wastes disposed at own sites                                | 63.528  | 149.867 |

<sup>28</sup> The water use indicators include the data on OAO Gazprom energo which since 2005 has rented water supply and discharge facilities meeting the needs of *Gazprom's* companies in the gas segment.

<sup>29</sup> Since 2009 drilling wastes produced by the contractor – OOO Gazprom bureniye (not included within the Report boundary) have been assigned to the area of responsibility of the subsurface user – OOO Gazprom dobycha Yamburg.

### Land Rehabilitation

Geological exploration, well construction and operation, pipeline construction and repair activities result in land disturbance and in some cases in land deterioration. The largest areas of disturbed lands (around 60 %) emerged in 2008–2009 due to the large-scale development of new fields on the Yamal Peninsula. Subsidiaries implement measures aimed at land and soil rehabilitation for their further use. In 2009 the land rehabilitation rates significantly exceeded the land disturbance rates. This made it possible to offset the negative land disturbance and restoration balance observed in 2008.

| LAND USE INDICATORS, THOUSAND HA      |      |      |
|---------------------------------------|------|------|
|                                       | 2008 | 2009 |
| Lands disturbed as of the year start  | 22.6 | 24.1 |
| Lands disturbed in the reporting year | 9.2  | 9.9  |
| Lands rehabilitated                   | 7.7  | 12.1 |

### Environmental Protection Expenditures

In 2009 environmental expenditures increased by 20.4 % versus 2008 due to a significant (by 96 %) increase in capital investments. Current expenditures on environmental protection slightly decreased (by 7.9 %), which is partly explained by a decline in gas production and transportation.

As compared to 2008, the amount of payments made by subsidiaries for adverse environmental impacts in 2009 grew by 45 % in light of a 72 % increase in payments for methane emissions during repair operations.

| CAPITAL INVESTMENTS IN ENVIRONMENTAL PROTECTION, RUB MILLION                                       |          |           |
|--|----------|-----------|
|  | 2008     | 2009      |
| Current expenditures   | 5,789.44 | 5,333.70  |
| Expenditures for capital repairs of environmental protection facilities                            | 802.77   | 644.95    |
| Total capital investments in environmental protection and natural resource conservation, including | 2,478.84 | 4,857.78  |
| water protection and conservation  | 2,127.02 | 1,453.56  |
| air protection   | 3.90     | 18.54     |
| land protection and conservation   | 330.84   | 735.43    |
| waste disposal, processing and storage   | 17.07    | 2,650.26  |
| Total environmental payments including   | 355.05   | 513.26    |
| payments for adverse environmental impacts   | 353.48   | 512.50    |
| Fines  | 1.57     | 0.76      |
| Total  | 9,426.10 | 11,349.69 |

The Company's environmental efforts are overseen by federal supervisory bodies (Rostekhnadzor – Federal Service for Environmental, Technological and Nuclear Supervision, Rosprirodnadzor – Federal Service for the Oversight of Natural Resources, Rosnedvzhimost – Federal Real Estate Cadaster Agency, Rospotrebnadzor – Federal Service for the Oversight of Consumer Protection and Welfare, Rosselkhozadzor – Federal Service for Veterinary and Phytosanitary Supervision, EMERCOM (Emergencies Ministry) of Russia, Environmental Prosecutor's Office) and authorized environmental protection bodies in the Russian

Federation constituents. Despite the trend toward the environmental law tightening, there is a reduction in non-compliance detected in the activities of the Company's subsidiaries. Consequently, there is a decrease in environmental fines: in 2009 the amount of fines was two times lower than in 2008.

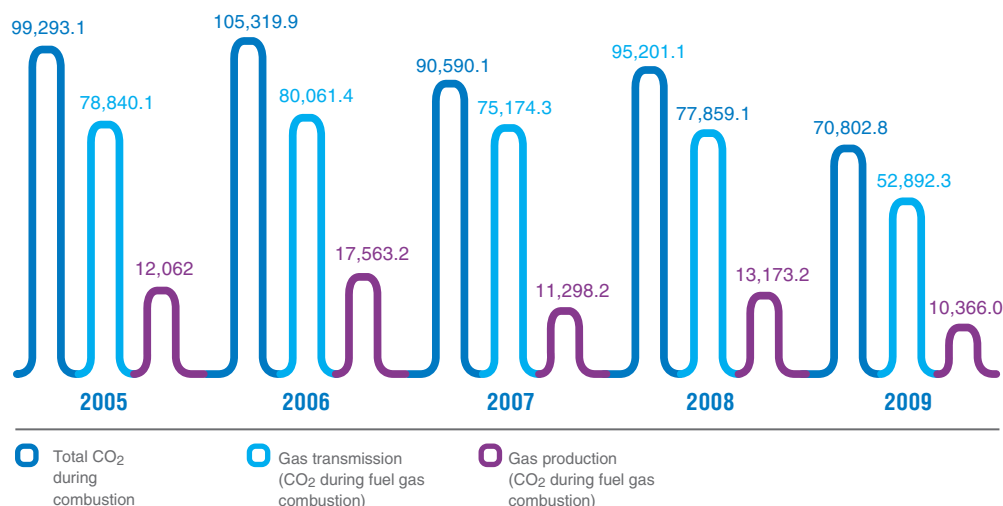
## Climate Change

Taking into account the national economy development scenarios as well as the provisions of Russia's Energy Strategy to 2030 and the Climate and Environmental Doctrines of the Russian Federation, Gazprom intends to make its contribution to fulfilling the obligations of the Russian Federation to cut greenhouse gas emissions.

*"Climate change is one the major challenges of our time, and global corporations, especially energy companies, must be, with all the opportunities they have, in the forefront of this battle. There is a direct correlation between sustainable growth of our Company and new ways of using natural resources and preserving the environment for future generations".*

Alexey Miller, Chairman of OAO Gazprom Management Committee

Carbon dioxide emissions by OAO Gazprom<sup>30</sup>, thousand t



<sup>30</sup> The presented data refers to a group of companies not included in the Report boundary. Detailed information can be found in OAO Gazprom 2009 Environmental Report.

## Emissions Reduction

Since 2006 carbon dioxide emissions from *the Company's* production facilities have followed a downward trend due to the implementation of energy saving programs, reconstruction and upgrading efforts as well as broader utilization of APG.

*Gazprom* regularly submits data on greenhouse gas emissions and respective reduction measures for publication in the National Communications of the Russian Federation to the international bodies of the UN Framework Convention on Climate Change.

In 2009 *Gazprom* for the first time disclosed information on the results of its greenhouse gas emission reduction and prevention activities to the Carbon Disclosure Project (CDP) global investment community. Data was also submitted to the World Wildlife Fund (WWF Russia) for an analytical review dedicated to methane emission measurement and reporting.

*The Company* organizes training courses for managers and specialists to improve their understanding of the climate change issues.

## Joint Implementation Projects

Two greenhouse gas emission reduction projects passed through the determination process and were approved by Bureau Veritas Certification. These projects are the Use of Mobile Compressor Stations for Preventing Methane Emissions during Repair Operations on Gas Trunklines and Effective Utilization of Associated Petroleum Gas at the Urengoyskoye Oil, Gas and Condensate Field.

## Climate Change Impact Assessment

*Gazprom* assesses climate change impacts on its operations and projects, including:

- identifies and ranges the territories impacted by the climate change outcomes where *the Group's* facilities are located;
- assesses the potential of machinery (equipment reliability), technologies and technological processes (production process and technology predictability) applied under the conditions of climate change.

Identified infrastructure risks are associated with: buildings and installations damage; a bigger number of defects in the pipeline system; shorter periods of winter roads use; water and sewage systems deformation and, consequently, higher construction and repair & recovery costs.

The above infrastructure risks can potentially arise as a result of changes in the seasonal thaw depth in permafrost terrain, high sensitivity of frozen soils with high salt concentration to temperature variations and an increase in the number and strength of dangerous hydrometeorological phenomena.

The area of the maximum geocryological risk includes a considerable part of the West Siberian Plain, the Kara Sea coast, the Yamal Peninsula and a part of discontinuous permafrost in northern European Russia where there are oil and gas production facilities, a gas pipeline system in northwest Siberia's Nadym-Pur-Taz region, and a new gas pipeline under construction between Bovanenkovo and Ukhta.

The projects being implemented in these areas have been developed with the account of the predictive assessments and identified risks.



# Responsibility





*Gazprom* endeavors to ensure the sustainability of its business paying heightened attention to the social aspect of its activities.

For *Gazprom*, following the principles of social responsibility is a perceived objective necessity based on the common human values. Moreover, it is a crucial factor for achieving ultimate success.

Granting support for the development of Russian regions, *the Company* builds a long-term partnership with local communities, assists in alleviating social burdens, improves the living conditions of people.

Social projects and sponsorship are *the Company's* contribution to the sustainable development of the Russian society and the revival of spiritual and national values.

Investments in employees are the aspiration to provide the rapidly developing *Company* with highly skilled workforce committed to the corporate interests.

## Regional Policy

The regional policy implemented in cooperation with the Russian Federation constituents is an instrument to achieve sustainability goals.

The fundamental corporate document in this area is OAO Gazprom Regional Policy Concept ensuring a balance of interests between *the Company* and the constituents of Russia as well as taking into account the historical differences in socioeconomic and industrial development of Russian regions.

*Gazprom's* subsidiary companies and organizations operate in 81 regions of Russia<sup>31</sup>. Interaction with local authorities, suppliers and market participants, various organizations (municipal, community-based) and residents is of great significance for *the Company* and enables to find a balance between industry development and regional development challenges.

The key areas of the regional policy: developing an optimal gas production and consumption structure in the Russian Federation constituents, creating quality living conditions for employees and their families, reducing adverse

environmental impacts. The crucial areas of the regional policy are gasification of regions and implementation of social projects.

The relationships between *Gazprom* and executive authorities in the Russian Federation constituents are based on an equal partnership in pursuance of federal and regional laws. Mutual interests and interaction priorities are documented in cooperation agreements as well as in specific accords (e.g. gasification accords). Cooperation agreements are concluded for various time periods (one year, five years, for an indefinite term). As of early 2010 such agreements were entered into with 79 constituents of the Russian Federation.

### Gasification of Russian Regions

Over the entire period of the gas industry development such important areas of *Gazprom's* business as gas supply to and gasification of Russian regions have evolved in parallel with gas field pre-development and gas trunkline construction.

<sup>31</sup> Organizations falling within the Report boundary operate in 75 constituents of the Russian Federation (including five eastern branches of OOO Gazprom transgaz Tomsk).

### Gasification Program's Role

*Gazprom's* stance is based on the comprehension that the arrival of gas in Russian regions establishes a favorable environment for growth of their economy and investment appeal, makes qualitative changes in people's lives.

To a large extent, natural gas is an impetus for modernizing all sectors of vital activities in regions. New companies and jobs emerge in gasified villages and towns. Gas frees local residents from many household

## VIEWPOINT



**ALEXANDER ZHILKIN**  
GOVERNOR OF THE ASTRAKHAN REGION

### ABOUT SOCIOECONOMIC ASPECTS OF GAZPROM'S ACTIVITIES IN THE ASTRAKHAN REGION

The Cooperation Agreement signed in 2006 laid the foundation for shaping a multilateral partnership between the Astrakhan Region Government and ОАО Газпром. The backing of *Gazprom's* current and future plans by the regional authorities is primarily targeted at achieving an overall multiplier effect for the region's economy. ООО Газпром добыча Астрахан rightfully poses itself as

a flagship of the Astrakhan Region economy. The company's business activities include gas and gas condensate exploration and production as well as their processing into marketable products: gas for industrial and residential consumption, industrial sulfur, liquefied petroleum gases and oil products.

The regional investment climate is largely determined by *Gazprom's* investments such as the ones channeled for developing production capacities of the Astrakhan Gas Processing Plant: commissioning a RUB 4 billion sulfur granulation unit in 2009 and expanding gas condensate processing capacities.

For a number of activities the *Gazprom Group* companies place orders for goods and services with regional producers. For example, the contracts totaling RUB 245 million were implemented by local firms and enterprises in 2009 to meet the needs of ООО Газпром добыча Астрахан.

Top priority in the region is given to a prospective project for polyethylene production based on natural gas from the Astrakhan gas and condensate field, the light hydrocarbons of which have been used for more than 25 years now as a component of dry stripped gas and liquefied petroleum gases for meeting fuel demand. In 2008 the investment project for polyethylene production in the Astrakhan Region was included into ОАО Газпром Strategic Plan for the Gas Chemicals and Gas Processing Industries Development. Establishment of a state-of-the-art gas chemicals complex in the Astrakhan Region will require simultaneously developing the construction industry, upgrading and expanding transport and energy infrastructure as well as developing the service sector with about 1,000 extra jobs to be created.

*Gazprom's* companies exert a significant positive influence on the regional employment indicators. *Gazprom Group* has 17 subsidiaries operating in the Astrakhan Region

chores. Graduates are not willing any more to leave regions in search of more comfortable living conditions elsewhere.

In 2001 OAO Gazprom started developing the first Gasification Program for Russian Regions. From 2005 gasification related activities have expanded becoming a strategic area in *the Company's* operations. The main goal of the Program is to achieve the highest economically viable level of gasification.

and employing more than 15 thousand people. In addition to timely paid out salaries, these employees have solid fringe benefits. Taking into consideration their family members, one may say that the guarantees of well-being and social security cover circa 50 thousand Astrakhan citizens. *The Company's* contribution to public infrastructure development and its charitable activities are clearly visible. In 2008–2009 OAO Gazprom and OOO Gazprom dobycha Astrakhan allocated more than RUB 6 billion for these purposes. The funds were used to improve living conditions and to raise healthcare services quality in the region. Recipient-oriented aid allowed financing a number of socially important projects and activities such as:

- gasification of the Astrakhan Region – RUB 380 million (RUB 200 million in 2009);
- reconstruction, stabilization and landscaping of the Volga River embankment – RUB 2.395 billion including RUB 333 million in 2009;
- construction and technical outfitting of the non-governmental Healthcare Center – RUB 3 billion;
- reconstruction of Pushkin Children's Health Center with RUB 430 million of capital investments allocated in 2009 and the total cost of above RUB 1.5 billion;
- support for educational and children's institutions, community and veteran organizations, etc. – RUB 205 million including RUB 82 million in 2009.

*Gazprom* also bears heavy responsibility for the environmental safety as its branch companies operate in the vicinity of the Volga-Akhtuba floodplain – a unique natural formation and the only part of the Volga River valley that has retained its initial state. During 2008–2009, as in previous years, the nature conservation facilities of OOO Gazprom dobycha Astrakhan ensured compliance with environmental safety standards by the Astrakhan gas complex. An appropriate state of the nature conservation

assets is secured through timely overhaul, reconstruction and retrofitting activities. The total environmental protection expenses of OOO Gazprom dobycha Astrakhan exceeded RUB 1.3 billion in 2009.

Taking into consideration the urgency of environmental safety issues for local communities, OOO Gazprom dobycha Astrakhan regularly promulgates its environmental protection actions through the Pulse of Aksaraisk newspaper and the regional 7+ TV channel.

*“The Gasification Program for Russian Regions should be considered as another major social project comparable in scope to projects of national priority”.*

Dmitry Medvedev, President of the Russian Federation

#### Implementation Mechanism

The Concept of OAO Gazprom Participation in the Russian Federation Regions Gasification specifies the principles of *the Company's* involvement in a gasification program, the associated key activities and implementation mechanisms with due account for the requirements of existing Russian laws.

*Gazprom's* participation in a gasification program hinges on the following principles:

- assurance of uninterrupted and safe gas supplies to Russian consumers;
- raising the natural gas utilization efficiency;
- mutually beneficial cooperation with the Russian Federation constituents.

*Gazprom* maintains a flexible approach to the gasification model: a differentiation is made depending on the availability or development of a resource base for deliveries of pipeline gas or alternative energy carriers including LPG, LNG and CNG. In the cases when pipeline gas deliveries are economically or technically unviable, comprehensive or autonomous gasification is in place.

#### Gasification Options for Russian Federation Regions

| REGIONS WITH DEVELOPED GAS PIPELINE SYSTEMS AND WITH CONNECTIONS TO THE UGSS  | REGIONS WITH LOCAL GAS SUPPLY SYSTEMS INDEPENDENT FROM THE UGSS OR WITH GAS (GAS CONDENSATE) FIELDS  | REGIONS WITHOUT CONNECTIONS TO THE UGSS AND WITHOUT EITHER LOCAL GAS SUPPLY SYSTEMS OR GAS (GAS CONDENSATE) FIELDS |
|---|--|--|
| <p>Mostly pipeline gas</p> <p>Local autonomous gasification (only LNG, CNG and LPG are used)</p> <p>Combined gasification (distribution grid development and autonomous gasification facilities construction)</p> | <p>Creation of new or development of existing gas supply systems</p> <p>Connection to systems in neighboring territories and regions</p> <p>Autonomous gasification of remote areas with no or poorly developed gas supply systems</p> | <p>Autonomous gasification</p>   |

Gasification programs are annually shaped on the basis of approved general gas supply and gasification schemes for Russian regions with consideration for the UGSS capacities development as well as comprehensive and autonomous gasification opportunities. The investment efficiency is also achieved through synchronization schedules for the resource base and gas supply infrastructure development and through synchronization schedules for Russian regions gasification programs.

General schemes are developed at OAO Gazprom's expense on the basis of a sensible regional fuel and energy mix including local feedstock, a comprehensive approach to natural gas use and processing as well as an optimal loading of active and planned gas pipelines, gas laterals and gas distribution systems.

Gasification programs, involving proposals of the Russian Federation constituents regarding facilities included in approved general gas supply and gasification schemes, are annually shaped on the basis of the following fundamental criteria:

- a project's internal rate of return equal to no less than 12 %;
- efficient loading of active and newly commissioned gas transport and distribution capacities;
- a sensible regional fuel and energy mix;
- identification of gasification priorities to promote socioeconomic development as well as eligible and solvent gas consumption and use in a region;
- coordinated timelines and organizational arrangements for the construction and startup of gas supply, distribution and utilization facilities;
- gas transport and supply capacity readiness for supplying required natural gas volumes to new gasification facilities;
- consumer readiness to receive gas.

#### Social Aspect

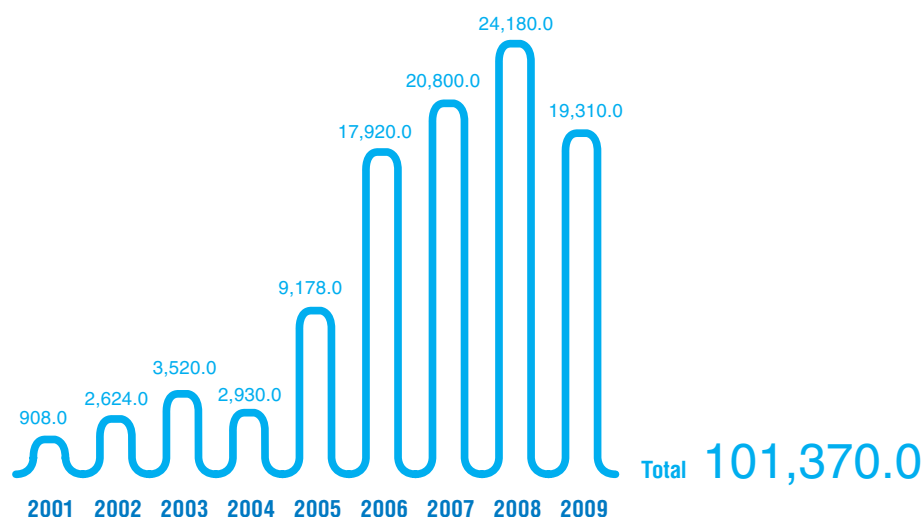
During the implementation of a gasification program a part of the financial and administrative responsibility is borne by regional and municipal authorities who secure the construction of intra-settlement (street-level) networks. Payments for gas connections directly to apartment blocks or individual households are made by residents themselves.

*Gazprom* realizes that the amount of financing required for these purposes from residents may be unacceptable to some of them. *The Company's* position is as follows: regional authorities should assist the population in purchasing and installing in-house gas equipment, gas meters, etc. *The Company* has recommended that local administrations ensure the construction of street-level gas distribution networks and connection to them without raising funds from the residential sector.

#### RESIDENTIAL SECTOR GASIFICATION (NATURAL GAS) IN RUSSIAN FEDERATION, %

|      | THROUGHOUT RUSSIA | CITIES, TOWNS AND<br>URBAN SETTLEMENTS | RURAL AREAS |
|------|-------------------|--|-------------|
| 2001 | 51.7              | 59.7                                   | 30.6        |
| 2005 | 55.2              | 62.0                                   | 37.1        |
| 2008 | 62.4              | 67.3                                   | 44.9        |
| 2009 | 63.2              | 67.5                                   | 45.5        |

## Investments in Russian Regions Gasification Programs, RUB million



### PROGRAM IMPLEMENTATION INDICATORS

|  | 2006  | 2007  | 2008  | 2009  | TOTAL  |
|--|-------|-------|-------|-------|--------|
| Number of facilities completed                           | 122   | 421   | 153   | 196   | 892    |
| Total length of inter-settlement gas pipelines built, km | 1,220 | 7,200 | 2,520 | 3,170 | 14,010 |
| Number of population centers gasified                    | 173   | 893   | 325   | 447   | 1,838  |
| Number of boiler houses gasified                         | 318   | 1,135 | 369   | 579   | 2,401  |

### Facility Transfer to Municipal Ownership

From 2003 *Gazprom* has been transferring movable and immovable social, cultural and utility assets to municipal authorities. These assets are not used in *the Company's* production processes but are intended to support the social infrastructure of population centers.

As of early 2010 a total of 8,864 federal assets (93 % of the total assets subject to transfer) out of 9,300 were transferred to municipal ownership<sup>32</sup>. Also transferred were 10,342 subsidiary movable and immovable assets (valued at over RUB 3 billion) related to servicing the federal property transferred.

<sup>32</sup> During the privatization of the Unified Gas Supply System companies and State Gas Concern Gazprom assets a significant number of social, cultural and utility assets, which had been actually used by the UGSS companies, were not included in the charter capital of RAO Gazprom when it was founded. In pursuance of the Resolution No. 248 of OAO Gazprom Board of Directors dated September 29, 2001 and the Directive No. 482-r of Russia's Property Relations Ministry dated February 22, 2002, in 2002–2003 OAO Gazprom and its subsidiaries prepared and agreed with 51 constituents of the Russian Federation on the lists of social, cultural and utility assets representing state (federal) property. Subsequently, the Property Relations Ministry in its Directive No. 1448-r (item 2) dated April 8, 2004 entrusted OAO Gazprom and its subsidiaries with duly transferring the indicated assets to Russia's regional and municipal authorities.

## VIEWPOINT



**IVAN KOSTOGRIZ**  
MAYOR OF NOVY URENGOY

Due to the number of employees and the share in industrial production, *Gazprom's* companies take leading positions in the economy of Novy Urengoy municipality. Therefore, its socioeconomic development largely depends on the evolution of gas production businesses. The performance indicators of *Gazprom's* companies are taken into consideration in annual forecasts related to the socioeconomic development of Novy Urengoy, in its development concept and strategy as well as in industry-wide programs.

Representatives of *Gazprom's* companies participate in working groups for Novy Urengoy development issues, act as members of the councils supervised by the Mayor, including the Innovation Council, working groups for the development of a draft Concept for Novy Urengoy Socioeconomic Development to 2020 and a comprehensive

innovation plan for the municipality modernization, etc.

*Gazprom* participates in various social programs and projects such as:

- construction of a Sports Center with the total area of 24 thousand m<sup>2</sup> as part of the Gazprom to Children Program;
- commissioning by Gazprom dobycha Yamburg of a sports and fitness center that will provide much broader sports and physical training opportunities for Novy Urengoy residents;
- funding of certain sporting events, sports facility repairs and development for the needs of the municipality's population, sport equipment acquisitions;
- annual financing of creative teams' tours and participation in regional, federal and international contests and festivals at the expense of OOO Gazprom dobycha Urengoy, OOO Gazprom dobycha Yamburg and OAO Gazprombank branch;
- sponsorship assistance in restoring the municipality's educational institutions, purchasing equipment and inventories;
- support for higher education of talented and gifted children finishing Novy Urengoy schools;
- vocational and pre-graduation training of students as stipulated by cooperation agreements with Novy Urengoy Gas Industry College and Vocational School No. 31;
- funding of medical equipment acquisitions and healthcare center repairs.

Pursuant to the cooperation agreement between OAO Gazprom and the Yamal-Nenets Autonomous District Administration, OOO Gazprom dobycha Urengoy continues to hand its residential, sociocultural and utility assets over to Novy Urengoy municipality.

Social facility transfer to municipal ownership goes beyond the acceptance certificate signing. As a rule, these facilities were taken into operation in the 1960–80s and therefore require considerable finance for repair and maintenance purposes. Local authorities are not always able to ensure orderly maintenance of assets received. *Gazprom* helps maintain such assets at a proper functional level.

### Indigenous People of the North

When developing new gas fields, primarily in northern and eastern Russia, *Gazprom* carries out its operations taking into consideration the interests of indigenous people who maintain their traditional way of life on these territories.

*The Company* acknowledges the right of these people to their national traditions and cultural identity, and therefore seeks developing hydrocarbon production in parallel with carefully realizing the natural and human resource potential of these territories and preserving the national traditions and lifestyle of local communities.

#### Cooperation Mechanisms

*Gazprom's* contribution to meeting the challenge of preserving the unique territories and lifestyles of indigenous people is formalized in agreements of cooperation between *Gazprom* and the Russian Federation constituents as well as in comprehensive programs for industrial development of territories. These programs stipulate both compensatory measures and territorial development activities. For example, *the Company* undertakes to hire representatives of indigenous minorities of the North who have the skills meeting *Gazprom's* requirements. In addition, gifted and advanced students representing indigenous minorities receive financial support to study at universities and other educational establishments throughout Russia.

*Gazprom's* subsidiaries participate in financing measures taken as part of regional programs such as the Agroindustrial Sector Development, the Culture, Language, Traditional Lifestyle of Indigenous Minorities of the North and other programs.

## Social Projects, Sponsorship and Charity

*Gazprom* consistently increases its participation in projects targeted at upgrading social infrastructure, strengthening social support and promoting culture, sports, science and education.

### Support for Winter Olympics in Sochi

*The Company* took over a part of the responsibility for the preparations for a crucial global sporting event – the Sochi 2014 Winter Olympics.

The Federal Law on the Organization and Staging of the XXII Olympic Winter Games and XI Paralympic Winter Games 2014 in Sochi, the Development of Sochi as a Mountain Climate Resort and the Amendments to Certain Legislative Acts of the Russian Federation was enacted in November 2007. In accordance with the Law, the Russian Government approved the Program for the Construction of Olympic Venues and the Development of Sochi as a Mountain Climate Resort.

Under the Program, *Gazprom* is responsible for constructing a number of Olympic venues: a 16,000-capacity ski and biathlon complex, a mountain tourist center, a thermal power station in Adler and a gas pipeline linking Dzhubga, Lazarevskoye and Sochi.

September 2009 saw the launch of a crucial project: the Dzhubga – Lazarevskoye – Sochi gas pipeline construction. The pipeline will enable to provide reliable energy supply to Sochi, feed gas to Olympic venues under construction and reduce energy shortages on the Black Sea coast of the Caucasus when the thermal power station in Adler is operational. Pursuant to the current Gasification Program, construction is underway on a gas pipeline connecting Adler, Krasnaya Polyana and Esto-Sadok to supply natural gas to consumers and Olympic venues in Krasnaya Polyana.



## YAMAL

For more than 15 years *Gazprom* and its subsidiaries have been rendering various kinds of assistance to the population of the Yamal-Nenets Autonomous District by developing the infrastructure of national settlements, building trading posts and encampments for reindeer herders and providing medical care to tundra natives in corporate clinics.

At the same time, assistance has been rendered in organizing national holidays and other sports and cultural events, transporting by helicopter reindeer herders and fishermen's children going on vacation, delivering cargoes to encampments, etc.

In recent years due to the launch of large-scale field development on the Yamal Peninsula special attention has been paid to the dialog with the YaNAD's Yamal district residents: indigenous reindeer herders, the Yamal for Descendants association, district authorities. The dialog was established in 2005 when the district hosted the first public hearings regarding pre-development activities on the Peninsula. Suggestions voiced during the hearings were taken into account for the adjustment of the Comprehensive Program for Commercial Field Development on the Yamal Peninsula and Adjacent Offshore Areas. The Program provided for:

- housing, social infrastructure, power generation and utility facilities construction;
- intensified processing of local raw materials;
- trading post construction and development, technical and biological land rehabilitation;
- indigenous people employment;
- life support system and living conditions improvement.

In order to promote the rules of industry workers' ethical conduct when communicating with indigenous people of the North, in 2009 OOO *Gazprom dobycha Nadym*



released a documentary – “Do No Harm” – highlighting the traditions, lifestyle and culture in the North as well as prepared colorful information booklets describing the rules of conduct for shift personnel working on the Yamal Peninsula.

ООО *Gazflot* developed a program of compensatory and environmental measures so as to preserve the ecosystems of the Ob and Taz Bays as well as the Pechora Sea shelf. The program contemplates, inter alia, granting support to small businesses aimed at developing the traditional industries of indigenous minorities of the North.

In 2009 *Gazprom's* subsidiaries operating in the Yamal-Nenets Autonomous District allocated:

- over RUB 28 billion to the YaNAD's consolidated budget (45 % of the budget total);
- RUB 3.8 billion for maintenance and repair of social infrastructure facilities transferred to municipal ownership;
- RUB 2.7 billion as compensatory payments within the Yamal project;
- RUB 0.3 billion for charitable purposes.

## Gazprom to Children Program

The largest corporate project in the social sector is the *Gazprom to Children* Program which can be rightfully called a Russia-wide initiative. Launched in 2006, today this Program covers 69 Russian regions, with 40 subsidiary companies and organizations of ОАО *Gazprom* involved<sup>33</sup>.

The Program goals include creating conditions for the harmonious, intellectual, spiritual and physical development of younger generations, promoting a healthy lifestyle among the Russian youth, engaging as many children and teenagers as possible in sports activities, creative teams and amateur art clubs.

<sup>33</sup> Of which 25 subsidiaries are within the Report boundary.

To achieve these goals, *Gazprom*

- builds and upgrades sports complexes, multifunctional outdoor sports grounds;
- purchases equipment needed for establishing sports centers, creative teams and amateur art clubs;
- engages highly-skilled coaches and instructors to train children and teenagers;
- arranges festivals and sporting competitions throughout the country.

#### FOR THE SAKE OF THE FUTURE

Nearly 200 thousand children of varying ages and physical abilities participate free of charge in the Gazprom to Children Program. This is how a new sporting social environment is established: each and every child can realize his or her potential to an extent necessary for building up health, passing leisure time and attaining personal goals if sport becomes a hobby or a professional growth target.



Considerable efforts are also made under the Gazprom to Children Program to develop the creative potential of younger generations. Along with holding the traditional festive events for children in Russian regions it is projected to significantly increase the number of artistic amateur teams and clubs that would engage up to 120 thousand children.

The total number of facilities to be built under the Program is 678. Construction and upgrading work is completed on 615 facilities including:

- 519 sports grounds, courts and football pitches;
- 42 sports and recreation complexes and stadiums;
- 54 children's sports areas, camps, cultural and sports centers, swimming pools.

#### SOCIAL INVESTMENTS IN THE GAZPROM TO CHILDREN PROGRAM, RUB MILLION

| YEAR OF PROGRAM IMPLEMENTATION | TOTAL   | SPORTS FACILITIES CONSTRUCTION AND UPGRADING | CHILDREN'S SPORTS AND ART DEVELOPMENT |
|--------------------------------|---------|--|---------------------------------------|
| 2007                           | 4,028.9 | 3,487.3                                      | 541.6                                 |
| 2008                           | 2,696.0 | 2,600.2                                      | 95.8                                  |
| 2009                           | 2,118.9 | 2,118.9                                      | —                                     |
| Total                          | 8,843.8 | 8,206.4                                      | 637.4                                 |

## Sponsorship and Charity

Throughout many years *Gazprom* has fruitfully cooperated with the Russian Orthodox Church and other confessions for the purpose of reviving the spiritual and religious traditions. *The Company* rendered assistance in restoring the New Jerusalem Monastery, the St. Petersburg Orthodox Theological Academy and the Orthodox Heritage Center in Peredelkino village. Financing was provided to repair the Moscow Patriarchate building and a charitable contribution was made to construct a hospitium (a pilgrim's house) in Jordan. The Patriarchal Program titled "Voices of Orthodox Russia in Italy" was implemented in cooperation with the Foundation for the Unity of Orthodox Christian Nations. In 2009 *Gazprom* gratuitously handed over to the Russian Orthodox Church 21 movable and immovable assets.

In order to deepen and preserve the Russian educational and cultural traditions, *the Company* supports the National Philharmonic of Russia directed by Vladimir Spivakov, the Moiseev State Academic Folk Dance Ensemble, the Rachmaninov Trio, the Russian Seasons, 21st Century ballet festival, and sponsors the Children's Radio. *Gazprom* has lent support to the publication of the Entire Yevtushenko anthology of poems.

In 2008–2009 *Gazprom* allocated funds to keep the Eternal Flame burning in the Russian hero cities of Tula, Volgograd and Novorossiysk as well as in the Belarusian hero city of Minsk. Assistance was provided to the Brest Hero Fortress memorial (Republic of Belarus).

New Year's charitable festivities organized by *Gazprom* for thousands of underprivileged children have become a tradition. In December 2009 *Gazprom Group* conducted a Russia-wide New Year campaign in 33 cities and towns embracing over 12.5 thousand children from boarding schools, orphanages, shelters and socially vulnerable families.

*Gazprom* and E.ON Ruhrgas jointly with Serbsky Moscow Institute of Psychiatry and Heckscher Clinic in Munich developed and implemented a rehabilitation program for victims of the terrorist attack in Beslan. For the purpose of preserving the traditions of Russia's multinational culture, promoting folk arts and fostering corporate culture *Gazprom* has held since 2005 the corporate Fakel Festival bringing together amateur artistic teams from *the Company's* subsidiaries and partner businesses. In 2007 the Festival achieved international status: the Fakel laureates together with the CNPC Arts Festival winners gave successful performances in China and Russia.

*The Company* annually conducts the Fakel Literary Festival whose primary purpose is to engage *Gazprom* employees and their family members in the creative process of producing literary works with the participation of literature professionals.

*Gazprom* is active in supporting the development of the national science and is the founder of a variety of Russia's prominent non-profit research institutions and foundations including the Supreme Engineering Council of the Russian Federation, the Vernadsky Non-Governmental Ecological Foundation, etc.

*Gazprom* is a co-founder of the Global Energy International Prize representing an unparalleled project implemented under the patronage of Russian President and targeted at assessing and recognizing outstanding achievements of the world's leading scientists in the energy sector. Currently, the Global Energy Prize is one of the most influential awards and is equally prestigious for assessing scientific accomplishments as the Nobel Prize and the Fields Medal.

Joint projects are traditionally implemented with Gubkin Russian State University of Oil and Gas, the Graduate School of Management under St. Petersburg State University and other educational institutions aimed at supporting and developing the national education system.

*Gazprom* pays special attention to the development of sports and promotion of a healthy lifestyle. *The Company* annually conducts Spartakiada Summer and Winter Games among OAO *Gazprom's* subsidiary companies and organizations as well as Children's Spartakiada Games.

*The Company* actively cooperates with sports federations and participates annually in financing international and Russian competitions in rhythmic gymnastics, volleyball, biathlon and chess. In 2008–2009 *Gazprom* took part in organizing and contributed to holding numerous mass competitions including such famous ones as the Ski Track of Russia, the Cross Country Race of Nations, the Orange Ball, the Znamensky Brothers Memorial and others.

*Gazprom* is the sponsor of the Russian Football Union, the St. Petersburg Open tennis tournament, the Silk Way Rally Dakar Series, the Zenit football club, and provides organizational support for the Kontinental Hockey League (KHL). *The Company* traditionally supports the national Olympic teams, sports teams, individual athletes (both professionals and amateurs) and sports veterans.

## Employees' Energy – the Company's Strategic Resource

*Gazprom* considers human resources a key factor contributing to the successful achievement of *the Company's* global goals.

Over many years *Gazprom* has been the largest employer providing hundreds of thousands of jobs, creating stable working conditions and constantly raising the level of social security.

When shaping its Human Resources Policy, *the Company* takes into account not only business development challenges emerging in a new environment, but also the historical relationships between employees and the employer. Gradually adapting these relations to modern realities is a key principle of *Gazprom's* social policy.

### Employees' Characteristics

The breakdown of employees per category reflects the business needs: over a half of them are workers. Considering the nature of businesses, the majority of employees are men; women are mostly engaged in operations not associated with increased physical exertion or special climatic conditions.

Pursuant to the Russian Federation laws and international standards, *Gazprom's* companies do not use child labor either in Russia or in foreign countries where gas exploration and production activities take place.

Over many years *Gazprom* has been an attractive employer and *the Company* maintains therefore a high staffing level. In 2008–2009 the employee turnover rate was in the range from 0.23 % to 5.4 % across *Gazprom Group* averaging 3.0 % in 2008 and 1.7 % in 2009.

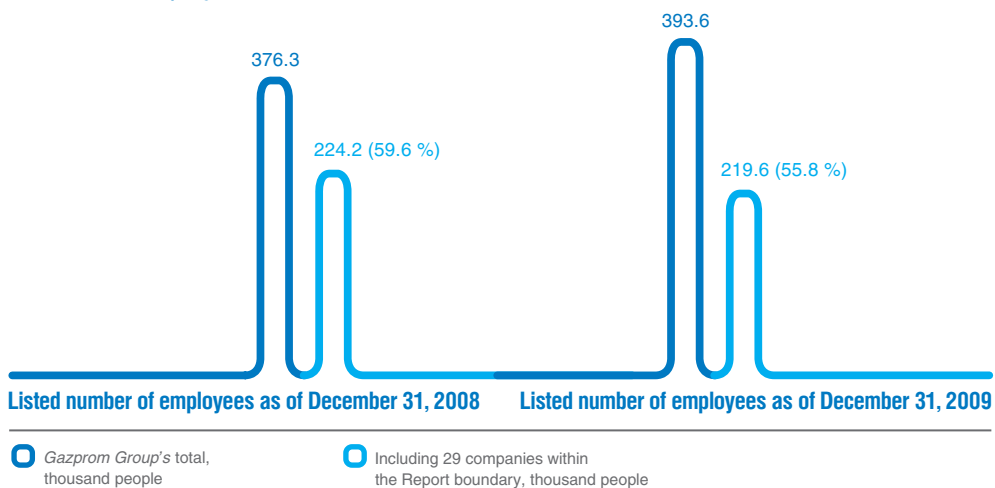
In the context of streamlining the corporate governance structure *the Company* restructures its assets. However, the reporting period saw no considerable employee layoffs<sup>34</sup>.

A crucial element in the industry human resources system is the use of shift work. In 2009 a total of 13 companies applied this method of operations, with 17.3 % of their overall employees involved, mostly at facilities situated in the Far North areas and locations with the same status (96.6 %). The main types of work on a rotational basis include gas production, pipeline construction and motor transport services. Rotational laborforce is largely represented by workers (74.8 %).

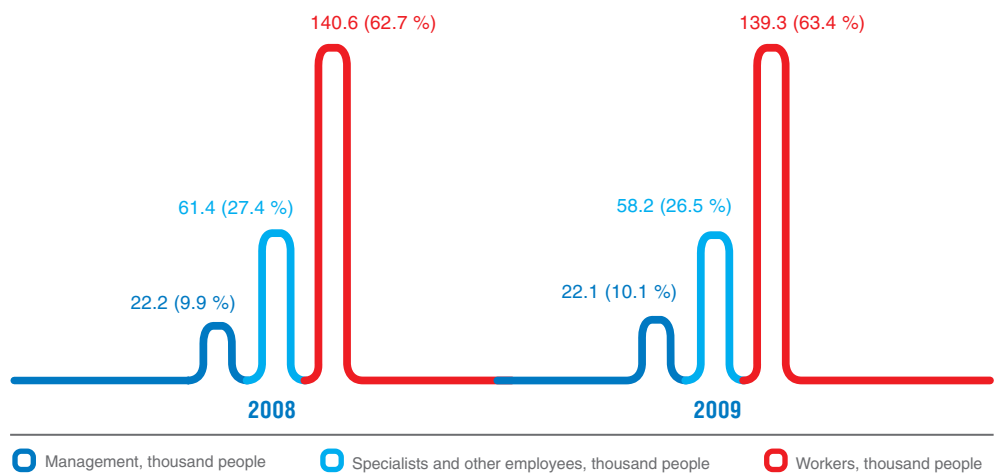
There are two forms of shift work arrangement: interregional (49.1 % of overall rotational personnel) and intraregional (51.9 %). The list of the basic recruitment areas remains practically unchanged: the Republic of Bashkortostan and the Udmurt Republic, the Krasnodar Territory, the Belgorod, Moscow and Samara Regions as well as some other areas.

<sup>34</sup> According to the existing General Collective Agreement, a mass layoff occurs when 500 or more employees are terminated during a 90-day period.

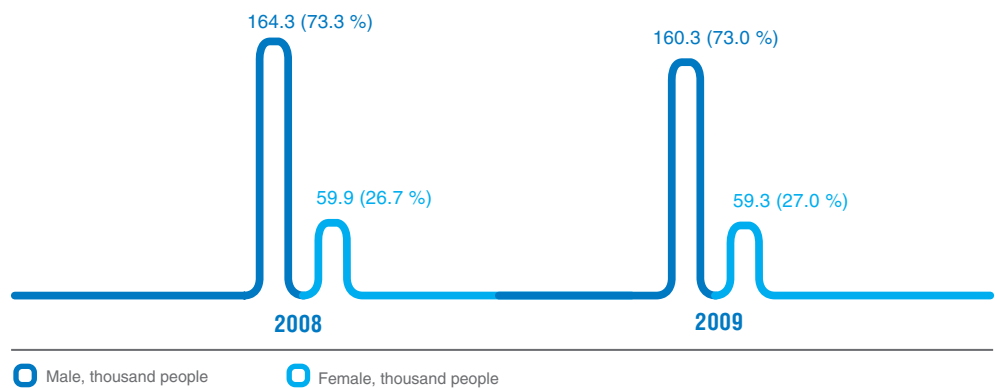
## Number of Employees



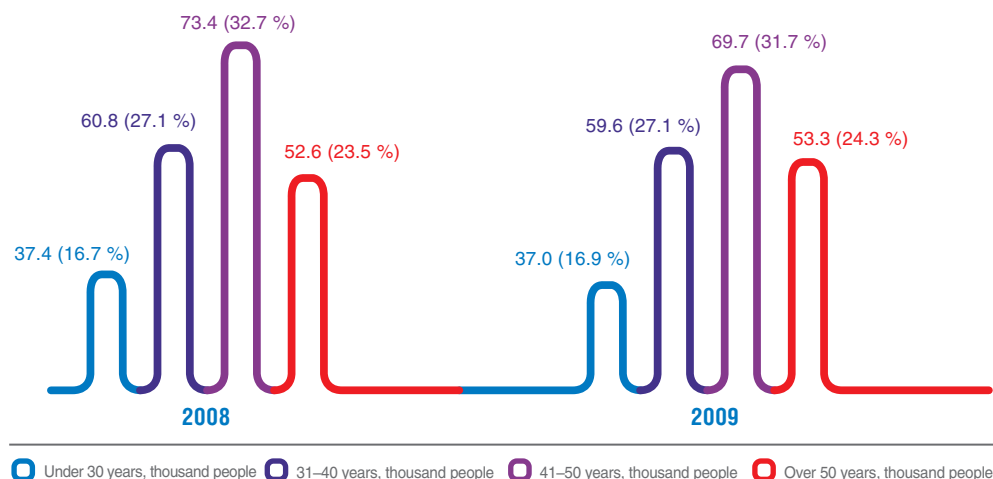
## Breakdown of Employees per Category



## Breakdown of Employees by Gender



## Breakdown of Employees by Age



## Management Principles

*Gazprom* complies with the requirements of the International Labor Organization's Conventions ratified by the Russian Federation. Following these requirements, *the Company* implements the international labor principles contained in the Conventions. The principles include freedom of association, effective recognition of the right to collective bargaining, elimination of all forced or compulsory labor forms and elimination of discrimination in respect of employment and occupation. *The Company* recognizes the right of employees to decent working conditions, namely to protection from occupational risks, career growth opportunities, rest and leisure, lifelong learning, maternity protection and other social guarantees which are discussed with employees and trade unions as their representatives.

### Implementation Mechanisms

*Gazprom's* position translates into compliance with the existing legislation and voluntarily assumed obligations. Social and labor relations between employees and the administration are regulated by labor laws, the Industry Agreement for the Oil and Gas Industry Organizations and the Construction of Oil and Gas Facilities in the Russian Federation over 2008 to 2010, the General Collective Agreement of OAO *Gazprom*, its Subsidiary Companies and Organizations as well as collective agreements of subsidiary companies and organizations. At the same time, there are several other documents regulating education, personnel management as well as medical services to employees and their families<sup>35</sup>. As of late 2009 all of the 29 companies within the Report boundary participated in the General Collective Agreement<sup>36</sup> which affected the interests of 100 % of employees. The Agreement is concluded for a three-year period on a voluntary basis (subsidiary companies and organizations decide on their own whether to join it or not).

The primary aim of the Agreement is to reconcile the interests of employees and the employer within the framework of a social partnership as well as to provide employees with additional guarantees and benefits versus the existing Russian legislation, legal standards and the Industry Agreement with due regard to *the Company's* economic potential.

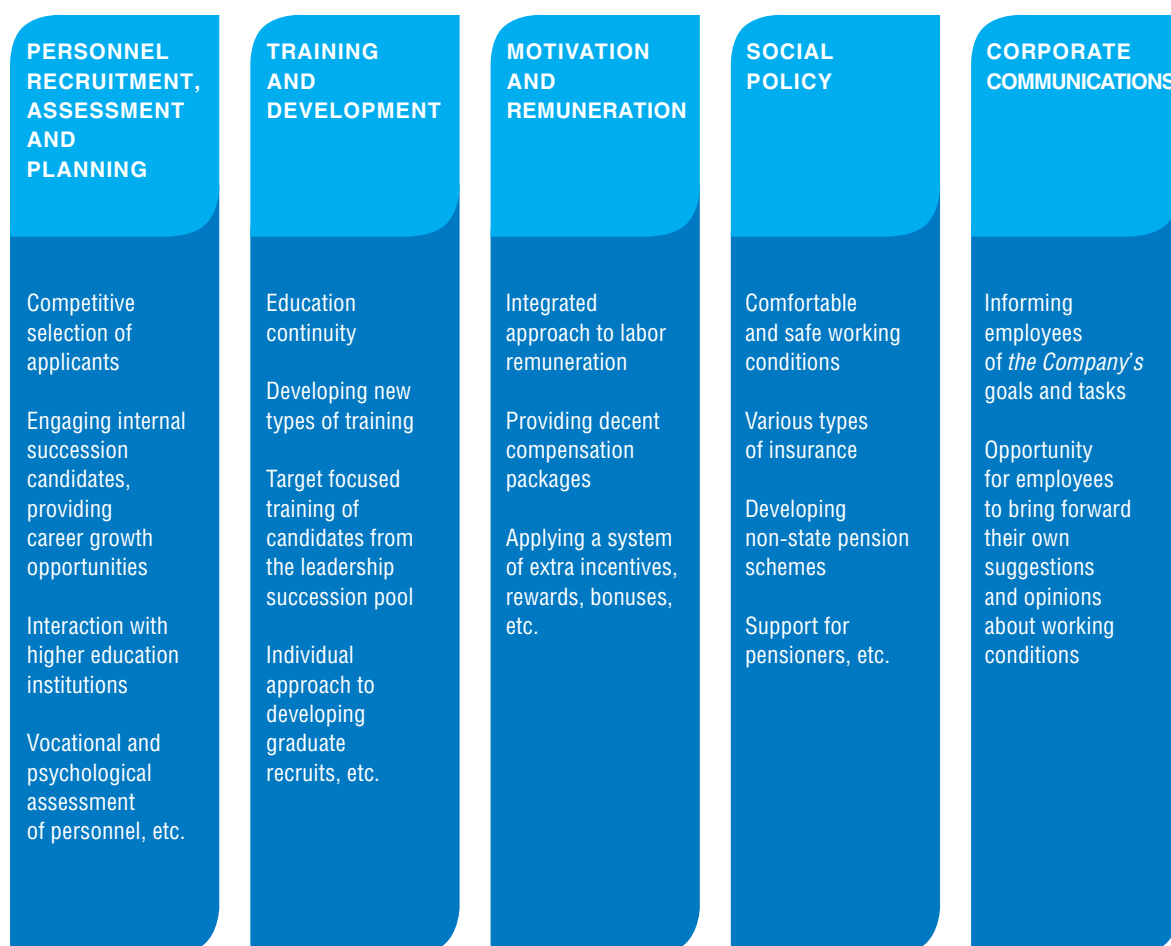
<sup>35</sup> The Provision on the Continuous Vocational Education and Training System for Managers and Specialists, the Provision on the Continuous Vocational Education and Training System for Workers in OAO *Gazprom* Companies and Organizations, the Provision on the Work with Graduate Recruits with Higher and Secondary Vocational Education and their Internships in OAO *Gazprom* Subsidiary Companies and Organizations, the Provision on Psychological Support to Personnel Management in OAO *Gazprom*, the Provision on Medical Services to OAO *Gazprom* Employees, Non-Working Pensioners and Their Family Members, etc.

<sup>36</sup> The General Collective Agreement covers a total of 69 subsidiary companies and organizations.

### Human Resources Policy

The Human Resources Policy of OAO Gazprom, its Subsidiary Companies and Organizations<sup>37</sup> is a system of principles and conceptual approaches with regard to personnel management, which should contribute to successful development of *the Company* and harmonization of the interests of its employees, shareholders, product consumers and the state. The Policy is implemented by *the Company's* officers at all management levels including the Management Committee Chairman. The implementation process is coordinated by OAO Gazprom Human Resources Department in conjunction with HR units of subsidiaries and other organizations within *Gazprom Group*. The principal goal of the Policy is to secure maximum returns on human capital investments by comprehensively motivating all employees and promoting an objective and efficient evaluation system for their personal contributions. This goal is achieved through five-year comprehensive programs including the current 2006–2010 Comprehensive Program.

### HR Policy Fundamentals



<sup>37</sup> The Policy was endorsed by the OAO Gazprom Management Committee's Resolution of November 7, 2006.

## Right to Work and Equal Opportunities: Recruitment Policy

The principle of the right to work and equal opportunities is implemented by means of *the Company's* recruitment system. The present-day market conditions require adequate approaches to building labor relations. Personnel selection challenges are set in the context of an increasingly complex business environment and, consequently, stricter requirements for professional skills of employees and their ability to accomplish tasks of growing complexity. The employment policy provides for the right to obtain a job in *the Company* on a common competitive basis. The 2008–2009 period saw the introduction of new labor management forms, higher efficiency of candidate selection and employment procedures and considerable reorganization of *the Company's* specialized website – [www.gazpromjob.ru](http://www.gazpromjob.ru)<sup>38</sup>.



The Policy is published on *the Company's* website ([www.gazprom.com](http://www.gazprom.com)).

## Right to Self-Fulfillment and Career Growth: Assessment, Succession Pool Program, Motivation System

### Assessment

The opportunity to climb up the career ladder and receive remuneration for work is one of the key factors encouraging efficient performance. Individual prospects of *the Company's* employees depend on their performance assessment results. Suitability for a job is commonly checked through an employee appraisal procedure. Based on recommendations of performance review commissions a decision is taken on employee training needs, pay changes, inclusion in the succession pool, promotions/demotions as well as on other issues having a direct impact on whether employees could realize their potential.

### Succession Pool Program

Given the specific nature and conditions of its operations, *Gazprom* carries out purposeful work to select and train managers of various levels and specialists. The succession pool is drawn from promising employees with advanced practical knowledge, personal and professional qualities.

### Motivation

*The Company's* motivation and remuneration policy is aimed at establishing an environment contributing to improved performance, efficient self-fulfillment, professional and personal growth of each and every employee. Both financial and non-financial incentives are used to encourage performance. In addition to boosting employee morale, corporate rewards have an extra motivational aspect as they give ground to use a multiplier for calculating non-state pensions.

### MANAGERS AND SPECIALISTS APPRAISED

|      | TOTAL NUMBER<br>OF EMPLOYEES | % OF THE NUMBER OF MANAGERS<br>AND SPECIALISTS |
|------|------------------------------|--|
| 2008 | 30,303                       | 41.8   |
| 2009 | 35,444                       | 49.2   |

## Energy for Development

The principle to constantly develop employees' working skills is implemented through the personnel training and development policy.

*Gazprom* faces critical challenges it hasn't dealt with before. Meeting some of these challenges is directly linked with the quality of forward-looking training for achieving new operating objectives, increased requirements for employees' professionalism and their responsiveness to innovations.

Moreover, when involved in joint projects *Gazprom's* employees have to work in a diverse cultural and business environment, so they are required to be not only professionally competent, but also highly adaptive.

<sup>38</sup> In April 2010 a new corporate website – [www.gazpromvacancy.ru](http://www.gazpromvacancy.ru) – was launched. This specialized site notifies the public about vacancies available in *the Company* and its subsidiaries in a more transparent and informative manner.



### Policy

The training and development system envisages attaining the following goals:

- applying, accumulating, improving and disseminating gained knowledge and skills across *the Group*;
- developing individual skills and abilities of employees so as to help them, among other things, remain competitive in the labor market;
- minimizing risks associated with possible mistakes in the production process or wrong managerial decisions which can cause serious damage not only to *Gazprom's* companies, but also to third parties concerned.

## COOPERATION

Cooperation with international oil and gas companies and training centers in the personnel training area is a crucial tool for improving mutual understanding and trust under the globalization conditions.

In 2008–2009 joint training programs were arranged with E.ON Ruhrgas, Wintershall Holding, Gasunie, GDF SUEZ, DNV and other partners. An agreement of intent on cooperation was signed with CNPC.

A total of 736 managers and specialists from OAO Gazprom and its subsidiaries participated in joint programs in 2008 and 258 in 2009.

A group of specialists examined the training system for personnel of oil and gas production platforms and



emergency handling vessels at Falck Nutec's training center (Bergen, Norway). In addition, summer exchange programs for children are implemented in cooperation with E.ON Ruhrgas.

### Major Programs

Programs have been developed for every stage of a career (from graduate recruits to pre-retirees) and for all categories of employees.

Managerial staff improve their competencies through higher education programs as well as through the corporate Gazprom MBA and Succession Pool programs. Special significance is attached to joint programs with international companies – *Gazprom's* project partners.

Specialists are offered an equally extensive selection of programs taking into account their operating profile. Training is provided both by *Gazprom* (OAO Gazprom Institute for Managerial Personnel Development and Retraining, OAO Gazprom Industry Research Training and Simulation Center) and other educational institutions (more than 50 federal universities).

The Continuous Vocational Education and Training System (CVETS) is aimed at providing *the Group* with skilled workforce. The key CVETS principles are as follows:

- continuity – training is provided throughout a career;
- additionality – along with compulsory (statutory) training, target focused (forward-looking) and periodic training is provided.

The training process for this category of employees is improved through the implementation of the Quality Management System (QMS): as of late 2009 five out of 29 educational institutions of *Gazprom's* subsidiaries passed the QMS certification tests.

## Training and Development Programs

### MANAGERS

- Succession Pool School Program
- Workshops
- Gazprom MBA
- Joint educational projects with partners

### SPECIALISTS

- CVETS programs
- Workshops
- Joint educational projects with partners

### WORKERS

- CVETS programs
- Accelerated vocational training
- Vocational retraining
- Advanced vocational training

### GRADUATE RECRUITS

- Two-year program for inexperienced employees
- Workshops and conferences

### PRE-RETIREEES

- Psychological support workshops

NUMBER OF EMPLOYEES TRAINED, THOUSAND PEOPLE<sup>39</sup>

|      | TOTAL  | MANAGERS AND<br>SPECIALISTS | WORKERS<br>(VOCATIONAL EDUCATION<br>AND TECHNICAL TRAINING) |
|------|--------|-----------------------------|---|
| 2008 | 181.79 | 55.17                       | 126.62  |
| 2009 | 148.59 | 26.41                       | 122.18  |

### Grants

As proven by the best international practices, grants are an effective tool for stimulating innovations and personal initiatives.

ОАО Газпром annually provides 25 scholarships encouraging capable and promising students from industry higher education institutions.

For its employees *the Company* annually offers on a competitive basis one grant for doctorate studies and four grants for post-graduate studies.

## Working Conditions and Health Protection

### Workplace Assessment

Comprehensive assessment of workplaces is a preventive mechanism for bettering working conditions, improving a workplace in terms of labor standardization and ensuring efficient use of equipment.

Based on the results of 2009, ОАО Газпром and its gas production, transmission, storage and processing subsidiaries assessed 100 % of the workplaces.

The year 2008 saw the deployment of an Automated Information System enabling to process the comprehensive workplace assessment results. At the same time, amendments were introduced in the relevant regulations so as to mitigate adverse health effects at workplaces and improve labor conditions for employees operating in an unfavorable environment.

As a result, accident insurance contributions to the Social Insurance Fund decreased in 2008–2009 due to a decline in accidents. The savings were used to finance preventive measures aimed at reducing occupational injuries and illnesses.

### Social Support

The Human Resources Policy with regard to social security of employees is based on the social partnership principles. A balance between the interests of employees and employers is maintained through negotiations and collective agreements.

*“None of the factors including the global financial and economic crisis impacts can change the Company’s approaches to providing social guarantees for its personnel. The socioeconomic and labor rights of Gazprom’s employees were, are and will remain a priority for the Company in securing the efficiency of its operations”.*

Alexey Miller, Chairman of ОАО Gazprom Management Committee

<sup>39</sup> *The Company* does not keep record of training hours per employee a year. The indicator used in *Gazprom’s* record keeping system is therefore presented.

### General Collective Agreement

Concluded since 2004, the General Collective Agreement provides for a uniform list and amount of social benefits, guarantees and compensations with due consideration for *the Company's* economic potential. *The Company's* obligations under the General Collective Agreement ensure a higher level of social protection as compared to the respective Russian legislation in force.

The General Collective Agreement covers all employees, their family members, pensioners and trade union officials of *Gazprom* as well as its subsidiary companies and organizations which authorized the Agreement conclusion. The General Collective Agreement provisions are a baseline for collective agreements signed within subsidiaries.

#### SOCIAL BENEFITS, GUARANTEES AND COMPENSATIONS PROVIDED TO EMPLOYEES (UNDER THE GENERAL COLLECTIVE AGREEMENT), RUB MILLION

|  | 2009      |
|--|-----------|
| Payments to employees, including                                 | 26,013.35 |
| payments to women, families with children<br>and young employees | 2,790.67  |
| Payments to pensioners   | 1,367.02  |
| Total payments   | 27,380.37 |

### Social Benefits

Employees are provided with: financial aid for annual leaves or in case of special life events, supplemental payments to make up the difference between the maximum temporary disability allowance and average wages, medical services, health resort and rehabilitation treatment, additional retirement benefits through the Non-State Pension Fund Gazfond as well as assistance in resolving housing issues, etc.

Subsidiaries are free to expand this list of benefits within the limits of their financial and economic potential: additional benefits include as a rule extra financial assistance for family reasons, compensations for commuting expenses, free membership in various hobby groups for employees' children as well as compensations for additional education of children in music, arts, sports and other schools.

In 2008–2009 non-working pensioners were entitled to financial assistance<sup>40</sup>, monthly pension supplements, resettlement expense reimbursements as well as compensations for health resort voucher acquisition and funeral expenses.

### Pension Scheme

Non-state retirement benefits provided through Gazfond are a crucial element of the social policy. *The Company* has adopted a pay-as-you-go pension scheme with a fixed amount of payments. Pensions are paid for life.

To become a member of Gazfond an employee has to attain the age granting the right to an old-age retirement pension, given there is a five-year term of employment with a company within OAO Gazprom system.

<sup>40</sup> Financial assistance was provided on anniversary occasions, in the event of a spouse's death, infliction of damage, for rehabilitation purposes, in the case of pensioners' death as well as for partial reimbursement of housing repair costs.

## GAZFOND MEMBERSHIP, PEOPLE

|  | AS OF DECEMBER 31, 2009<br>TOTAL | INCLUDING<br>PENSIONERS |
|--|----------------------------------|-------------------------|
| Total  | 124,287                          | 61,930                  |
| OAO Gazprom (excluding affiliated companies<br>and representative offices) | 1,428                            | 877                     |
| OAO Gazprom's subsidiaries   | 122,859                          | 61,053                  |

## Interaction with Trade Unions

The Interregional Trade Union (ITU) of OAO Gazprom is the backbone of interaction between *the Company* and its employees. As of late 2009 the ITU brought together 66 trade unions with a total of 330 thousand members – 93 % of overall employees.

The ITU plays an important role enforcing the adherence to the General Collective Agreement through participation in the Commission for the Regulation of Social and Labor Relations, which reviews the fulfillment of obligations assumed by *the Company*.

OAO Gazprom Management Committee and the ITU Council Presidium periodically hold joint meetings. Draft general collective agreements are discussed at employee conferences.

The key events in the reporting period were the review of the results of the General Collective Agreement effective through 2009 and the adoption of a new Agreement for 2010 through 2012. The final conference participants acknowledged that the obligations provided for in the General Collective Agreement had been mostly fulfilled by *the Company*.

## Third-Party Assurance Statement

### Assurance Statement by RUIE Council for Non-Financial Reporting on OAO Gazprom Sustainability Report 2008/2009

The Council for Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs (RUIE) (hereinafter referred to as the Council) set up in line with the decision of the RUIE Board of Management Bureau (Resolution of June 28, 2007) has reviewed the OAO Gazprom Sustainability Report 2008/2009 (hereinafter referred to as the Report) on OAO Gazprom's (hereinafter referred to as *Gazprom, the Company*) initiative. *The Company* addressed the RUIE with a request to arrange the assurance procedure by the Council forming the opinion on the relevance and completeness of the information in *the Company's* non-financial report from the perspective of the Social Charter of the Russian Business that sets forth the responsible business practice principles.

On July 23–30, 2010 the Council members studied the Report submitted by *the Company* and produced this Statement according to the Council-approved Assurance Procedure. The Council members have the appropriate competence in corporate responsibility, sustainability and non-financial reporting, adhere to the ethical requirements of independence and objectivity, and express their personal expert opinions rather than the opinions of the organizations they represent.

The Council took into consideration that the Report boundary covers the activities of *Gazprom's* affiliated companies located in the Russian Federation and dealing with natural gas production, transmission, storage and processing (according to the data presented, the companies included in the Report accounted for 91.3–93.5 % of natural gas produced by *the Company* over 2008 to 2009).

The Report was evaluated on the following relevance and completeness criteria applied to the data set out therein:

Information is considered relevant insofar as it reflects a company's efforts to implement the responsible business practice principles contained in the Social Charter of the Russian Business ([www.rspp.ru](http://www.rspp.ru)).

Completeness envisages that a company comprehensively describes its activities in the Report – the values and strategic guidelines that underlie these activities, management systems and structures, interaction with stakeholders, achievements and key operating results as well as performance indicators.

*The Company's* adherence to an international reporting system is taken into account as part of the assurance procedure. However, confirmation of compliance with an international reporting system is not the purpose of this Statement.

Responsibility for the information and statements presented in the Report is borne by OAO Gazprom. Accuracy of the actual data provided in the Report is beyond the scope of the assurance procedure.

This Statement has been prepared for OAO Gazprom. *The Company* may use this Statement both for internal purposes and for communications with stakeholders by publishing it in its original form.

### CONCLUSIONS

Based on the Report analysis, public information on *the Company's* official website and collective discussions in respect of the independent assessment of the Report provided by the members of the RUIE Council for Non-Financial Reporting, the Council states as follows:

**OAO Gazprom Sustainability Report 2008/2009 contains overall significant information, encompasses the key areas of responsible business practice in accordance with the Social Charter of the Russian Business principles and discloses in reasonable detail the information on *the Company's* performance in these areas in the gas business context.**

**Economic Freedom and Responsibility:** the Report contains data on the 2008/2009 operating highlights reflecting *the Company's* leadership in the Russian economy and in the global energy industry as a whole. The Report formulates *Gazprom's* strategic goal and mission in the sustainability context and outlines the strategic guidelines of *the Company's* gas business development with due consideration of Russia's Energy Strategy and global trends. It also provides data on the business management aimed at achieving strategic goals and based on the planning system involving the use of strategic performance indicators. The Report also contains detailed information on other sub-systems for economic efficiency management and for the fulfillment of sustainability principles such as reliability assurance, rational approach, responsibility and safety of *the Company's* activities. The Report specifies *the Company's* attitude toward commercial terms and conditions of natural gas supplies to consumers, and briefs on *Gazprom's* innovative activities oriented toward raising *the Company's* competitiveness. It is stated that the decision making processes in the area of sustainable development and socio-ecological consciousness are being integrated in *the Company's* corporate management system which is being improved in line with the Corporate Code of Conduct approved by the Federal Service for Financial Markets as well as with the appropriate principles of the Organization for Economic Cooperation and Development.

**Business Partnership:** The practice of business partnership presented in the Report embraces cooperation with different levels of governmental bodies, employees, shareholders, investors, Russian and international companies, research and community organizations. The Report describes the responsible business practice applied to relations with partners, which relies on a set of corporate regulatory documents. These include: the Corporate Code of Conduct, the Environmental Policy, the Occupational Health and Safety Policy, the Regional Policy Concept, the Human Resources Policy, etc. Building up trust and enhancing transparency in relations with shareholders and investors are considered by *the Company* as paramount objectives. According to the Report, interaction with the above mentioned groups is system-based and provides for measures aimed at protecting the minority shareholders' rights. The interaction with regional and local authorities is regulated by Agreements of Cooperation (a total of 79) as well as by the Russian Regions Gasification Program. It is reported that *the Company* cooperates with foreign companies in introducing state-of-the-art technologies for the gas industry and new products for consumers. The Report covers cooperation with *the Company's* employees, which relies on the principles of social partnership. The Human Resources Policy comprises selection, training, development and motivation of staff, establishment of safe working conditions and assurance of social guarantees to employees.

**Human Rights:** *The Company* claims its adherence to labor rights in accordance with Russian and international standards as well as with the provisions of the Industry Agreement for the Oil and Gas Industry Organizations and the Construction of Oil and Gas Facilities in Russia over 2008 to 2010. The rights of *Gazprom's* employees are also protected by the General Collective Agreement and collective agreements of subsidiary companies. *The Company's* commitment to human rights is reflected in the basic corporate documents and procedures for their implementation. It is stated that *the Company* recognizes the rights of indigenous people of the North to preserve their national traditions and cultural identity.

**Environmental Protection:** Environmental and process safety, and nature conservation are given top priority as it appears from the Report. The policy and the key elements of the management system in this area are reflected in the corporate documents – the OAO Gazprom Energy Saving Concept 2001–2010, the Occupational Health and Safety Policy and the Environmental Policy. The safety policy applies corporate standards and procedures of accident prevention and safety maintenance to the gas transmission system. The environmental safety is secured through the Environmental Management System; *the Company* has established the Coordinating Committee for Environmental Protection and Energy Efficiency, and the Environmental Inspectorate. Certification procedures are in place to assess compliance with the ISO environmental management standards (ISO 14000). The Report sums up the environmental activities performed by the companies listed in the Report. These activities are aimed at reduction of atmospheric emissions, water consumption, treatment of wastes, land remediation and allocation of funds for environmental protection purposes. Additional information on meeting the environmental obligations can be found in the Environmental Reports published by *Gazprom* in the form of an integrated document for many years



and placed on *the Company's* website. Maintaining the status of a global company, *Gazprom* declares its intention to contribute to solving the global problem of climate change as part of Russia's obligations on managing greenhouse gas emissions. For the first time in the reporting period *the Company* submitted information to the Carbon Disclosure Project international investment partnership on its performance in reducing and preventing greenhouse gas emissions.

**Participation in the Local Community Development:** As *the Company's* subdivisions are geographically dispersed almost over the entire territory of the Russian Federation, the scale and impact of *Gazprom's* social activities are not limited to any separate region or local community. In this respect, when addressing this component of *the Company's* sustainable development the Report is focused on two programs of nationwide significance: the Russian Regions Gasification Program and the Gazprom to Children major social project. Information is also provided on various social programs, sponsorship and charitable projects. The Report also reflects interaction with Russian Federation constituents and municipalities carried out in accordance with *Gazprom's* Regional Policy Concept and regulated by agreements of cooperation and separate contracts. A special section of the Report is dedicated to the practice of unique areas preservation and the programs being executed for the benefit of indigenous people of the North.

On the whole, the information included in the Report demonstrates *the Company's* large-scale activities in the area of natural gas production, transportation, storage and processing as well as reliable gas supply to consumers. The information presented gives an insight into integration of sustainability and responsible partnership principles in the business practice, management systems, experience of interaction with investors, shareholders, employees, authorities and local communities. *The Company's* economic, social and environmental performance is described in the Report across a wide range of parameters. The Russian and international reporting systems (IFRS, GRI) were used during the Report preparation thus enabling to compare the data with that of other companies.

Pointing out the virtues of OAO Gazprom Sustainability Report 2008/2009, the Council draws *the Company's* attention to a number of aspects related to the relevance and completeness of information disclosed that are significant to stakeholders. It is recommended that these aspects are taken account in subsequent reporting cycles.

Considering *the Company's* role in the national economy, it seems reasonable to provide in the Report a wider coverage of the system of principles and objectives defined for sustainable development and applied in *the Company's* business. It is recommended that more details on these issues are given in a subsequent reporting cycle and *the Company's* position is fully reflected in a special section dedicated to sustainable development. It would also be useful to add the data on the way the decision making mechanisms in the area of corporate responsibility and sustainable development are integrated in the corporate management system with due consideration for delineation of responsibilities between all parties: the shareholders, the General Meeting, the Board of Directors and *the Company's* management. Such information provides for a broader appreciation of the responsible business practices established within *the Company*.

Taking into account a keen public interest in *the Company's* activities and considering the fact that the Report is intended for a wide range of stakeholders with each one of them expecting to have its interests met in the Report, *the Company* should take notice that the data on the policy and practice of interaction with stakeholders is essential in the sustainable development context. It is therefore recommended that fuller information is provided on these issues in subsequent reporting cycles and information on interaction management as well as mechanisms and results of *the Company's* activity in this area are included in reports. Information concerning *the Company's* responses to relevant requests from various stakeholder groups, such as environmental organizations and independent gas producers, will make the Report more complete and valid.

More details should be given on the significant aspects of *the Company's* activity highlighted in the Report with regard to risk management that may impact the sustainable development process. *The Company's*

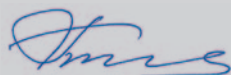
performance representation will be more convincing if the Report fully describes the management system for environmental, social and other non-financial risks as well as common approaches and procedures for their identification, probability reduction and adverse impacts mitigation.

The Report describes modern approaches to the strategy based on the planning system and performance goals as well as short- and medium-term plans in *the Company*. It seems important to present their brief description and the tasks for the next reporting period in a special section of the Report. To attain more credibility it is reasonable to correlate *the Company's* achievements with long-term targets as well as with medium-term objectives for a reporting period and a subsequent one. It is also recommended to include measurable benchmarks (quantitative indicators or particular measures planned) which provide for a fuller coverage of the economic, social and environmental performance results as well as achievement of the planned level.

The Council points out the importance of the Sustainability Report, the first one in *the Company's* history, and recommends developing the reporting practice and expanding subsequent reports as practicable in order to further enhance the information disclosure and improve the transparency of *the Company's* business.

The Council recommends that *the Company* adopts the procedures of open public hearings in relation to the Report with the involvement of a broad spectrum of stakeholders.

The RUIE Council for Non-Financial Reporting gives a positive assessment of the Report, supports *the Company's* commitment to the responsible business practice principles and confirms that OAO Gazprom Sustainability Report 2008/2009 has passed the assurance procedure.




Fyodor Prokopov  
Chairman of the RUIE Council  
for Non-Financial Reporting



Elena Feoktistova  
Deputy Chairman of the RUIE Council  
for Non-Financial Reporting,  
Executive Secretary of the Council

## GRI Standard Disclosures and Performance Indicators as Used in Report and GRI Application Levels

| GRI APPLICATION LEVELS |   |    |   |    |   |    |
|------------------------|---|----|---|----|---|----|
|                        | C | C+ | B   | B+ | A | A+ |
| Self Declared          |   |    |  |    |   |    |
| Third Party Checked    |   |    | V   |    |   |    |
| GRI Checked            |   |    | —   |    |   |    |

| STANDARD DISCLOSURES AND INDICATORS |   |  |  |   |
|-------------------------------------|---|--|--|---|
| GRI DISCLOSURES / INDICATORS        | DESCRIPTION   | REPORT, WEBSITE PAGE                               | NOTES  |   |
| 1.1                                 | Statement from the most senior decisionmaker of the organization about the relevance of sustainability to the organization and its strategy | 4–5  |  |   |
| 1.2                                 | Description of key impacts, risks and opportunities   | 21, 29, 36–37, 42–43, 45–46, 52, 54, 58, 67, 69–70 | The Company assesses various sustainability risks and opportunities (business risks, environmental risks, safety risks; opportunities emerging due to innovative activities and new energy sources, etc.). |   |
| 2.1                                 | Name of the organization  | 3, 8, 102  | •  | OAO Gazprom, with due consideration of the Report boundary (see Disclosures 3.6 and 3.7). |
| 2.2                                 | Primary brands or products  | 12–14  |  |   |
| 2.3                                 | Operational structure of the organization, including main divisions, subsidiaries and joint ventures  | 12–14  | •  |   |
| 2.4                                 | Location of the headquarters  | 102  | •  | OAO Gazprom's headquarters is located at the specified address.                           |

|      |  |               |   |
|------|--|---------------|---|
| 2.5  | Number of countries where the organization operates                                    |               | <ul style="list-style-type: none"> <li>• OAO Gazprom's companies within the Report boundary run their businesses in the Russian Federation except for OOO Gazprom export which operates in the Russian Federation but sales goods internationally as well (over 30 countries). As of late 2009 <i>Gazprom Group</i> was operating in 11 countries worldwide, including: Kazakhstan, Kyrgyzia, Tajikistan, Turkmenistan and Uzbekistan in CIS; Vietnam, India, Venezuela, Libya, Iran and Bolivia beyond CIS.</li> </ul>               |
| 2.6  | Nature of ownership and legal form   | 10, 12, 23    | •   |
| 2.7  | Markets served   | 11, 14        | •   |
| 2.8  | Scale of the reporting organization  | 11–15, 23, 81 | <ul style="list-style-type: none"> <li>• Disclosed within the Report boundary. Information on OAO Gazprom capitalization is published on the corporate website (<a href="http://www.gazprom.com/investors/">http://www.gazprom.com/investors/</a>) as well as in the Market Indicators table in Page 8 of the Gazprom in Figures 2005–2009 factbook (<a href="http://www.gazprom.com/f/posts/05/285743/reference-figures-2005-2009_1.pdf">http://www.gazprom.com/f/posts/05/285743/reference-figures-2005-2009_1.pdf</a>).</li> </ul> |
| 2.9  | Significant changes during the reporting period regarding size, structure or ownership | 12, 14        | •   |
| 2.10 | Awards received in the reporting period  |               | OAO Gazprom has not received sustainability awards in the reporting period.   |
| 3.1  | Reporting period   | 7             |   |
| 3.2  | Date of the most recent previous Report  | 4             | Irrelevant: <i>the Company</i> publishes its first Sustainability Report.   |
| 3.3  | Reporting cycle  |               | The first reporting cycle embraces two years. It is projected to maintain the biennial reporting cycle further on.  |
| 3.4  | Contact information  | 102           |   |
| 3.5  | Process for defining the Report content  | 8–9           |   |
| 3.6  | Boundary of the Report   | 7, 8, 13      |   |
| 3.7  | Limitations on the scope or boundary of the Report                                     | 7–8           |   |
| 3.8  | Basis for reporting on joint ventures, subsidiaries, etc.                              | 8             |   |

|      |   |                |  |
|------|---|----------------|--|
| 3.9  | Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the Report | 15, 52, 64, 87 |  |
| 3.10 | Explanation of the effect of any re-statements of information provided in earlier reports and the reasons for such re-statement   |                | Irrelevant since <i>the Company</i> publishes its first Sustainability Report.   |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report   |                | Irrelevant since <i>the Company</i> publishes its first Sustainability Report.   |
| 3.12 | Table identifying the location of the Standard Disclosures in the Report  | 94             |  |
| 3.13 | Policy and current practice with regard to seeking external assurance for the Report  | 9              |  |
| 4.1  | Governance structure of the organization, including committees under the Board of Directors   | 23–24          | •  |
| 4.2  | Indicate whether the Chair of the highest governance body is also <i>the Company's</i> executive officer  |                | No, he is not.   |
| 4.3  | State the number of independent members of the highest governance body  | 23             |  |
| 4.4  | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body  | 24, 26, 88, 89 |  |
| 4.5  | Linkage between compensation for members of the highest governance body and the organization's performance  | 21, 26         |  |
| 4.6  | Processes in place to ensure conflicts of interest are avoided  | 24, 26         | •  |
| 4.7  | Processes for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental and social topics           |                | The qualifications and expertise of the member candidates for the Board of Directors are determined on the basis of their track record. <i>The Company</i> does not apply special criteria for determining qualifications in environmental or social topics. |
| 4.8  | Internally developed statements of mission or values, codes of conduct, etc.  | 17, 19, 24     | •  |

|      |   |   |  |
|------|---|---|--|
| 4.9  | Procedures of the highest governance body for overseeing the organization's identification and management of economic, social and environmental performance | 21, 24  | Partially disclosed.   |
| 4.10 | Processes for evaluating the highest governance body's own performance, particularly with respect to sustainable development                                | 21  | Partially disclosed.   |
| 4.11 | Explanation of whether and how the precautionary approach or principle is addressed by the organization   | 67  |  |
| 4.12 | Externally developed economic, environmental and social charters, principles or other initiatives to which the organization subscribes or endorses          | 67  |  |
| 4.13 | Memberships in associations and/or national/international advocacy organizations  | <ul style="list-style-type: none"> <li>•</li> </ul> | <i>The Company</i> represents the Russian Federation in the International Gas Union.   |
| 4.14 | List of stakeholders  |   | <i>The Company's</i> stakeholder list comprises many groups and subgroups. The Report exemplifies the approaches to engaging only the basic stakeholder groups and quotes the statements by representatives from these groups. |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage  |   | Stakeholders are engaged either on the operational or geographic basis; the respective structural units of OAO Gazprom or its subsidiary companies select the engagement basis and forms.                                      |
| 4.16 | Approaches to stakeholder engagement  | 18–19, 27, 32, 45, 62, 67, 76–77, 79, 89            | Partially disclosed.   |
| 4.17 | Key topics and concerns that have been raised through stakeholder engagement  | 35, 42–47, 51–54, 62, 67, 69–73                     | The Report expresses <i>the Company's</i> idea of several topics and concerns that have been raised through stakeholder engagement.  |
| EC1  | Direct economic value generated and distributed   | 15  |  |

|      |   |               |  |
|------|---|---------------|--|
| EC2  | Financial implications and other risks and opportunities for the organization's activities due to climate change  | 67            |  |
| EC8  | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement      | 69–79         |  |
| EN3  | Direct energy consumption by primary energy source  | 51            |  |
| EN5  | Energy saved due to conservation and efficiency improvements  | 51            |  |
| EN6  | Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives | 52–55         |  |
| EN8  | Total water withdrawal by source  | 63–64         | Partially disclosed.   |
| EN10 | Percentage and total volume of water recycled and reused  | 64            |  |
| EN16 | Direct and indirect greenhouse gas emissions by weight  | 62–63         | Partially disclosed.   |
| EN18 | Initiatives to reduce greenhouse gas emissions  | 51–52, 54, 67 | •  |
| EN19 | Emissions of ozone-depleting substances by weight   |               | The volume of ozone-depleting substance emissions is insignificant.                                |
| EN20 | NO <sub>x</sub> and SO <sub>x</sub> air emissions   | 62            |  |
| EN21 | Total water discharge by quality  | 64            | Partially disclosed.   |
| EN22 | Total weight of waste by type and disposal method   | 64            | Partially disclosed.   |
| EN23 | Total number of significant spills  |               | Irrelevant since the Report boundary covers information on <i>the Company's</i> gas business only. |
| EN26 | Initiatives to mitigate environmental impacts of products and services  | 58            |  |
| EN28 | Monetary value of significant fines <...> for non-compliance with environmental laws and regulations  | 65            |  |
| EN30 | Total environmental protection expenditures and investments   | 65            |  |



|      |   |       |  |
|------|---|-------|--|
| LA1  | Total workforce by employment type, employment contract and region  | 81    | Partially disclosed.   |
| LA2  | Total number and rate of employee turnover by age group, gender and region  | 80–82 | Partially disclosed.   |
| LA3  | Benefits provided to full-time employees that are not provided to temporary or part-time employees  | 88    |  |
| LA4  | Percentage of employees covered by collective bargaining agreements   | 82    |  |
| LA5  | Minimum notice period regarding significant operational changes   |       | Pursuant to the Russian legislation in force, this period is three months long.                                |
| LA7  | Rates of injury, occupational diseases, lost days and absenteeism and total number of work-related fatalities by region                               | 61    | Partially disclosed.   |
| LA11 | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings | 84–87 | Partially disclosed.   |
| LA12 | Percentage of employees receiving regular performance and career development reviews  | 84    | Partially disclosed.   |
| HR4  | Total number of incidents of discrimination and actions taken   |       | In the reporting period no complaints were registered with <i>the Company</i> of any discrimination incidents. |
| HR6  | Operations identified as having significant risk for incidents of child labor   |       | <i>The Company</i> does not employ child labor.  |
| HR7  | Operations identified as having significant risk for incidents of forced or compulsory labor  | 82    |  |
| HR9  | Total number of incidents of violations involving rights of indigenous people   |       | No incidents in the reporting period.  |
| S01  | Nature, scope and effectiveness of any programs and practices that assess and manage the impacts of operations on communities                         | 76–79 | Partially disclosed.   |
| S05  | Public policy positions and participation in public policy development and lobbying   | 19    |  |
| PR2  | Total number of incidents of non-compliance with regulations and voluntary codes  |       | Irrelevant to <i>the Company's</i> activities in the gas sector.   |

|     |  |  |
|-----|--|--|
| PR3 | Type of product and service information required by procedures   | Irrelevant to <i>the Company's</i> activities in the gas sector. |
| PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling                               | Irrelevant to <i>the Company's</i> activities in the gas sector. |
| PR6 | Programs for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship                    | Irrelevant to <i>the Company's</i> activities in the gas sector. |
| PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship | Irrelevant to <i>the Company's</i> activities in the gas sector. |

## Acronyms and Abbreviations

ADR – American Depositary Receipt  
APG – associated petroleum gas  
CBM – coalbed methane  
CDP – Carbon Disclosure Project  
CNG – compressed natural gas  
CVETS – Continuous Vocational Education and Training System  
EIA – environmental impact assessment  
EMS – Environmental Management System  
ETP – electronic trading platform  
FSU – former Soviet Union  
GRI – Global Reporting Initiative  
GTL – gas-to-liquids  
GTS – gas transmission system  
HR – human resources  
HSE – health, safety and environment  
IFRS – International Financial Reporting Standards  
IGP – independent gas producer  
ISO – International Organization for Standardization  
ITU – Interregional Trade Union  
LNG – liquefied natural gas  
LPG – liquefied petroleum gas  
NGV – natural gas vehicle  
PSMS – Process Safety Management System  
QMS – Quality Management System  
RES – renewable energy source  
TGC – territorial generating company  
UGS – underground gas storage  
UGSS – Unified Gas Supply System  
WGC – wholesale generating company

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