MANAGEMENT REPORT
OAO GAZPROM
2013

CONTENT

Note:

In the present Management Report some of operating and economic parameters have been determined in accordance with International Financial Reporting Standards (IFRS) principles and for the Gazprom Group's entities included in the IFRS consolidated financial statements of OAO Gazprom for the year ended December 31, 2013, therefore they can differ from similar parameters in reports of OAO Gazprom prepared under Russian statutory requirements.

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

Analysis of financial results should be read in conjunction with the audited consolidated financial statements of OAO Gazprom for the year ended December 31, 2013, prepared in accordance with IFRS.

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

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

THE GROUP'S POSITION IN THE GLOBAL ENERGY INDUSTRY

Gazprom is the global leader in terms of reserves (approximately 17%) and natural gas production volumes (approximately 13%). In Russia, Gazprom accounts for more than 73% of gas production and approximately 11% of oil and gas condensate production (including the share in the production of entities where Gazprom has investments classified as joint operations).

The Group owns the world's largest gas transportation network, which is located in Russia and extends for more than 168,900 kilometres. This network ensures distribution of natural gas to customers within Russia as well as access to European markets for natural gas.

In Russia, Gazprom accounts for a half of all natural and associated petroleum gas processing and 19% of oil and stable gas condensate refining.

Gazprom is the dominant supplier of gas to consumers in Russia (with a share of over 70% of the Russian market) and countries of the former Soviet Union (FSU). In addition, the Group is Europe's major supplier of natural gas (Gazprom has a 30.0% share of the European market, including Turkey). The Group has an extensive network of 1,747 fuel stations in Russia, the FSU and the Balkans.

Gazprom also owns electricity generating assets, which provide approximately 15% of all the electrical power generated in Russia.

The Gazprom Group's key operational and financial indicators for 2013 and 2012 are presented in the table below:

	As of and for the year ended December 31,		Change, %
	2013	2012 (restated)	
Reserves of hydrocarbons under PRMS Standards[1]			
Proved and probable gas reserves, bcm	23,264.5	23,387.0	-0.5
Proved and probable gas condensate reserves, million tons	832.4	808.7	2.9
Proved and probable crude oil reserves, million tons	1,407.2	1,408.3	-0.1
Total proved and probable reserves of hydrocarbons, bboe	154.2	154.7	-0.3
Operating indicators			
Natural and associated petroleum gas production[1], bcm	488.4	488.0	0.1
Crude oil production[1], million tons	42.3	42.3	-
Unstable gas condensate production[1], million tons	14.7	12.8	14.8
Total hydrocarbon production[1], million boe	3,307.3	3,289.1	0.6
Natural and associated petroleum gas refining, bcm	31,5	32.4	-2.8
Oil and stable gas condensate refining, million tons	66.1	61.5	7.5
Electricity generation, billion kilowatt-hour (kWh)	162.5	168.2	-3.4
Key financial results (RUB million)			
Sales	5,249,965	4,766,495	10.1
Operating profit	1,587,209	1,350,677	17.5
Profit for the year attributable to owners of OAO Gazprom	1,139,261	1,224,474	-7.0
Adjusted EBITDA	2,009,475	1,645,921	22.1
Balance Sheet highlights (RUB million)			
Cash and cash equivalents	689,130	425,720	61.9
Total debt	1,801,928	1,500,592	20.1
Net debt	1,112,798	1,071,214	3.9
Total assets	13,436,236	11,956, 836	12.4
Equity, including non-contolling interest	9,634,354	8,479,945	13.6

	As of and for the year ended December 31, 2013	2012 (restated)	Change, %
Ratios			
Net earnings per share for profit attributable to owners of OAO Gazprom, RUB	49.64	53.35	-7.0
Total debt to equity, including non-controlling interest	0.19	0.18	5.6
Adjusted EBITDA to interest expense	46.99	44.46	5.7
Return on average capital employed	11.0%	13.4%	-17.9

Note:

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

OPERATING RESULTS

Reserves and development of hydrocarbons

The table below presents assets and volumes of capital investments in the Gas Production and Oil and Gas Condensate Production segments:

	As of December 31, 2013	2012 (restated)
Gas production		
Assets, RUB million	2,051,204	1,875,535
Share in total assets of the Group,%	15.6	15.4
Oil and Gas Condensate Production		
Assets, RUB million	1,585,429	1,399,797
Share in total assets of the Group,%	12.1	11.5

	Year ended December 31, 2013	2012 (restated)
Gas production		
Capital additions, RUB million	257,407	232,705
Share in capital additions of the Group,%	21,2	18.9
Oil and Gas Condensate Production		
Capital additions, RUB million	223,557	121,167
Share in capital additions of the Group,%	18.4	9.8

Reserves

According to the audit of the Gazprom Group's hydrocarbon reserves under PRMS Standards performed by DeGolyer and McNoton, as of December 31, 2013 proved and probable reserves of the Group's hydrocarbons (including the share in the reserves of entities where Gazprom has investments classified as joint operations) were 154.2 bboe. Present value of the hydrocarbon reserves is assessed at USD 305.0 billion (as of December 31, 2012 – USD 287.0 billion). The valuation covered 93% of natural gas, 89% of gas condensate and 89% of crude oil reserves of the Gazprom Group under the ABC_1classification.

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

		As of December 31, 2013	As of December 31, 2012 (restated)
Gas			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)], %		93	94
Proved			
	bcm	18,939.3	19,133.0
	tcf	668.9	675.7
Probable			
	bcm	4,325.2	4,254.0
	tcf	152.7	150.2
Proved and probable			
	bcm	23,264.5	23,387.0
	tcf	821.6	825.9
Condensate			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)], %		89	89
Proved			
	million tons	638.8	633.8
	billion barrels	5.2	5.2
Probable			
	million tons	193.6	174.9
	billion barrels	1.6	1.4
Proved and probable			
	million tons	832.4	808.7
	billion barrels	6.8	6.6
Oil			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)], %		89	88
Proved			
	million tons	834.8	819.5
	billion barrels	6.1	6.0
Probable			
	million tons	572.4	588.8
	billion barrels	4.2	4.3
Proved and probable			
	million tons	1,407.2	1,408.3
	billion barrels	10.3	10.3
Total			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)], %		93	93
Proved			
	billion tons of fuel equivalent	23.9	241
	bboe	122.9	123.9
Probable			
	billion tons of fuel equivalent	6.1	6.0
	bboe	31.3	30.8
Proved and probable			
	billion tons of fuel equivalent	30.0	30.1
	bboe	154.2	154.7

Note:

(1) The ABC_1 classification accepted in Russia is based on the geological data analysis and evaluates the actual hydrocarbon reserves in geologic formations. PRMS Standards take into account not only the probability of hydrocarbon presence in geological formations but also the economic feasibility of reserves extraction, which is determined based on exploration and drilling costs, operating expenses for production and transportation, taxes, current selling prices of hydrocarbon and other factors.

As compared to the assessment made as of December 31, 2012, proved and probable reserves of Gazprom decreased by 0.5 bboe. In 2013, an adverse impact on total proved and probable hydrocarbon reserves was primarily due to production and recognition of actual development data in accounts. Positive factors included inclusion of new areas in the audit scope (Nadinsky block of the Medvezhiye field, the Yuzhno-Kirinskoye and Toto-Yakhinskoye fields) and recognition of exploration results. The present value of proved and probable reserves increased primarily due to introduction of the new tax treatment of the mineral extraction tax.

As of December 31, 2013 the Group (including the share in the reserves of entities where Gazprom has investments classified as joint operations) had licenses for ABC_1 hydrocarbon reserves development in the following volumes: 35,696.6 bcm of natural gas, 1,384.4 million tons of gas condensate and 2,019.0 million tons of crude oil, for a total of 236.4 bboe. The Group's share in the ABC_1 hydrocarbon reserves of associated companies was 851.5 bcm of gas, 80.1 million tons of gas condensate and 542.0 million tons of crude oil, or 9.6 bboe.

The following table presents changes to ABC_1 reserves of natural gas, gas condensate and oil (including the share in the reserves of entities where Gazprom has investments classified as joint operations) at licensed areas of the Gazprom Group in Russia in 2013:

	Natural gas, bcm	**Gas condensate, million tons**	**Crude oil, million tons**	**Total million boe**
Reserves as of December 31, 2012 (restated)	**35,169.8**	**1,386.1**	**1,992.2**	**233,091.2**
including share of non-controlling shareholders	**607.2**	**4.2**	**65.2**	**4,088.7**
Additions to reserves as a result of exploration	647.8	5.5	48.2	4,213.8
Transfer of reserves discovered in 2013 to the Undistributed Subsoil Fund of Russia(1), acquisition from other companies	(137.2)	(1.9)	(1.4)	(833.9)
Licenses obtaining	484.1	3.5	-	2,880.0
including due to new fields opening	0.9	0.1		6.1
Return of licenses	-	-	-	-
Acquisition of assets	13.7	0.5		84.8
Disposal of assets	-	-	-	-
Revaluation	5,6	1,2	22.3	206.3
Production (including losses)	(487.2)(2)	(10.5)(3)	(42.3)	(3,265.6)
Reserves as of December 31, 2013	**35,696,6**	**1,384.4**	**2,019.0**	**236,376.6**
including share of non-controlling shareholders	**588.3**	**4.2**	**66.7**	**3,988.4**

Notes:

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

(2) Except for dissolved gas.

(3) Any changes in gas condensate reserves due to production are recognized as converted into stable gas condensate (C_{5+}). In 2013, the Gazprom Group produced 14.7 million tons of unstable gas condensate.

Exploration

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

	Year ended December 31, 2013	
	in Russia	**abroad[(2)]**
Total financing for exploration[(1)], RUB billion	55.5	6.3
Exploration drilling, thousand meters	146.4	18.1
Completed exploration wells, units	53	4
including successful wells	37	1
Seismic exploration 2D, thousand line km	1.4	0,4
Seismic exploration 3D, thousand km^2	13.3	1.4

Note:

(1) Including VAT.

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

In addition, in entities where Gazprom has investments classified as joint operations wells development drilling totalled 11.7 thousand m, five exploration wells have been completed, including two wells which yielded an influx.

Exploration work in Russia resulted in an increase in reserves by 647.8 bcm of natural gas and 53.7 million tons of crude oil and gas condensate. The increase in gas reserves amounting to 541.1 bcm was mainly attributable to the Kovyktinskoye field in the Irkutsk Region (156.5 bcm) and the Kruzenshternskoye field on the Priyamalsky shelf (384.6 bcm).

The recovery ratio for natural gas reserves amounted to 1.33, while for gas condensate it was 0.52, and for oil it was 1.14.

The Group’s subsidiaries are involved in exploration projects internationally, in which they perform operational and control functions. Most of the exploration work was carried out in the Sarikamysh area (Tajikistan) and within the Pannonsky basin (Serbia, Romania, Hungary), as well as in the El-Assel block (Algeria). The Gazprom Group’s subsidiaries were also involved in exploration drilling as part of other foreign exploration projects, including 2,700 m in Bolivia and 1,300 m as part of the Hunin-6 project (Venezuela).

The user of mineral resources decided to surrender its license for the Urumako-2 block in Venezuela due to the inadvisability of conducting further work. The Group also has withdrawn from exploration projects in Equatorial Guinea and Cuba. Gazprom continues to maintain a force majeure regime in Libya in case it should require grounds for withdrawing from projects being implemented there (blocks 19 and 64).

Licensing

As of December 31, 2013 the Gazprom Group held 258 subsoil licenses for conducting geological surveys, prospecting, exploration and production of hydrocarbon in the Russian Federation. The licensed subsoil area covered 614,200 sq. km, including 376,900 sq. km of offshore sites. In addition, entities where Gazprom has investments classified as joint operations held 36 licenses with the licensed subsoil area of 21,700 sq. km.

In 2013, by resolutions of the Russian Federation Government, the Gazprom Group obtained 17 licenses for surveys, exploration and production of subsurface areas located on the shelves of the Kara, Barents, Chuckchee and East Siberian seas, including four sites (Leningradskoye, Rusanovskoye, Ledovoye, Ludlovskoye) that have C_1C_2 gas reserves of about 2.5 tcm, and condensate reserves of 15 million tons.

Following the discovery of the Novo-Yudukonskoye field in the Krasnoyarsk Territory, the Group obtained a license for exploration and production at this field. A license for the Yuzhno-Padinsky block in the Tomsk Region was obtained based on tender results.

Subsurface areas, for which subsoil licenses were obtained under resolutions of the Russian Federation Government in 2013 were not covered by the audit of reserves under PRMS Standards as of December 31, 2013.

The overall one-time payment for all licenses obtained in 2013 was RUB 70.6 billion.

In 2013, the licensing activities resulted in a growth of A+B+C_1 natural gas reserves amounting to 484.1 bcm, gas condensate – 3.5 million tons.

Transactions with assets that changed reserves and production capacities of subsidiaries and associated companies

In 2013, OAO Gazprom acquired a 92.25% stake in OAO Kamchatgazprom from OAO Rosneft. The acquired entity holds subsoil licenses for the Kshukskoye field and Kolpakovsky block on the Kamchatka peninsula.

In December 2013, the Group’s associated company, OOO Yamal Razvitie, (the Gazprom’s interest is 50%) signed an agreement for acquisition from ENI S.p.A of a 60% interest in Arctic Russia B.V, which holds a 49% interest in OOO SeverEnergia. As a result, the Gazprom Group's effective interest in OOO SeverEnergia, whose subsidiaries carry out exploration and production in YANAO increased from 24.40% to 38.46% starting from December 20, 2013.

Production

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

	Natural and associated petroleum gas, bcm	**Unstable condensate, million tons**	**Crude oil, million tons**	**Total million boe**
Year ended December 31, 2013				
Production of the Gazprom Group including the share in the production of entities where Gazprom has investments classified as joint operations	488.4	14.7	42.3	3,307.0
Share of the Gazprom Group in the production of associated companies	13.0	1.3	10.2	162.0
Year ended December 31, 2012 (restated)				
Production of the Gazprom Group including the share in the production of entities where Gazprom has investments classified as joint operations	488.0	12.8	42.3	3,289.1
Share of the Gazprom Group in the production of associated companies	11.9	1.1	10.8	158.3

In 2013, the Gaprom Group produced 488.4 bcm of natural and associated petroleum gas which is 0.4 bcm more than in 2012. This volume includes the share in the production of entities where Gazprom has investments classified as joint operations. Meanwhile, as of December 31, 2013 the Gazprom Group's capacities were able to produce 560–570 bcm of natural gas per year.

Bovanenkovskoye field, that has been developed since 2012, accounts for a major part of the production growth. In the reporting year, the field produced 22.8 bcm of gas (in 2012 – 4.9 bcm).

That development, along with increasing production at Zapolyarnoye field up to its projected capacity, compensated for diminishing output at depleting fields.

Oil production, including the share in the production of entities where Gazprom has investments classified as joint operations, was 42.3 million tons (that corresponds to the 2012 level). After the unit of the complex gas treatment facility for gas from the Valanginian deposits (UKPG-1V) at the Zapolyarnoye field reached the projected production capacity, production of gas condensate there increased significantly and reached 14.7 million tons (in 2012 – 12.8 million tons).

Production of gas by associated companies also increased. The Gazprom Group's share in gas production within Russia was 13.0 bcm of natural and associated petroleum gas (an increase of 1.2 bcm as compared to 2012). The Group's share in the liquid hydrocarbon production of the associated companies was 1.3 million tons of gas condensate (an increase of 0.2 tons as compared to 2012), 10.2 million tons of oil (a decrease of 0.6 million as compared to 2012).

The Group’s Serbian subsidiary, Naftna Industria Srbie, produced 1.3 million tons of oil and 0.6 bcm of gas. In Libya, under oil concessions C96 and C97 the associated company Wintershall AG (the Group's ownership interest is 49 %) produced 2.4 million tons of oil and 0.3 bcm of gas (in 2012 – 4.1 million tons of oil and 0.6 bcm of gas). The sharp decline in production is explained by the force majeure event that was announced in August 2013.

The Gazprom Group also participated in a number of oil and gas projects abroad under which production has been commenced:

- the Wingate field in the North Sea: total production amounted to 0.4 bcm of gas and 2.1 thousand tons of condensate (in 2012 – 0.7 bcm of gas and 4.5 thousand tons of gas condensate); the Group's share in the project at the development stage was 20%;
- block Hunin-6, Venezuela: total production amounted to 0.1 million tons of oil, the Group's share in the project at the development stage was 8%;
- the Shakhpakhty field in Uzbekistan: total production amounted to 0.3 bcm of gas (in 2012 – 0.3 bcm), the Group's share in the project was 5%;
- blocks 05-2 and 05-3 in the South China Sea, on the shelf of Vietnam, being developed on the basis of a production sharing agreement – total production amounted to 305.9 million cm of gas and 59.4 tons of condensate. The Group’s share in PSA is 49%.

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

	As of December 31, 2013	
	In Russia	**Abroad**
Developing fields	131	51
Gas production wells	7,744	289
including active	7,263	94
Oil production wells	7,868	863
including active	7,246	543

In addition, as of December 31, 2013 entities where Gazprom has investments classified as joint operations developed 35 fields; their production well stock included nine gas production wells and 4,199 oil production wells (including 3,019 active wells).

Main areas of investments

Main capital investments in gas production in 2013 were allocated to developing the infrastructure of Cenomanian-Aptian deposits at the Bovanenkovskoye field, the Kirinskoye field as well as the implementation of the Comprehensive Program for Upgrading and Technical Re-equipment of Gas Production Facilities.

The Gazprom Group's capital investments in exploration and production of oil and gas condensate were mainly used for developing the Prirazlomnoye field's infrastructure, developing the eastern area of the Orenburgskoye and Novoportovskoye fields, drilling new production wells at the Priobskoye field, developing gas condensate deposits at the Zapolyarnoye field in Russia and developing fields in Iraq. Long-term investments in exploration and production of oil and gas condensate were used for developing the Messoyakha group fields.

In 2013, the following facilities were put into operation:

- two complex gas treatment plants with the annual capacity of 4.25 bcm at the Kirinskoye field and 1.75 bcm at the Yubileynoye field;
- the second commissioning and start-up complex of the gas treatment plant at the Nizhne-Kvakchinskoye field with the annual capacity of 0.575 bcm;
- two gas compressor units of the boosting compressor station at the Yamburgskoye field with the capacity of 20.0 MW.
- 80 new production gas wells (including 50 wells at the Bovanenkovskoye field) and 778 new oil production wells. Development drilling for gas totalled 239.7 thousand meters and for oil - 3.0 million meters.

In addition, in entities where Gazprom has investments classified as joint operations development drilling of subsurface rock totalled 0.7 million meters.

Sale of oil and gas condensate

In 2013, the Gazprom Group sold 16.0 million tons of oil and stable gas condensate.

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

(million tons)	**Year ended December 31,**		**Change**
	2013(1)	**2012(1)**	**%**
Russia	2.6	3.5	-25.7
including: the Gazprom Neft Group	0.8	0.6	
FSU	4.2	2.5	68.0
including: the Gazprom Neft Group	4.1	2.5	
Europe and other countries	9.2	14.8	-37.8
including: the Gazprom Neft Group	8.3	14.2	
Total	**16.0**	**20.8**	**-23.1**

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

Decrease in sales of oil and gas condensate as compared with the previous year is mainly explained by more efficient refining of available oil versus sales of crude in Europe and other foreign markets. In addition, total domestic sales do not include the supplies of the Group’s stable gas condensate to Gazprom Neftekhim Salavat refinery due to its consolidation starting from 1 June 2012.

Production capacities need to be utilized in accordance with the approved oil refinery and export programs; therefore free oil sales (without replacement deliveries) in Russia were not significant. Practically all gas condensate of the Gazprom Group was sold in the domestic market.

The Group’s operations are affected by the prevailing prices of crude oil, both in domestic and international oil markets. In 2013, according to the PIRA agency the prices for Urals crude oil

(CIF Med) fluctuated in the range of 96.8 – 117.4 USD/barrel and decreased by 0.9 % to 109.1 USD/barrel at the year end. According to PIRA's forecast for 2014, the price for Urals crude oil is expected to decrease by another 7% to 102.8 USD/barrel.

Oil grade	January	February	March	April	May	June
	USD /barrel					
BRENT (1)	113.0	116.3	108.4	101.9	102.5	102.9
URALS (2)	111.3	114.2	106.8	101.3	102.3	102.8
Spread URALS to BRENT	1.7	2.1	1.6	0.6	0.2	0.1

Oil grade	July	August	September	October	November	December
	USD /barrel					
BRENT (1)	107.9	111.3	111.9	109.0	108.0	110.8
URALS (2)	107.9	110.6	110.5	107.8	107.7	109.7
Spread URALS to BRENT	0.1	0.7	1.4	1.2	0.3	1.1

Notes:

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

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

In 2013, the price of oil in the Russian market exceeded the 2012 average level by about 5% (according to the Argus data).

The sale prices for the Gazprom Group's stable condensate were in the same trend as oil prices and also increased by 5%. Gas condensate was sold either with a linkage to Russian oil prices or on the basis of global quotes.

Reporting year and subsequent events

In October 2013, initial production of gas was launched at the Kirinskoye gas condensate field in the Sea of Okhotsk (the Sakhalin-3 project). The subsea production unit was implemented here for the first time in the Russian practice. Commercial gas production at the field will start in 2014.

In October 2013, commercial production of hydrocarbons was commenced in the Vietnamese section of the South China Sea in the framework of the 05-2 and 05-3 blocks development project. The Group joined this PSA in 2012 and had a 49% interest. The planned output of 1.98 bcm for gas and 614.9 thousand tons per year for condensate is expected to be reached in 2015.

In December 2013, OAO Gazprom entered into an asset swap master agreement with Wintershall Holding GmbH. In accordance with the agreement, Wintershall Holding GmbH is expected to receive a 25.01% interest in the project for the development of blocks 4A and 5A of the achimovsk deposits of the Uregoyskoye field. Under the asset swap master agreement the Group expects to receive a 50% interest in Wintershall Noordzee B.V. which is carrying oil and gas exploration and production in the south area of the North Sea. The deal is to be finalized in 2014.

The oil production at the Prirazlomnoye field, located on the Pechora Sea shelf in the Russian Arctic region, began at the end of December 2013. The planned production level of 5.5 million tons per year will be reached after 2020.

Development plans for the Production of Gas and Production of Crude Oil and Gas Condensate segments

The Gazprom Group's goals in the area of gas production include not only maintenance of production at existing fields but active development of new gas production centres in the Yamal peninsular, offshore areas of northern seas, East Siberia and Far East.

The development of Yamal reserves will help to make up for a declining production at key Gazprom's fields, primarily the Urengoyskoye and Yamburgskoye fields.

Major C_1C_2 gas reserves of 4.9 tcm are located in the Bovanenkovskoye field. According to the estimate, the planned annual production level of 115 bcm of natural gas a year at the Cenomanian-Aptian layers of the field is expected to be achieved between 2019 and 2021. In the long-term perspective, it is expected that the field will be able to produce up to 140 bcm of natural gas taking into account Neocomian-Jurassic gas condensate layers.

In the East of Russia new gas production centers have been established in the Sakhalin Region and the Kamchatka Region; the establishment of a new gas production center in Yakutsk has been started; new gas production centers will be established in the Krasnoyarsk Region and the Irkutsk Region. The resources located in the East of Russia allow establishing new large gas and oil production centers to meet the demand of Russian eastern territories and to provide export supplies to the Asian-Pacific countries, primarily China, in the long-term perspective.

The Chayandinskoye field with 1.44 tcm of C_1C_2 gas reserves is the primary source field for the Yakutsk gas production center. In 2014, oil production will be commenced at the field. In 2017, Gazprom plans to start producing gas at the planned level of 25 bcm per year.

The Kovyktinskoye field with 1.56 tcm of C_1C_2 gas reserves is the primary source field for the Irkutsk gas production center. Currently, the field is at the pilot development stage. The planned production capacity is about 35 bcm of gas per year.

The development of the Kirinskoye field, the Yuzhno-Kirinskoye field and the Mynginskoye field (Sakhalin-3) has primary importance for developing the production capacities of the Sakhalin gas production centre.

Oil business development strategy provides for increasing the annual oil production up to 100 million tons of oil equivalent by 2020 and maintaining that level until 2025, meanwhile foreign projects should account for at least 10% of total production. To reach this goal the Group plans to enhance efficiency of extracting the remaining reserves at its active production sites by applying new production technologies and optimizing development processes while reducing the cost of currently employed production technologies.

The Group believes that in Russia significant potential for oil production lies in the development and exploitation of fields located in the Yamal-Nenetsky Autonomous District (projects Novy Port, OOO SeverEnergia together with OAO NOVATEK, Messoyakha together with OAO NK Rosneft, water zone of the Pechora Sea (the Prilazlomnoye and Dolginskoye oil fields) and Orenburg Region (eastern part of the Orenburgskoye oil and gas condensate field and new areas). In addition, significant contribution in reaching the planned production levels is expected from East Siberia fields: the Kuyumbinskiy project (together with OAO NK Rosneft) and the Chonsky project (the Tympuchikanskiy, Vakunaiskiy and Ignyalinskiy areas). Production of natural gas from unconventional sources, including shale oil, is viewed as another potential for production growth.

Participation in foreign projects is aimed at expanding Gazprom's resource base outside of Russia in order to strengthen its position in foreign oil and gas markets.

Transportation of gas

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

	As of December 31,	
	2013	2012
Assets, RUB million	5,271,761	5,275,864
Share in total assets of the Group, %	40.1	43,2

	Year ended December 31,	
	2013	2012
Capital additions, RUB million	380,547	563,825
Share in the Group's total capital additions, %	31.4	45,7

Gas transportation system

The Gazprom Group's gas pipeline system within Russia is unique. It provides a high level of reliability and ensures continuous, uninterrupted gas supplies.

As of year-end 2013, OAO Gazprom and its gas transportation subsidiaries in Russia owned trunk pipelines and branch pipes with a total length of 168,900 km. The Gas Transportation System includes 247 compressor stations with a total capacity of 45,900 MW. In addition, gas is transferred to gas compressor units via the gas pipelines of gas producers, refinery subsidiaries and underground storage entities, with a total length of 4,200 km.

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

	As of December 31, 2013	
Age of trunk pipelines	**Length, km,**	**Share, %**
Up to 10 years	21,084	12.5
11 – 20	20,016	11.8
21 – 30	56,529	33.5
31 – 40	41,703	24.7
41 – 50	19,701	11.7
Over 50	9,861	5.8
Total	168,894	100.0

To ensure greater reliability of gas supplies, technical and environmental safety, and efficient gas transportation, every year Gazprom carries out capital repairs and scheduled preventive maintenance of the Gas Transportation System (GTS).

In 2013, eight technical failures were reported on trunk pipelines, representing 0.05 per 1,000 km, or two times less than in the previous year.

The volume of gas pumped into Gazprom's GTS within Russia in 2013 totalled 659.4 bcm (in 2012 – 666.2 bcm). The GTS and UGSF used 40.6 bcm of natural gas for their own technical needs in 2013 (in 2012 – 40.9 bcm). The Group assesses the level of gas losses as low and the level of gas consumed as fuel to be satisfactory.

Gazprom provides independent companies with access to its gas transportation system. In 2013, Gazprom provided 24 companies that are not part of the Group with gas transportation services via the GTS within Russia. Gas transportation volumes amounted to 111.3 bcm (an increase of 16.3% as compared to 2012).

The Group's key foreign gas transportation assets are the gas transportation system in the Republic of Belarus, including the Belarussian section of the Yamal-Europe gas pipeline, and the gas transportation system in Armenia. As of December 31, 2013 the total length of these gas pipelines was 9,700 km. In 2013, 69.1 bcm of natural gas was pumped into the GTS within Belarus, including 48.8 bcm of gas transiting through Belarus, representing an increase of 4.6 bcm (or 10.3%) as compared with 2012, which was driven by increased gas supplies to Europe in 2013.

In 2013, about 23% of the total gas supplies to Europe under long-term contracts were handled by the marine cross-border pipeline systems created in partnership with the Group: Blue Stream and Nord Stream. In 2013, 23.8 bcm of gas (in 2012 – 11.8 bcm) was transported through the Nord Stream pipeline. Gas sold from the Blue Stream pipeline in 2013 amounted to 13.7 bcm (in 2012 – 14.7 bcm).

Main areas of investments

In 2013, capital investments were primarily used for implementing various construction projects (the Bovanenkovo-Ukhta trunk gas pipeline system, the first section of the Ukhta-Torzhok trunk gas pipeline system, and expansion of the Unified Gas Supply System (UGSS) to ensure gas supplies to the South Stream pipeline. In 2013, 700 km of trunk gas pipelines and branch pipes as well as 15 gas-compressor stations at gas pipelines with a total capacity of 1,409 MW were commissioned within the framework of carrying out gas transportation projects.

Along with the construction of new gas transportation capacities, Gazprom is engaged in rebuilding and re-equipping gas transportation facilities. In 2013, within the framework of the Integrated Programme for Technical Re-equipping and Reconstruction of Gas Transportation Facilities 208 km of trunk pipelines (in 2012 – 132 km) and six compressor stations (in 2012 – two compressor stations) were rebuilt in Russia, while eight compressor stations (in 2012 – two compressor stations) were rebuilt in foreign countries.

The main areas of long-term investments in 2013 were related to Gazprom's involvement in the construction of the South Stream gas transportation system.

Reporting year and subsequent events

In June 2013, a road map was signed for implementing energy projects in Serbia within the framework of the South Stream project.

In October 2013, construction began on the Bulgarian section of the South Stream pipeline and in November 2013, construction began on the South Stream pipeline in Serbia.

In December 2013, a contract was signed for design and survey work, as well as regional planning and an environmental impact assessment of the Hungarian section of the South Stream project.

Development plans for the Gas Transportation segment

In the area of gas transportation, further development and modernisation of the UGSS will be carried out in line with growth in gas production. It is expected that existing infrastructure will be used at the fullest capacity possible to ensure the efficiency of supplies.

A unique, next-generation gas transportation system which connects the Yamal peninsula and central Russia is being created, thus ensuring the transportation of Yamal gas. In 2012, 2,600 km of pipeline, including the first stage of the Bovanenkovo-Ukhta pipeline and the first section of the Ukhta-Torzhok trunk pipeline, were put into operation.

The South Stream project represents an important step in implementing Gazprom's strategy of diversifying its routes for exporting Russian gas to Europe. The offshore section of the pipeline will go under the Black Sea, while the onshore section will traverse the territories of Bulgaria, Hungary, Serbia, Slovenia and Italy. The pipeline is slated to be commissioned in December 2015 and is expected to reach its full annual planned capacity of 63.0 bcm by 2018. Russia’s gas transportation system will be expanded to ensure an appropriate volume of gas supplies for the South Stream pipeline.

OAO Gazprom's long-term objectives include the development of gas infrastructure in eastern Siberia and the Far East as part of its Eastern gas project. The Sakhalin-Khabarovsk-Vladivostok gas transportation system is being developed.

Survey and exploration work is now under way for the Power of Siberia pipeline project. This pipeline will be about 4,000 km long, including a 3,200 km section of the Yakutia-Khabarovsk-Vladivostok pipeline and an 800 km section of the gas pipeline that will link the Yakutsk and Irkutsk gas production centres.

One of the Gazprom Group's key business development areas is activities under the projects on supplying the Russian natural gas to China by the Western and Eastern routes with the annual volume of 68 bcm.

Underground gas storage

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

	As of December 31,	
	2013	**2012**
Assets, RUB million	242,198	220,581
Share in total assets of the Group, %	1.8	1.8

	Year ended December 31,	
	2013	**2012**
Capital additions, RUB million	23,524	18,247
Share in the Group's total capital additions, %	1.9	1.5

The development of the underground gas storage system is one of Gazprom's strategic goals. Underground gas storage facilities help control seasonal differences in gas consumption, reduce maximum load, ensure flexible and secure gas supplies.

Underground gas storages in Russia and abroad

The Gazprom Group operates 22 UGSFs in 26 storage facilities in Russia. As of December 31, 2013 the total volume of active gas in UGSFs reached 70.4 bcm. In 2013, 32.7 bcm of gas were withdrawn from UGSF in Russia, and 38.4 bcm of gas were pumped into UGSF. The potential daily capacity increased by 56.7 million cm. By the start of the 2013-2014 withdrawal season, the volume of the operating gas reserve in Russian UGSFs increased by 2.7 bcm as compared to the previous season and amounted to 69.0 bcm.

To enhance security of export gas supplies, Gazprom uses UGSF capacities in foreign countries.

In Europe the Group has access to active UGSF capacities in Austria, UK, Germany, Serbia. By the beginning of 2013 winter, the Gazprom's gas storage capacities in Europe amounted to 4.1 bcm, daily capacity –51.0 bcm.

In 2013, 3.9 bcm of gas (including protective stock) were pumped into European UGSFs, and total gas withdrawal was 4.1 bcm due to subnormal cold and long-lasting winter.

In FSU Gazprom has access to UGSF in Latvia, Belarus, Armenia. As of December 31, 2013 the Group's gas storage facilities in FSU amounted to 2.8 bcm, daily capacity– 42.8 bcm. Increase in active capacities of UGSF is explained by the increase in the capacity of Mozyrskoye UGSF in Belarus.

In 2013, 2.5 bcm of gas were pumped into UGSFs in FSU, total withdrawal volume was 2.1 bcm.

Main areas of investments

In 2013, the main volume of capital investments was channeled to increasing the capacity of compressor stations and active capacities of UGSF: reconstruction of Sovkhoznoye UGSF, gasfield facilities of Stepnovskaya underground gas storage station, gasfield and compressor facilities of Elshanskaya underground gas storage station, expansion of active capacities and increase in daily production of Kasimovskoye UGSF. Increase in active capacities amounted to 2.2 bcm and 42 wells were connected.

Within Russia, construction continues on the Kaliningradskoye and Volgogradskoye underground gas storage facilities (UGSF) in rock salt deposits and the Bednodemyanovskoye UGSF in water-carrying deposits; as well, the search continues for promising new fields.

The expansion of UGSFs capacities in foreign countries continued. A major part of capital investments was used for construction of Katharina UGSF in Germany. In 2013, the construction of Damborice UGSF (Czech Republic) based on the depleted oil filed was commenced.

Reporting year and subsequent events

In September 2013, the first line of the Kaliningradskoye UGSF, which is Russia's only UGSF in a saline deposit, was commissioned.

Development plans for the Gas Storage segment

One of Gazprom's strategy goals is technical re-equipment, reconstruction and expansion of existing storage facilities as well as development of new UGSFs. The tasks of long-term development of the underground gas storage system in Russia are set in the General Gas Industry Development Scheme up to 2030 and are aimed at increasing the daily withdrawal capacity UGSFs and operating gas reserve.

Gazprom's long-term plans provide for further developing underground gas storage in Russia and reaching the maximum daily capacity up to 1.0 bcm by 2020 that will allow decreasing expenses for commodity/transport activity by 10-15 % and cost of gas supplies to consumers by 5-10 %.

To ensure reliable gas supply under the export contracted obligations Gazprom is using UGSF capacities located in European countries. The Group also participates in construction of new UGSF facilities in Europe, in particular in Germany and Czech Republic.

Gas distribution

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

	As of December 31,	
	2013	**2012**
Assets, RUB million	1,394,112	1,217,828
Share in total assets of the Group,%	10.6	10.0

	Year ended December 31,	
	2013	**2012**
Capital additions, RUB million	36,085	47,166
Share in the Group's total capital additions, %	3.0	3.8

The Group is the largest exporter of natural gas in the world. The following table sets out natural gas sales volumes of the Gazprom Group by geographical segments:

(bcm)	Year ended December 31, 2013	2012	Change
Russia	243.1	264.9	-8.2
FSU(1)	59.4	66.1	-10.1
Europe and other countries(1)	174.3	151.0	15.4
Total	476.8	482.0	-1.1

Note.

(1) The sales to FSU countries, Europe and other countries include both gas export from Russian Federation and sales of gas purchased by the Group outside the Russian Federation. According to the law "On Gas Export" of 18 July 2006 No.117-FZ, OAO Gazprom, as the owner of the Unified Gas Transportation System, or its wholly-owned subsidiary have the exclusive right to export gas or liquefied natural gas (LNG) produced at any hydrocarbon fields within Russia.

In 2013, gas consumption in Russia totaled 461.3 bcm which is a 1.0% decrease as compared to 2012. Gazprom is the largest supplier in domestic market and accounts for 70% of total gas supplies. In Russia, electric-power industry, metallurgy and agricultural chemistry remain its main customers.

Gas consumption in Europe decreased by 8.5 bcm (or by 1.6%) to 538.2 bcm in 2013.

In 2013, Gazprom's supplies to far abroad under long-term contracts totalled 161.5 bcm of natural gas that is 16.3% higher than in 2012. Drivers for export growth include the forced gas pumping in UGSF in summer of 2013 and reduction of supplies made by alternative suppliers, both export supplies of natural gas and LNG and internal production in Europe. The growth in supply volumes is attributable, among other things, to the fact that obligations were revised under contracts with "take or pay" terms. In addition, prices under long-term contracts with some European partners were revised, and the contract system was being adjusted to current market conditions so as to enhance the competitiveness of Russian natural gas. However, the fundamental provisions of long-term contracts, including oil products price indexation, remained unchanged.

In 2013, the Gazprom Group sold 72.1tn BTU (2.0 bcm) of LNG including LNG sold under Sakhalin-2 project amounting to 29.7 tn BTU (0.8 bcm).

<u>Domestic natural gas prices</u>

The following table shows the average domestic natural gas prices:

	Year ended December 31, 2013 (including excise tax, less VAT)	2012
RUB per mcm	3,267.7	2,872.1
RUB per thousand cf	92.5	81.3
USD per mcm (1)	102.6	92.5
USD per thousand cf(1)	2.9	2.6

Note:

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

The increase in domestic regulated prices for gas is limited by the Forecast of Social and Economic Development in the Russian Federation prepared by the Russian Ministry of Economic Development and approved by the Government of the Russian Federation in September 2013.

The table below presents weighted average changes in domestic prices in 2014-2016, annual average increase versus prior year.

	2014	2015	2016
Change in average regulated wholesale prices for all Russian consumers except for households, %	7.6	2.2	4.9
Change in average regulated wholesale prices for gas to be sold to households, %	10.2	3.8	3.3

For enhancing the efficiency of domestic sales OAO Gazprom is working with federal government agencies on an on-going basis.

<u>The prices of natural gas in FSU, Europe and other countries</u>

The following table shows the average prices of natural gas sold by the Gazprom Group to FSU, Europe and other countries in 2013 and 2012:

	Year ended December 31,	
	2013	**2012**
	(including customs duties)	
Natural gas sales to Europe and other countries (1)		
USD / thousand cm (2)	377.5	385.1
USD / thousand cf(2)	10.7	10.9
RUB / thousand cm	12,046.2	11,969.8
Natural gas sales to FSU (1)		
USD / thousand cm (2)	267.1	305.3
USD / thousand cf(2)	7.6	8.6
RUB / thousand cm	8,523.1	9,489.5

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

In 2013, OAO Gazprom continued supporting oil price indexation as a key principle of pricing under long-term contracts for export supplies of gas. Such an indexation is an essential tool of the long-term business-planning that meets interests of the buyer and the seller of gas. It ensures top-down continuity and stability of the industry investment cycle – from a well to the final customer. However, other Europe's large gas suppliers have refused to adopt oil price indexation, preferring instead to link contractual prices to spot gas prices. At the same time, they have managed to enlarge the share of seller's variable obligations in contracts with European buyers, thus reducing the supplies in case of low market prices environment and opening the door for gas deliveries to more attractive markets, primarily the lucrative Asia-Pacific markets.

<u>Main areas of investments</u>

A significant portion of capital investments in the Gas Distribution segment includes the Group's investments in gasification of the Russian Federation regions. In 2013, the construction of 170 gasification facilities with total length of 2,500 km was completed. It provided gas supply to 321 centers of population in 41 territorial subjects of the Russian Federation.

<u>Reporting year and subsequent events</u>

In February 2013, OAO Gazprom's Management Committee approved the justification of investments in construction of LNG production plant in Vladivostok. The plant's capacity will be 10 million tons per year with expansion capacity up to 15 million tons per year. The first line is scheduled to be commissioned in 2018.

In March 2013, OAO Gazprom and China National Petroleum Corporation signed a memorandum of understanding (MoU) for a project to supply natural gas via pipeline to China through the Eastern route in a volume amounting to 38 bcm per year. The MoU establishes the supply volumes as well as when the supply period begins and the location of the gas transfer point on the Russia-China border. To further develop the agreements outlined in the MoU, in September 2013 OOO Gazprom Export and PetroChina International Ltd. signed an agreement on key gas supply terms, which sets the basic non-price characteristics of the future sales contract.

On 21 June 2013, OAO Gazprom and the Leningrad Region Government signed a memorandum of understanding and cooperation during implementation of a project for the construction of an LNG production plant. The plant, which will have a capacity of 10 million tons per year, is scheduled to be commissioned in 2018.

According to the asset swap master agreement between OAO Gazprom and Wintershall Holding GmbH which was signed in December 2013, the Gazprom Group will increase its interest in WINGAS GmBH (WINGAS), Wintershall Erdgas Handelshaus GmbH & Co. (WIEH), Wintershall Handelshaus Zug AG (WIEE) up to 100%. WINGAS, WIEH and WIEE are engaged in gas trading and supply in Europe, WIENGAS also holds ownership interest in large UGSFs in Europe: Reden, Haidach and Jemgum.

Development plans for the Gas Distribution segment

In the Russian market Gazprom will try to keep its current positions as to the volumes of gas delivery, provided the security of supplies, including in autumn and winter is ensured.

The Group plans to expand its presence in foreign gas markets. The Gazprom Group’s marketing strategy provides for expanding presence in prospective gas market including Asia-Pacific Region, and increasing LNG volumes in Gazprom’s export portfolio. While maintaining its share in European market at the 2013 level, Gazprom intends to occupy a market share in NEA and world trade of LNG at the level of 10-15%.

Refining

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

	As of December 31, 2013	As of December 31, 2012
Assets, RUB million	1,121,301	1,048,925
Share in total assets of the Group,%	8.5	8.6

	Year ended December 31, 2013	Year ended December 31, 2012
Capital additions, RUB million	113,254	134,163
Share in total capital additions of the Group,%	9.3	10.9

Processing of hydrocarbons and production of refined products

The Gazprom Group’s processing capacities include gas and gas condensate processing plants of gas production and gas processing companies of OAO Gazprom, oil refining capacities of Gazprom Neft, refining and petrochemical assets of Gazprom Neftekhim Salavat Group and Vostokgazprom Group.

The Gazprom Group’s total processing and refining capacity was 53.5 bcm of natural gas and 89.4 million tons of unstable gas condensate and crude oil per year.

The following table presents the volumes of the Gazprom Group's hydrocarbon processing and refining:

	Year ended December 31, 2013 (1)		2012(1)	
	Total	including abroad	Total	including abroad
Natural and petroleum associated gas, bcm	31.5	–	32.4	–
including OAO Gazprom Neftekhim Salavat(2)	0.4	–	0.2	–
Crude oil and unstable gas condensate, million tons	66.1	3.8	61.5	4.1
including the Gazprom Neft Group	42.6	3.8	43.3	4.1
OAO Gazprom Neftekhim Salavat(2)	7.4	–	4.2	–

Note:

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

(2) The data is presented starting from 1 June 2012.

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

	Year ended December 31, 2013 (1)		2012 (1)	
	Total	including abroad	Total	including abroad
Dry gas, bcm	24.2	–	25.0	–
Liquefied oil gas, million tons	3.3	0.1	3.1	0.1
including the Gazprom Neft Group	1.0	0.1	0.8	0.1
Broad fractions of light hydrocarbons, million tons	1.6	–	1.0	–
Stable gas condensate and crude oil, million tons	6.0	–	4.7	–
Oil products, million tons	51.9	3.7	49.6	3.7
including the Gazprom Neft Group	39.4	3.7	40.1	3.7
OAO Gazprom Neftekhim Salavat(2)	6.4	–	3.8	–
Helium, million cm	3.6	–	4.9	–
Sulphur, million tons	4.9	–	5.3	–
including the Gazprom Neft Group	0.1	–	0.1	–

Note:

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

(2) The data is presented starting from 1 June 2012.

The decrease in gas processing and production of dry stripped gas and sulphur in 2013 as compared to 2012 is explained by the repairs at Astakhansky refinery, the decreased gas production at Orenburgskoe and Vuktylskoye fields being the raw material bases for Orenburgsky and Sosnogorsky refineries.

The increase in oil refining and unstable gas condensate processing volumes is driven by the increased production of gas condensate at Zapolyarnoye and Urengoiskoye fields and consolidation of OAO Gazprom Neftekhim Salavat starting from June 2012. Insignificant decrease (by 1.7 %) in oil refining volumes in Gazprom Neft is explained by the planned repairs at the refinery.

Motor gasoline and diesel fuel contributed to the increase in production of oil products. The production of fuel oil decreased due to increased production of bituminous materials because of increased demand and productivity of bitumen facility at Moscow refinery after reconstruction.

Due to large-scale modernisation initiatives, starting from 2013 all Gazprom Neft refineries have begun transitioning ahead of schedule to producing fuels in ecological class five (which corresponds to Euro-5). Under the relevant technical regulations, Russian refineries must fully switch over to producing this class of fuels starting from 2015.

Sales of refined products

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

(million tons)	Year ended December 31, 2013 [1,2]	Year ended December 31, 2012 [1,2]	Change, %
Russia	38.4	36.1	6.4
including the Gazprom Neft Group	25.9	25.0	3.6
FSU	4.7	5.2	-9.6
including the Gazprom Neft Group	3.3	4.2	-21.4
Europe and other countries	25.2	22.6	11.5
including the Gazprom Neft Group	16.5	14.7	12.2
Total	**68.3**	**63.9**	**6.9**

Notes:

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

(2) The volumes do not include helium.

In 2013, total volume of refined products sales increased by 6.9% and amounted to 68.3 million tons as compared to the previous year.

In 2013, about 13% of the total volume of refined products sales of the Gazprom Group were sold via the network of fuel stations of the Gazprom Neft Group. Sales via the network of fuel stations of the Gazprom Neft Group reached 9.2 million tons (in 2012 – 8.1 million tons). Based on the 2013 performance, the Group maintained the leading position with regard to supplies of motor gasoline in Russia. The increase in sales is driven by modernisation and optmisation of own network of fuel stations and their increased operational efficiency. In 2013 in Russia and FSU countries, 50 fuel stations were either built or acquired, while 110 fuel stations underwent full reconstruction and six fuel stations were rebranded.

In 2013, the Group’s sales of gaseous helium amounted to 3.0 million cm, sales of liquid helium amounted to 0.8 million litres (in 2012 – 2.7 million cm and 3.0 million litres, respectively).

Main areas of investments

The major portion of capital investment in refining was channeled to construction of a gas chemical facility in Novy Urengoy, modernization of production capacity at the Gazprom Neft Group refineries, reconstruction of Astrakhansky refinery, and construction and modernization of oil refining and petrochemical capacity of OAO Gazprom Neftekhim Salavat.

In 2013, diesel fuel hydrotreating unit (after reconstruction), FCC unit and isomerization unit were commissioned at Moscow refinery; diesel fuel hydrotreating unit was commissioned at Yaroslavsky refinery.

Reporting year and subsequent events

In November 2013, OAO Gazprom and OAO SIBUR Holding signed a Memorandum on Cooperation for the Construction of Gas Processing and Gas Chemical Facilities in Belogorsk. In accordance with this document, Gazprom plans to build a gas processing plant in Belogorsk with an annual capacity of 60 bcm. SIBUR plans to build an integrated gas-derived chemicals plant that will be linked to the gas processing plant’s production cycle.

Development plans for the Refining segment

The main objectives of the Gazprom Group's development in gas processing and gas chemistry include increasing the rate of extraction of valuable components of natural gas and associated petroleum gas (APG) and their effective use for further processing to marketable products with high added value.

For refining crude from promising western Siberian fields, plans have been developed for expanding and rebuilding the capacities of the Urengoy and Surgut refineries.

Natural gas from key fields of Eastern Siberia is characterized by high content of ethane, propane, methane hydrocarbon and helium, therefore their development requires simultaneous establishing gas processing and gas chemical centres.

Strategic goals in oil refining in Russia include implementation of programs on modernization of refining capacities and increase of their operating efficiency. It is expected that the modernization will allow reaching the refining volumes of 40 million tons per year within Russia, increased depth of refinery to 95% and yield of light fractions up to 77% by 2025.

The Gazprom Group's development in oil refining abroad is focused on searching for assets in two key regional markets – Europe and South-East Asia.

By 2025, it is planned to increase total sales of motor fuels in Russia and FSU to 24.7 million tons. For implementing the established objectives it is planned to expand the retail network in Russia and FSU up to 1,880 fuel stations by 2025. It is also planned to develop premium marketing channels– sales of aviation kerosine, lubricants, bituminous materials, petrochemical products and bunkering.

Electric power

The following table presents assets and capital investments related to the Electricity and Heat Generation and Sale segment:

	As of December 31,	
	2013	**2012**
Assets, RUB million	798,781	592,251
Share in total assets of the Group, %	6.1	4.8

	Year ended December 31,	
	2013	**2012**
Capital additions, RUB million	77,191	54,851
Share in the Group’s total capital additions, %	6.4	4.4

The Group is the largest owner of power generating assets whose installed capacity was 38.2 GW as of December 31, 2013. When the Group acquired OAO MIPC it became the largest heat producer in Russia. In 2013, Gazprom’s share in electricity generation in Russia was 15%, its share in heat generation was 22%.

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

Generating companies	Generating capacity as of December 31, 2013, GW	Power generation, year ended December 31, 2013, billion kWh	Heat capacity as of December 31, 2013, thousand Gcal/h	Heat production, year ended December 31, 2013, million Gcal
OAO Mosenergo	12.3	58.6	34.8	67.6
OAO WGC-2	18.0	70.7	4.5	6.8
OAO TGC-1	7.2	29.3	14.2	25.3
OAO MIPC(1)	0.2	0.4	17.5	7.7
OOO Novo-Salavatskaya TPP	0.5	2.5	1.6	5.1
Total2)	38.2	161.4	72.7	112.5

Note:

(1) Data on electricity and heat generation are presented for the period from 1 October 2013 through December 31, 2013.
(2) Total data may differ due to rounding.

In 2013, electricity generated by the Gazprom Group totalled 161.4 billion kWh that is 3.3 % lower than in 2012; heat generation totalled 112.5 million Gcal, that is 11.3% more than in 2012. Decrease in electricity generation is mainly explained by the decline in generation due to minimization of ineffective power generation units loading and decline in demand for electricity. Increase in heat generation is driven by consolidation of OAO MIPC from the moment of obtaining control by the Group in September 2013.

The 5th power generating unit of Razdansky TPP owned by the Group’s subsidiary and located in Armenia generated about 1.1 billion kWh of electricity.

In 2013, electricity generated by the Gazprom Group totalled 162.5 billion kWh, heat totalled 112.5 million Gcal.

All electricity generated by the Russian generating companies of the Group is sold in the wholesale electricity and capacity market and also exported abroad.

The Group's entity, OAO Mezhregionenergosbyt is one of the leaders in the Russian power trading market. The company provides for over 96% of electricity consumption of the Gazprom Group’s subsidiaries. It also sells electricity to consumers outside the Group (in 2013 – 5.6 billion kWh).

The Gazprom Group also supplies electricity to final consumers in Europe and carries out trading operations with electricity in European trading floors. In 2013, the Gazprom Group supplied electricity of 2.3 billion kWh (in 2012 – 2.1 billion kWh) to final consumers in United Kingdom, Germany and the Netherlands. Total electricity trading volume amounted to 240 billion kWh.

Main areas of investments

The investments in electric power in 2013 were primarily channelled to construction of 660 MW power-generating unit of Troitskaya GRES, the second phase of the Cherepovetskaya GRES, a carbon block with CFB at Novocherkasskaya GRES (OAO WGC-2), modernization of TPP-20 and TPP-12 and replacement of the second boiler-turbine shop at power generation unit of TPP-16 (OAO Mosenergo).

In 2013, the Group launched 420 MW of new generating capacity in Russia, including two power generation units CCGT-180 at Adlerskaya TPP (OAO WGC-2) with total capacity of 360 MW and hydro turbine units at Lesogorskaya GES and Svetogorskaya GES with total capacity of 60 MW. In addition, the construction of the main heating pipeline from Apatitskaya TPP to Kirovsk of Murmansk region was completed in the reporting year.

Reporting year and subsequent events

In September 2013, OOO Gazprom Energoholding completed the acquisition of 89.9% shares of OAO MIPC and its movable and immovable assets which are linked to the production cycle of the Moscow heat complex rented by OAO MIPC from the Moscow Government. The deal’s value based on tender results was RUB 98.6 billion.

OAO MIPC provides services to 227 generation units with total capacity of 17,529.2 Gcal, including eight electricity generation units with total electric capacity of 193.24 MW and heat capacity of 130.8 Gcal. OAO MIPC supplies heat and hot water to more than 70,000 buildings, out of which 33,100 buildings are residential housing stock. The company operates more than 16,000 km of heat network.

In 2013, OAO TGC-1 completed the large-scale reconstruction of cascade of Vyoksinsk GES in the Leningrad Region, which is the largest source of electric power on Karelian Isthmus.

In September 2013, OOO Gazprom Energoholding and the Group’s company, Naftna Industria Srbie (NIS) signed a memorandum for constructing the combined cycle power plant (CCPP) with capacity of 208 MW in Panchevo, Serbia. Electricity generated by CCPP will be used for the needs of NIS refinery and petrochemical facilities of HIP Petrohemija, a strategic partner of NIS. The planned construction cost of CCPP amounts to Euro 180 million. The commissioning of the plant is scheduled for 2017.

Development plans for the Electricity and Heat Generation and Sale segment

The development of Gazprom's energy business is primarily connected with the implementation of investment programs in the electricity and heat generation segment.

According to the investment program under capacity supply contracts the Gazprom Group is planning to commission new capacities of 3.4 GW in 2014-2016. The Company also participates in other projects on constructing power plants in Russia.

One of the Gazprom Group's priorities in developing the electric power sector is increase in operating efficiency of generation assets. The Group's generation companies in Russia are implementing the cost optimization programs and measures to improve their financial results. In 2013, the implementation of these programs and measures allowed Russian generation companies to reduce expenses by RUB 4.8 billion.

The Group is considering the potential electric power projects abroad. It is also monitoring electric power markets in Europe and Asia. The Gazprom Group is also considering the opportunities to acquire modern CCPP in Europe, whose market values are currently significantly lower than costs for building new CCPP.

INNOVATIVE DEVELOPMENT

The Program of OAO Gazprom's Innovative Development for the period up to 2020 was developed and approved by Board of Directors of OAO Gazprom on 1 June 2011 (No1825) to define and systematize the key directions and tasks of OAO Gazprom in the area of innovative development. The document highlights basic directions of technology improvement or technology priorities in gas, oil and electric power businesses. Investments into these areas will allow obtaining the maximum economic benefit.

Innovative development priorities include technologies of field exploration and development, processing and transportation of gas, gas condensate and oil in harsh climate conditions of the Far North and permafrost, in the shelf of northern seas with difficult ice conditions. Gazprom is a technology leader in this area. The Group also expects to receive significant economic effect in such areas as extraction of hydrocarbons from difficult-to-access deposits, liquefaction of gas, hydrocarbons treatment under new fuel generation technology (GTL).

Gazprom has its own well-developed scientific and technical complex that includes eight research institutes and three design centers. Total number of employees is over 11,000 people. Gazprom engages over 100 external institutes and research centers in its R&D activities. In 2013, R&D orders were placed with 118 contractors.

In monetary terms, the volume of R&D performed under the Gazprom Group's orders in 2013 amounted to RUB 6.8 billion (net of VAT) (in 2012 – RUB 7.7 billion).

As of December 31, 2013, the Gazprom Group held 2,035 patents for patent rights subjects (including 219 patents received in the reporting year). In 2013, 350 patent rights subjects were used for production purposes and the resulting economic benefit is estimated at RUB 1.8 billion.

Gazprom has been implementing over 30 agreements and programs in science and technology together with Russian and foreign partners. In Europe Gazprom's partners in research and development projects include well-known German companies E.ON CE (former Ruhrgas AG), BASF / Wintershall Holding, Verbundnetz Gas AG, Siemens AG, EUROPIPE GmbH ; N. V. Nederlandse Gasunie, a Dutch company; GDF SUEZ, a French company; ENI S.p.A., an Italian company, and Statoil ASA, a Norwegian company.

ENVIRONMENT PROTECTION

In its operations, Gazprom is guided by the principle of strict compliance with rules of international and Russian environmental law.

The Environmental Management System (EMS) is the key element of OAO Gazprom's Ecological Policy. The system integrates management bodies of the parent company and 29 wholly-owned subsidiaries involved in hydrocarbons exploration, production, transportation, storage and processing. In 2011, Gazprom's EMS was certified by Det Norske Veritas, an independent international certification authority, and in 2013, it was successfully audited for compliance with International Standard ISO 14001:2004. In 2013, practically all Gazprom Group's entities, which prepare environmental reports had certified environmental management systems and stated their compliance with ISO 14001:2004 requirements.

In 2010, OAO Gazprom adopted the Corporate Ecological Standards for the EMS purposes. In 2013, the Corporate Ecological Standards for 2014-2016 were adopted based on their implementation results and analysis of environmental aspects.

The main indicators of the Gazprom Group's impact on environment are presented below:

Main indicators	Year ended December 31, 2013	Year ended December 31, 2012	Change,%
Pollutant emissions into the air, thousand tons	3,076.4	3,410.9	-9.8
including, carbonic oxide	653.4	1,031.9	-36.7
nitrogen oxide	352.9	378,3	-6.7
sulfur dioxide	296.9	310,0	-4.2
hydrocarbons (methane)	1,534.0	1,606,6	-4.5
Waste water disposal, million cm	4,440.9	4,931.2	-9.9
including in surface-water bodies	4,389.9	4,893.0	-10.3
including clean and cleaned as per standard norms	4,227.9	4,691.6	-9.9
Generation of waste, thousand tons	4,693.7	5,226.5	- 10.2
Recultivated lands, thousand ha	14.0	9.7	44.3

Gross pollutant emissions made by the Gazprom Group decreased by 334,500 tons as compared to 2012. The key factor here was the decrease of pollutant emissions made by oil and gas companies by 282,100 tons, primarily as a result of technological actions undertaken by Gazprom Neft, including the upgraded flare systems, launched vacuum compressor stations, APG flows reallocated to adjoining sites. Pollutant emissions made by Gazprom Energoholding entities reduced by 52,300 tons mainly due to lower volumes of production.

In 2013, the Gazprom Group reduced the volume of waste water disposal into surface-water bodies by 503.1 million cm (10.3%) as compared to 2012. In total, the Gazprom Group waste decreased by 10.2% (532,800 tons) as compared with the prior year. Decrease in waste water disposal and total waste is also explained by the decrease in production volumes of the Group's utility companies.

In 2013, greenhouse gas emissions at the sites of OAO Gazprom and its wholly-owned exploration, production, transportation, storage and refining subsidiaries totalled 122.2 million tons of CO_2-equivalent, i.e. 1.6 million tons (1%) less than in 2012. The reduction of greenhouse gas emissions resulted from implemented energy and resource saving measurements used in repairs of trunk pipelines which prevent methane blowing, decreased consumption of natural gas for own technological needs, and other activities performed as part of OAO Gazprom's Energy Efficiency Program for 2011–2013.

The Gazprom Group’s environmental costs are disclosed below:

(RUB million)	Year ended December 31, 2013	2012 (restated)	Change,%
Current operating costs, costs of environment-related services	28,350.0	22,204.2	27.7
Costs of capital repairs of fixed assets used for environmental protection	3,106.5	2,444.6	27.1
Pollution charges	2,952.5	1,563.1	88.9
Capital environmental costs	24,947.9	12,885.8	93.6
Total	**59,356.9**	**39,097.7**	**51.8**

In 2013, current operating costs and costs of environment-related services increased by 27.7% as compared to 2012.

Increase in current operating costs was primarily driven by the Gazprom Neft Group’s activities related to intensification of works to implement a program on mitigating the effects of accumulated environmental damage – sludge pits and restoration of disturbed and contaminated lands including due to the activities of former land users.

Costs of capital repairs of fixed assets used for environmental protection increased by 27.1%. It was driven by increase in capital repairs volumes in the Gazprom Neft Group.

In 2013, the Gazprom Group's payments to the budgets of different levels for the negative impact on the environment were 88.9% more than in 2012 as a result of applying multiplying ratios to standard payments for pollutant emissions from APG flaring. Capital environmental costs of the Gazprom Group increased by 93.6% as compared to 2012 primarily as a result of RUB 13.8 billion financing of environmental protection efforts undertaken in connection with the construction of Olympic infrastructure and the development of Sochi as an alpine resort.

In 2013, as a result of 198 governmental inspections in the Gazprom Group's entities 279 violations of the Russian environmental legislation were identified. Penalties paid amounted to RUB 7.8 million (in 2012 – RUB 6.0 million). Identified violations were eliminated within the specified dates.

EMPLOYEES

Having guided by the conventions developed by the International Labour Organization the Gazprom Group complies with principles which relate to underlying rights being the subject of these conventions, namely:

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

The Gazprom Group also complies with international standards related to salaries, duration of the working day and labour conditions, employees’ compensation for their work, social security, grating paid vacation, labour safety and others.

As of December 31, 2013, the number of employees in the Gazprom Group’s subsidiaries was 459,500 people, including 27,400 employees of the Gazprom Group’s entities registered abroad. Increased number of employees is mainly explained by consolidation of OAO MIPC and increased number of the Gazprom Neft Group’s employees.

The table below shows the age structure of the Gazprom Group’s employees as of December 31, 2013.

	As of December 31, 2013, %
Managers	13.4
Specialists	26.3
Workers	55.8
Other employees	4.5

The age composition of the Group's personnel is well balanced. The table below shows the age structure of the Gazprom Group’s personnel as of December 31, 2013:

	As of December 31, 2013, %
up to 30 years	19.0
30 – 40 years	28.3
40 – 50 years	27.0
50 years and older	25.7

For maintaining high professional level of the Group’s employees the Group has the system of continuing in-house professional education of OAO Gazprom's employees which is based on the corporate training institutions. In 2013, 261,800 employees of the Gazprom Group took advanced and professional training courses.

In 2013, social and labour relations between employees and employers in the Gazprom Group were regulated by labour legislation, General Agreement between Russian Associations of Trade Unions, all-Russian Employers' Associations and Russian Government, Industry Agreement for Entities of Oil and Gas Sectors and Construction of Oil and Gas Facilities of the Russian Federation and other local regulations and standards of the Gazprom Group’s subsidiaries and entities.

The social policy of OAO Gazprom is targeted at ensuring social security of employees and motivating employees to work in Gazprom efficiently and for a long-time. The key principle of the social policy is social partnership which is implemented by providing employees with various social benefits, personal insurance, medical insurance, housing and supplementary pension coverage.

ANALYSIS OF FINANCIAL RESULTS OF OPERATIONS

Results of operations

(RUB million)	Year ended December 31, 2013	2012 (restated)
Sales	5,249,965	4,766,495
Net gain from trading activity	5,850	2,821
Operating expenses	(3,600,908)	(3,421,847)
(Charge for) reversal of impairment and other provisions, net	(67,698)	3,208
Operating profit	**1,587,209**	**1,350,677**
Finance income	129,523	308,489
Finance expense	(284,107)	(247,168)
Share of net income of associated undertakings and joint ventures	56,670	145,192
(Losses) gains on disposal of available-for-sale financial assets	(3,212)	546
Profit before profit tax	**1,486,083**	**1,557,736**
Current profit tax expense	(201,872)	(280,070)
Deferred profit tax expense	(118,506)	(25,251)
Profit tax expense	(320,378)	(305,321)
Profit for the year	**1,165,705**	**1,252,415**
Other comprehensive income (loss):		
Items that will not be reclassified to profit or loss:		
Remeasurements of post-employment benefit obligations	55,424	(69,801)
Total items that will not be reclassified to profit or loss	**55,424**	**(69,801)**
Items that will be reclassified to profit or loss:		
Gains (losses) arising from change in fair value of available-for-sale financial assets, net of tax	12,578	(17,499)
Share of other comprehensive income of associated undertakings and joint ventures	10,100	1,885
Translation differences	56,847	(34,792)
(Losses) gains from cash flow hedges, net of tax	(2,305)	806
Total items that will be reclassified to profit or loss	**77,220**	**(49,600)**
Other comprehensive income (loss) for the year, net of tax	**132,644**	**(119,401)**
Total comprehensive income for the year	**1,298,349**	**1,133,014**
Profit attributable to:		
Owners of OAO Gazprom	1,139,261	1,224,474
Non-controlling interest	26,444	27,941
	1,165,705	**1,252,415**
Total comprehensive income attributable to:		
Owners of OAO Gazprom	1,267,383	1,106,984
Non-controlling interest	30,966	26,030
	1,298,349	**1,133,014**

Sales

The following table summarises volumes and prices:

(RUB million unless indicated otherwise)	Year ended December 31, 2013	2012 (restated)
Sales of gas		
Europe and other countries		
Gross sales [1]	2,115,748	1,806,947
Customs duties	(432,987)	(337,492)
Net sales	1,682,761	1,469,455
Volumes in billion cubic meters (bcm)	174.3	151.0
Gross average price, USD per mcm3 (including customs duties) [2]	380.5	385.1
Gross average price, RUB per mcm^3 (including customs duties)	12,137.9	11,969.8
FSU (Former Soviet Union)		
Gross sales [1]	504,681	626,820
Customs duties	(84,361)	(97,304)
Net sales	420,320	529,516
Volumes in bcm	59.4	66.1
Gross average price, USD per mcm^3 (including customs duties) [2]	266.5	305.3
Gross average price, RUB per mcm^3 (including customs duties)	8,499.9	9,489.5
Russian Federation		
Gross sales (net of VAT)	794,349	760,885
Net sales	794,349	760,885
Volumes in bcm	243.3	265.3
Gross average price, RUB per mcm^3 (net of VAT)	3,264.6	2,867.9
Total sales of gas		
Gross sales (net of VAT)	3,414,778	3,194,652
Customs duties	(517,348)	(434,796)
Retroactive gas price adjustments	74,393	(102,749)
Net sales	2,971,823	2,657,107
Volumes in bcm	477.0	482.4
Net sales of refined products (net of excise tax, VAT and customs duties)	1,351,713	1,209,215
Net sales of electric and heat energy (net of VAT)	375,589	343,509
Net sales of crude oil and gas condensate (net of VAT and customs duties)	210,216	275,560
Net sales of gas transportation services (net of VAT)	163,265	125,386
Other revenues (net of VAT)	177,359	155,718
Total sales (net of excise tax, VAT and customs duties)	**5,249,965**	**4,766,495**

Notes.
(1) VAT is not charged on sales to Europe and other countries, as well as FSU countries.
(2) Calculated on the basis of average annual RUB/USD exchange rate.

Total sales (net of VAT, excise tax and customs duties) increased by RUB 483,470 million, or 10%, to RUB 5,249,965 million in 2013 as compared with 2012.

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

Net sales of gas increased by RUB 314,716 million, or 12%, from RUB 2,657,107 million in 2012 to RUB 2,971,823 million in 2013.

Net sales of gas to Europe and other countries increased by RUB 213,306 million, or 15%, to RUB 1,682,761 million in 2013 as compared with 2012. The overall increase in net sales of gas to Europe and other countries was mainly driven by an increase of 15% in the volume of gas sold as compared with the prior year. The gross average rouble price (including customs duties) increased by 1% in 2013 as compared with 2012.

Retroactive gas price adjustments were recognized in the financial statements as a RUB 74,393 million increase in sales in 2013 that reflects a decrease in a previously recognized accrual.

Net sales of gas to FSU countries decreased by RUB 109,196 million, or 21%, and amounted to RUB 420,320 million in 2013 as compared with 2012. The change was due to a 10% decrease in the gross average rouble price (including customs duties) and a 10% decrease in the volumes of gas sold in 2013 as compared with 2012.

Net sales of gas in the Russian Federation increased by RUB 33,464 million, or 4%, and reached RUB 794,349 million in 2013 as compared with 2012 due to a 14% increase in the gross average domestic gas prices. In 2013 the volume of gas sold decreased by 8% as compared with 2012.

Net sales of refined products (net of excise tax, VAT and customs duties) increased by RUB 142,498 million, or 12%, to RUB 1,351,713 million in 2013 as compared with 2012 primarily due to an increase in volumes sold by Gazprom neft Group to customers in Europe and other countries and in the Russian Federation and also due to an increase in prices. In 2013 and 2012 Gazprom neft Group's sales comprised 76% and 77% of total net sales of refined products, respectively. Increase in net sales of refined products was also due to inclusion of Gazprom neftekhim Salavat Group in the consolidated financial statements from June 2012.

Net sales of electric and heat energy (net of VAT) increased by RUB 32,080 million, or 9%, to RUB 375,589 million in 2013 as compared with 2012 mainly due to inclusion of OAO MIPC in the consolidated financial statements from September 2013.

Net sales of crude oil and gas condensate (net of VAT and customs duties) decreased by RUB 65,344 million, or 24%, to RUB 210,216 million in 2013 as compared with RUB 275,560 million in 2012. Sales of crude oil included in net sales of crude oil and gas condensate (net of VAT and customs duties) amounted to RUB 179,265 million and RUB 234,470 million in 2013 and 2012, respectively. The change was mainly due to a decrease in crude oil volumes sold to customers in Europe and other countries. Sales of gas condensate decreased due to inclusion of Gazprom neftekhim Salavat Group in the consolidated financial statements from June 2012.

Net sales of gas transportation services (net of VAT) increased by RUB 37,879 million, or 30%, to RUB 163,265 million in 2013 as compared with RUB 125,386 million in 2012 primarily due to an increase in transportation volumes and gas transportation tariffs for independent suppliers.

Other revenues increased by RUB 21,641 million, or 14%, and amounted to RUB 177,359 million in 2013 as compared with RUB 155,718 million in 2012.

Operating expenses

Operating expenses increased by 7% in 2013 to RUB 3,668,606 million from RUB 3,418,639 million in 2012. Operating expenses as a percentage of sales decreased from 72% in 2012 to 70% in 2013. The table below presents a breakdown of operating expenses in each period:

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

Purchased gas and oil

The cost of purchased gas and oil decreased by RUB 66,863 million to RUB 753,829 million in 2013 as compared with RUB 820,692 million in 2012. The cost of purchased gas decreased by RUB 17,795 million, or 3%. This decrease mainly relates to the decline in volumes purchased from third parties both in Russia and abroad. The cost of purchased oil included in the cost of purchased gas and oil decreased by RUB 49,068 million, or 19%, and amounted to RUB 215,278 million in 2013 as compared with RUB 264,346 million in 2012 due to the decrease in volumes of purchased oil.

Taxes other than income tax

Taxes other than income tax include:

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

The natural resources production tax increased by 12% to RUB 512,885 million in 2013 as compared with RUB 458,322 million in 2012. The increase is mainly due to an increase in the tax rate for gas from RUB 509 to RUB 582 per thousand cubic meters starting from January 1, 2013 and to RUB 622 per thousand cubic meters starting from July 1, 2013. The increase in natural resources production tax on oil extraction resulted mainly from growth in the base tax rate for oil from RUB 446 to RUB 470 per ton.

Staff costs

Staff costs increased by 21% to RUB 497,852 million in 2013 from RUB 409,807 million in 2012. The increase was mainly due to the average salary indexation and increase of average number of personnel.

Depreciation

Depreciation increased by 21%, or RUB 73,329 million, to RUB 419,019 million in 2013 from RUB 345,690 million in 2012. The increase is primarily due to the growth in the fixed asset base.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 13% to RUB 358,829 million in 2013 from RUB 317,754 million in 2012. This increase was mainly driven by growth in oil and refined products transit due to the inclusion of Gazprom neftekhim Salavat Group in the consolidated financial statements starting from June 2012, as well as increasing in transportation volumes through the Nord Stream pipeline.

Materials

The cost of materials increased by 26% to RUB 236,354 million in 2013 from RUB 186,920 million in 2012. The increase mainly relates to the inclusion of Gazprom neftekhim Salavat Group in the consolidated financial statements starting from June 2012, as well as to increased purchases of materials from third parties.

Repairs and maintenance

Cost of repairs and maintenance decreased by 9% to RUB 200,621 million in 2013 from RUB 219,999 million in 2012. The decrease was mainly caused by a decline in the volume of repair services rendered by third parties to the Group during 2013.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased by 5% to RUB 136,776 million in 2013 from RUB 129,812 million in 2012. The increase was mainly due to the growth in volumes of refined products purchased externally by the Gazprom neft Group.

Electricity and heating expenses

Electricity and heating expenses increased by 13% to RUB 87,242 million in 2013 from RUB 76,949 million in 2012. The increase mainly resulted from the inclusion of OAO MIPC in the consolidated financial statements starting from September 2013, as well as an increase in volumes of electricity consumed and growth in tariffs.

Exchange rate differences on operating items

Exchange rate differences on operating items amounted to a net gain of RUB 45,050 million for 2013 as compared with a net loss of RUB 14,147 million for 2012. The change was primarily driven by an 8% appreciation of the US dollar against rouble and a 12% appreciation of euro against rouble in 2013, as compared with a 6% depreciation of US dollar against rouble and 3% depreciation of euro against rouble in 2012.

Other operating expenses

Other operating expenses increased by 28% to RUB 233,795 million in 2013 from RUB 182,347 million in 2012. Other expenses include bank charges, security services, legal and consulting services, charity and financial aid, and advertising.

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

Change in inventories of finished goods, work in progress and other effects increased by RUB 42,583 to RUB 129,848 million in 2013 as compared with RUB 87,265 million in 2012. The negative amount of the line item is mainly due to an increase in the balances of finished goods as of December 31, 2013 as compared with the balances as of December 31, 2012.

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

The net release in 2012 was primarily due to the reversal of impairment for construction in progress more than the charge for new bad debt provisions. In October 2012, upon completion of the first phase of infrastructure development and commencement of operations of the Bovanenkovo field, the Group reversed the previously created impairment provision for assets under construction related to Bovanenkovo and Kharasaveyskoye fields and the Obskaya-Bovanenkovo railroad. Total amount of the impairment provision reversal was RUB 47,574 million.

Charges for provisions for short-term and long-term accounts receivable were RUB 64,451 million and RUB 47,238 million in 2013 and 2012, respectively.

Operating profit

As a result of the factors discussed above, our operating profit increased by RUB 236,532 million, or 18%, to RUB 1,587,209 million in 2013 from RUB 1,350,677 million in 2012. The operating profit margin increased from 28% in 2012 to 30% in 2013.

Net finance (expense) income

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

The net exchange loss of RUB 145,214 million in 2013 as compared with net exchange gain of RUB 71,717 million in 2012 is mainly explained by an 8% appreciation of the US dollar against rouble and a 12% appreciation of euro against rouble in 2013, as compared with a 6% depreciation of US dollar against rouble and 3% depreciation of euro against rouble in 2012. These forex changes increased the Group's liabilities denominated in foreign currencies.

Interest income increased by 25% to RUB 33,398 million in 2013 from RUB 26,626 million in 2012, mainly due to an increase in interest accrued on Group's cash held with banks.

Interest expense increased by 16% to RUB 42,768 million in 2013 from RUB 37,022 million in 2012, mainly due to an increase in average borrowings balance during 2013 as compared with 2012.

Share of net income of associated undertakings and joint ventures

Share of net income of associated undertakings and joint ventures decreased by RUB 88,522 million, or 61%, to RUB 56,670 million in 2013 as compared with RUB 145,192 million in 2012.

The decrease in the Group's share of net income of associated undertakings and joint ventures in 2013 relates mainly to the decline in net income of Sakhalin Energy Investment Company Ltd. by RUB 30,675 million due to a decrease in revenue from crude oil and liquefied natural gas sales as a result of production output decline, market prices decrease for crude oil and liquefied natural gas and the initial recognition of variable obligation on irredeemable preferred share (class R) attributable to the Russian Federation. The Group's share of net income of associated undertakings and joint ventures for 2013 includes an additional expense of RUB 25,961 million recognized for OAO NGK Slavneft and its subsidiaries as a result of a one-time adjustment to correct the prior understatement of depreciation resulting from the differences between the fair values of fixed assets and their carrying amounts as of the Group's acquisition of an interest in OAO NGK Slavneft. The Group's share of net income of associated undertakings and joint ventures for 2012 includes the share of net income of RosUkrEnergo AG related to the results of its operations in 2011 in the form of dividends received by the Group in the amount of RUB 17,017 million.

Profit tax

Total profit tax expense increased by RUB 15,057 million, or 5%, to RUB 320,378 million in 2013 as compared with RUB 305,321 million in 2012. The effective profit tax rate was 21.6% and 19.6% in 2013 and 2012, respectively.

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

Profit for the period attributable to owners of OAO Gazprom

As a result of the factors discussed above, our profit for the period attributable to owners of OAO Gazprom decreased by RUB 85,213 million, or 7%, and amounted to RUB 1,139,261 million in 2013 as compared with RUB 1,224,474 million in 2012.

Profit for the period attributable to non-controlling interest

Profit for the period attributable to non-controlling interest decreased by RUB 1,497 million, or 5%, and amounted to RUB 26,444 million in 2013 as compared with RUB 27,941 million in 2012.

Liquidity and capital resources

The following table summarizes our statement of cash flows for 2013 and 2012:

(RUB million)	**Year ended December 31,**	
	2013	**2012 (restated)**
Net cash from operating activities	1,747,863	1,472,779
Net cash used in investing activities	(1,475,475)	(1,287,216)
Net cash used in financing activities	(30,358)	(253,870)

Net cash from operating activities

Net cash from operating activities increased by RUB 275,084 million, or 19%, and amounted to RUB 1,747,863 million in 2013 as compared with RUB 1,472,779 million in 2012. The increase was primarily due to an increase in operating profit in 2013 as compared with 2012, which was partially offset by a negative dynamics of changes in working capital.

Net cash used in investing activities

Net cash used in investing activities increased by RUB 188,259 million, or 15%, to RUB 1,475,475 million in 2013 as compared with RUB 1,287,216 million in 2012. The increase was primarily due to an increase in cash used for capital expenditure, acquisition of subsidiaries and a decrease in proceeds from associated undertakings and joint ventures in 2013 as compared with 2012.

Net cash used in financing activities

Net cash used in financing activities amounted to RUB 30,358 million in 2013 as compared with RUB 253,870 million in 2012. This change was primarily due to a decrease in dividends paid in 2013 as compared with 2012 and due to the change from net repayment of long-term borrowings in 2012 to net proceeds in 2013.

Working capital

The working capital surplus (current assets less current liabilities) was RUB 1,471,205 million as of December 31, 2013 and RUB 928,737 million as of December 31, 2012. The increase in our working capital by RUB 542,468 million in 2013 was primarily due to increase in cash and cash equivalents, decrease in accounts payable, increase in inventories and accounts receivable.

The increase in inventories amounting to RUB 106,978 million was driven by growth in the average cost of gas in pipelines and storages.

The increase in short-term accounts receivable amounting to RUB 91,294 million was driven by an increase in a debt for gas, crude oil and refined products in all geographical segments.

The decrease in accounts payable amounting to RUB 143,229 million was mainly caused by a decrease in liabilities related to retroactive gas price adjustment on gas supplied in 2010 – 2013 based on the claims made by foreign customers according to the contract terms and a decrease in trade payables related to investment construction.

Management of OAO Gazprom believes that the Group has sufficient working capital to meet the Group's obligations for at least the next twelve months. However, the Group is dependent on the short-term credit markets to finance its working capital. The Group is also dependent on a regular access to the domestic debt capital market in order to meet a significant portion of its financing requirements in Russian roubles.

Capital expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segment for 2013 and 2012 in nominal rouble terms, amounted to the following:

(RUB million)	**Year ended December 31, 2013**[(1)]	**2012**[(1)] **(restated)**
Transportation	470,449	706,414
Production of natural gas	317,177	285,925
Production of crude oil and gas condensate	266,603	148,531
Refining	134,675	170,860
Electric and heat energy generation and sales	91,975	70,440
Distribution	43,612	61,266
Gas storage	28,251	23,031
All other segments	122,427	78,695
Total	**1,475,169**	**1,545,162**

Note.

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

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) decreased by RUB 69,993 million, or 5%, from RUB 1,545,162 million in 2012 to RUB 1,475,169 million in 2013.

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

Debt obligations

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable, net of cash and cash equivalents as well as restricted cash and cash equivalents under the terms of certain borrowings and other contractual obligations) increased by RUB 41,584 million, or 4%, from RUB 1,071,214 million as of December 31, 2012 to RUB 1,112,798 million as of December 31, 2013. This increase resulted from raising new long-term borrowings, and depreciation of rouble against US dollar and euro which was offset by an increase in cash and cash equivalents.

(RUB million)	**As of December 31,**	
	2013	**2012 (restated)**
Long-term borrowings		
Fixed interest rate borrowings	1,427,690	1,165,789
Weighted average interest rates for fixed rate borrowings	6.31%	7.12%
Variable interest rate borrowings	334,602	268,997
Weighted average interest rates for variable rate borrowings	2.97%	3.02%
Total long-term borrowings	**1,762,292**	**1,434,786**
RUB denominated borrowings	245,412	207,953
Foreign currency denominated borrowings	1,516,880	1,226,833
Total long-term borrowings	**1,762,292**	**1,434,786**
Less: current portion of long-term borrowings	(292,341)	(256,868)
Add: long-term promissory notes	51	41
Total long-term debt obligations	**1,470,002**	**1,177,959**
Short-term debt borrowings		
Fixed interest rate borrowings	38,699	55,385
Weighted average interest rates for fixed rate borrowings	6.87%	5.46%
Variable interest rate borrowings	836	10,372
Weighted average interest rates for variable rate borrowings	5.38%	1.94%
Total short-term borrowings	**39,535**	**65,757**
RUB denominated borrowings	25,692	22,861
Foreign currency denominated borrowings	13,843	42,896
Total short-term borrowings	**39,535**	**65,757**
Add: current portion of long-term borrowings	292,341	256,868
Add: short-term promissory notes	50	8
Total short-term debt obligations	**331,926**	**322,633**
Total borrowings	**1,801,928**	**1,500,592**

The following table presents our actual foreign currency denominated long-term borrowings (expressed in millions of USD) as of December 31, 2013 and 2012 as well as the same balances denominated in RUB:

	As of December 31,	
	2013	**2012 (restated)**
USD denominated (expressed in USD million)	27,817	28,593
EUR denominated (expressed in USD million) (1)	17,952	11,787
Other currencies denominated (expressed in USD million)	577	12
Total long-term foreign currency denominated borrowings expressed in USD million	**46,346**	**40,392**
Total long-term foreign currency denominated borrowings expressed in RUB million(2)	**1,516,880**	**1,226,833**

Notes.

(1) Converted at EUR/USD exchange rates of 1.37 and 1.32 as of December 31, 2013 and 2012, respectively.

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

A portion of our long-term borrowings denominated in convertible currencies is collateralized by revenue under certain of the Group's export contracts. As of December 31, 2013 and 2012 borrowings of RR nil and RR 12,509 million, respectively, inclusive of current portion of long-term borrowings, were secured by revenues from export supplies of gas to Western Europe.

As of December 31, 2013 and 2012 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoe oil and gas field with a group of international financial institutions with UniCredit Bank AG acting as a facility agent, ordinary shares of OAO Severneftegazprom with a pledge value of RUB 16,968 million and fixed assets with a pledge value of RUB 26,210 million were pledged to ING Bank N.V. (London branch) up to the date of full redemption of the liabilities under the above agreement. As of December 31, 2013 and 2012 the carrying amounts of these fixed assets were RUB 24,614 million and RUB 25,656 million, respectively. Management of the Group does not expect any substantial consequences to occur which relate to the respective pledge agreement.

The following table presents the schedule of repayments for long-term borrowings (excluding long-term promissory notes) as of December 31, 2013 and 2012:

(RUB million)	As of December 31,	
	2013	**2012 (restated)**
Between one and two years	242,531	278,726
Between two and five years	640,690	502,399
After five years	586,730	396,793
Total	**1,469,951**	**1,177,918**

SHAREHOLDER STRUCTURE AND STOCK MARKET OF OAO GAZPROM

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

The Russian Federation holds a controlling interest exceeding 50% in OAO Gazprom. The following table presents the shareholder structure of OAO Gazprom:

	As of December 31,	
	2013	**2012**
Russian Federation represented by the Federal Agency for State Property Management	38.37%	38.37%
OAO Rosneftegaz[(1)]	10.97%	10.74%
OAO Rosgazifikatsiya[(2)]	0.89%	0.89%
ADR holders[(3)]	25.78%	26.96%
Other entities	23.99%	23.04%

Notes:

(1) As of December 31, 2012 and December 31, 2013, the share of the Russian Federation represented by the Federal Agency for State Property Management in OAO Rosneftegas was 100 %.

(2) As of December 31, 2012 and December 31, 2013, OAO Rosneftegas owned 74.55 % shares of OAO Rosgazifikatsiya.

(3) Bank emitting ADR issued against OAO Gazprom’s ordinary shares – the Bank of New York Mellon

Ordinary shares of OAO Gazprom are traded on ZAO FB Moscow Interbank Currency Exchange (a part of Moscow Exchange Group). OAO Gazprom’s shares are among the most liquid shares on the Russian stock market: they are accounted for MICEX and RTS indexes computation.

In 2013, OAO Gazprom's shares were transferred from the Non-Listed Securities Register to the Quotation List A Level 2 (QL A2) of MICEX. The listing reform, whereby the Lists A1 and A2 will be combined and Gazprom's shares will be added to the top quotation list, is planned for 2014. As a result, a greater number of Russian investors, including companies managing pension savings and insurance reserves, will be able to trade the Company's shares.

American Depositary Receipts of OAO Gazprom are freely tradable on the London Stock Exchange, the Berlin Stock Exchange and the Frankfurt Stock Exchange with majority of transactions being registered on the London Stock Exchange.

The following table summarises the price of OAO Gazprom shares and ADRs:

	As of December 31,		Change,%
	2013	**2012**	
MICEX			
Closing price for share, RUB	138.75	143.91	-3.6
Minimum	107.17	137.18	-21.9
Maximum	158	199.69	-20.9
Average daily trading volume, mln.	43.9	39.4	11.4
Average daily trading volume, RUB bln.	5.9	6.4	-7.8
LSE			
Closing price for ADR, USD	8.55	9.46	-9.6
Minimum	6.48	8.7	-25.5
Maximum	9.82	13.53	-27.4
Average daily trading volume, mln.	25.0	32.1	-22.1
Average daily trading volume, mln. USD	211.0	340.6	-38.1

As of December 31, 2013, market capitalization of OAO Gazprom totalled RUB 3.28 trillion, or USD 99.9 billion, having decreased by 3.6% in the rouble equivalent during the year. In 2013, the average market capitalization of OAO Gazprom decreased by 17.0% and totalled RUB 3.19 trillion or USD 100.1 billion as compared to 2012.

As of December 31, 2013, dividends paid in 2013 based on OAO Gazprom performance results for 2012 are as follows:

		As of December 31, 2013		
	Accrued, RUB thousand	**Paid, RUB thousand**	**Unpaid dividends, RUB thousand(1)**	**Proportion of unpaid and accrued dividends,%**
Total	141,804,342	141,690,095	114,247	0.08
including dividends on shares:				
owned by the state	54,415,116	54,415,116	-	0.00
owned by state-controlled legal entities: OAO Rosneftegaz and OAO Rosgazifikatsiya	16,816,073	16,816,073	-	0.00
owned by individuals and legal entities (except for state-controlled)	70,569,585	70,458,906	110,679	0.16
owned by undefined holders	3,568	0	3,568	100

Note:

(1) Dividends were not paid to shareholders that did not provide data required for dividend payments as per para 5, Article 44 of Federal Law “On Joint Stock Companies” dated December 26, 1995, No. 208-FZ. Dividends accrued on shares of undefined holders shall be paid upon establishment of the shareholders’ rights for securities.

MANAGEMENT STRUCTURE OF OAO GAZPROM

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

In accordance with the Federal Law “On Joint Stock Companies” and OAO Gazprom’s Charter, OAO Gazprom’s operations are governed by OAO Gazprom’s General Meeting of Shareholders, the Board of Directors, the Management Committee and the Chairman of the Management Committee. The General Meeting of Shareholders is Gazprom’s highest governing body and, among other things, elects its Board of Directors. The Board of Directors is responsible for the general management of OAO Gazprom activities except for the matters that are assigned to the competence of the General Meeting of Shareholders under the Federal Law “On Joint-Stock Companies”. The Chairman of the Management Committee is the sole executive body of OAO Gazprom and the Management Committee is its collective executive body. The Management Committee and the Chairman of the Management Committee are responsible for managing OAO Gazprom on a day-to-day basis.

The Board of Directors and the Management Committee

Information on members of the Board of Directors as of December 31, 2013:

Name	Year of Birth	Position
Viktor A. Zubkov	1941	Chairman of the Board of Directors; Russian Special Presidential Representative for Cooperation with Gas Exporting Countries Forum; Deputy Chairman of the Board of Directors, General Director, Chairman of OOO Gazprom Gazomotornoe Toplivo’s Management Committee
Alexey B. Miller	1962	Deputy Chairman of OAO Gazprom’s Board of Directors and Chairman of OAO Gazprom’s Management Committee
Andrey I. Akimov	1953	Chairman of OAO Gazprombank's Management Committee (open joint stock company)
Farit R. Gazizullin	1946	Member of OAO Gazprom’s Board of Directors
Elena E. Karpel	1944	Head of the Economic Appraisal and Pricing Department of OAO Gazprom

Name	Year of Birth	Position
Timur A. Kulibayev	1966	Chairman of the Presidium of the National Chamber of Entrepreneurs of the Republic Kazakhstan, Chairman of the Presidium of the Legal Entities Association “National Economic Chamber of Kazakhstan (Atameken Union)”, non-staff advisor to the President of the Republic of Kazakhstan, Chairman of the Legal Entities Association “Kazakhstan Association of Oil, Gas and Energy Sector Organizations (KAZENERGY)”
Vitaly A. Markelov	1963	Deputy Chairman of OAO Gazprom’s Management Committee
Victor G. Martynov	1953	Rector of I.M. Gubkin Russian State University of Oil and Gas
Vladimir A. Mau	1959	Rector of the Federal Budget Institution of Higher Professional Education “Russian Presidential Academy of National Economy and Public Administration”
Valery A. Musin	1939	Head of Department for Civil Process of Legal Faculty, St. Petersburg State University; Senior Partner of the Russian-British firm “Musin and Partners”
Mikhail L. Sereda	1970	Deputy Chairman of OAO Gazprom’s Management Committee and Head of Administration of OAO Gazprom’s Management Committee

Changes in the Board of Directors in 2013 are presented in the table below:

Name	Changes
V. G. Martynov	elected on 28 June 2013
I. H. Yusufov	termination of powers on 28 June 2013

In 2013, 80 meetings of Gazprom’s Board of Directors (10 – in person) were held, 181 decisions were made (41 - in person).

Information on members of the Management Committee as of December 31, 2013:

Name	Year of Birth	Position
Alexey B. Miller	1962	Chairman of OAO Gazprom's Management Committee
Elena A. Vasilieva	1959	Deputy Chairman of OAO Gazprom’s Management Committee and Gazprom’s Chief Accountant
Valery A. Golubev	1952	Deputy Chairman of OAO Gazprom's Management Committee
Alexander N. Kozlov	1952	Deputy Chairman of OAO Gazprom's Management Committee
Andrey V. Kruglov	1969	Deputy Chairman of OAO Gazprom’s Management Committee and Head of the Finance and Economics Department
Vitaly A. Markelov	1963	Deputy Chairman of OAO Gazprom’s Management Committee
Alexander I. Medvedev	1955	Deputy Chairman of OAO Gazprom’s Management Committee and General Director of OOO Gazprom Export
Sergei F. Khomyakov	1953	Deputy Chairman of OAO Gazprom’s Management Committee and General Director of OAO Gazprom’s Corporate Protection Service Branch in Moscow
Oleg E. Aksyutin	1967	Head of the Gas Transportation, Underground Storage and Utilization Department
Yaroslav Ya. Golko	1961	Head of the Department of Investment and Construction
Nikolay N. Dubik	1971	Head of the Legal Department
Dmitry V. Lyugai	1962	Head of the Prospective Development Department
Vladimir R. Markov	1955	Head of the Department for Relations with the Russian Federation Authorities

Name	Year of Birth	Position
Elena V. Mikhailova	1977	Head of the Asset Management and Corporate Relations Department
Kirill G. Seleznev	1974	Head of the Gas and Liquid Hydrocarbons Processing and Marketing Department and General Director of OOO Gazprom Mezhregiongaz
Igor Y. Fedorov	1965	General Director of OOO Gazprom Komplektatsiya
Vsevolod V. Cherepanov	1966	Head of the Gas, Gas Condensate and Oil Production Department

Changes in the Management Committee in 2013:

Name	Changes
Dmitry V. Lyugai	elected on 1 February 2013
Vlada V. Rusakova	termination of powers on 1 February 2013

Remuneration of the members of the Board of Directors and Management Committee

Short-term compensation paid to the members of the Board of Directors and Management Committee of OAO Gazprom, the Chairman of the Management Committee in 2013 (including salary, bonuses and remuneration for serving on the management bodies of OAO Gazprom) amounted to RUB 2,261,612 thousand. The amount includes personal income tax and insurance contributions. Government officials, who are directors, do not receive remuneration from OAO Gazprom. The remuneration to the members of the Board of Directors is subject to approval by the General Meeting of Shareholders. Short-term compensation of the Chairman of the Management Committee, members of Management Committee and the Board of Directors who are OAO Gazprom’s employees is determined by the terms of the employment contracts.

According to the Russian laws, the Group makes contributions to the Russian Federation State Pension Fund for all of its employees, including the Chairman of the Management Committee, members of the Management Committee and the Board of Directors who are OAO Gazprom’s employees.

OAO Gazprom also provides voluntary medical insurance for the Chairman of the Management Committee, members of the Management Committee and the Board of Directors who are OAO Gazprom’s employees. In 2013, insurance contributions under voluntary medical insurance amounted to RUB 851 thousand.

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

OAO Gazprom provides liability insurance for the members of the Board of Directors (including independent directors but excluding those directors who are government officials) and the Management Committee that ensures the compensation of damage to the shareholders, creditors and other persons incurred as a result of indeliberate erroneous actions (failure to act) of the insured persons when performing management functions.

The amount of insurance is USD 100 million and the amount of premium under the insurance contract concluded in 2013 is USD 1.57 million.

Insurance coverage under the liability insurance contract for the members of the Board of Directors and the Management Committee is in compliance with the international standards of insurance in terms of the insured risks and indemnity limits.

Shares of the members of the Board of Directors and the Management Committee

As of December 31, 2013, the total share of the members of the Board of Directors and the Management Committee in OAO Gazprom equity was 0.01239258%.

Corporate governance

Key corporate governance principles are set out in the Corporate Governance (Conduct) Charter of OAO Gazprom approved by the General Shareholders' Meeting of OAO Gazprom on 28 June 2002 and comply with the generally accepted global standards.

Corporate governance is focused on mandatory observance of rights of all shareholders of OAO Gazprom. OAO Gazprom's key documents related to corporate governance are based on fair treatment of shareholders, protection of their rights and interests regardless of a number of owned shares.

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

- Charter of OAO Gazprom;
- Corporate Governance (Conduct) Code of OAO Gazprom;
- Code of Corporate Ethics of OAO Gazprom;
- Regulation on OAO Gazprom's General Meeting of Shareholders;
- Regulation on OAO Gazprom's Board of Directors;
- Regulation on OAO Gazprom's Audit Committee under Board of Directors
- Regulation on OAO Gazprom's Management Committee;
- Regulation on the Chairman of OAO Gazprom's Management Committee;
- Regulation on OAO Gazprom's Revision Commission;
- Regulation on OAO Gazprom's Internal Controls;
- Procedure for documenting the shareholders' proposals and requirements related to the calling of OAO Gazprom's General Meeting of Shareholders;
- OAO Gazprom's dividend policy;
- OAO Gazprom's procedure for paying dividends;
- OAO Gazprom's provision on information disclosures;
- Procedure for informing shareholders on OAO Gazprom;
- Regulations on control over compliance with legislation on suppressing illegal use of insider information and market manipulation in OAO Gazprom.

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

Internal controls

Objectives, tasks and components of internal control system, principles of its operation and governing bodies of OAO Gazprom and persons responsible for internal control are specified in the Regulation on OAO Gazprom's Internal Controls approved by the Board of Directors' decision of December 14, 2012, No 2091.

The Board of Directors, the Audit Committee of the Board of Directors, the Revision Commission, executive bodies (the Management Committee, Chairman of the Management Committee), the Internal Audit Department of the Management Committee and other structural subdivisions of OAO Gazprom and the Company's employees are subject to internal control.

The Revision Commission in number of 9 persons is elected by the General Meeting of Shareholders. The Revision Commission's competence is specified by the Federal law "On Joint-Stock Companies"; for the issues not specified by the law – by the Charter of OAO Gazprom.

In 2013, the Audit Committee of OAO Gazprom’s Board of Directors included three members of OAO Gazprom’s Board of Directors: V.A. Musin (the Chairman), F.R. Gazizullin, M.L. Sereda.

During the reporting year the Audit Committee of OAO Gazprom’s Board of Directors held 6 meetings at which 12 issues including draft activity plan of the Internal Audit Department of the Management Committee Administration for 2014, report on the department’s performance were discussed.

The Internal Audit Department carries out its activity in accordance with the Russian laws, OAO Gazprom’s Charter, decisions made by governing bodies, Code of Ethics of Internal Auditor approved by the decision of the Board of Directors of 14 March 2012, No1956 and International Standards for the Professional Practice of Internal Auditing.

The Department administratively reports to the Chairman of the Management Board of OAO Gazprom within the Management Committee Administration and functionally – to the Audit Committee of the Board of Directors.

One of the key tasks of the Internal Audit Department is providing the Audit Committee and OAO Gazprom management with independent and objective assurance, conclusions based on the results of internal audits, and advice aimed at improving the Company’s activities. The Internal Audit Department organizes and performs internal audits of business subdivisions, subsidiaries and organisations of OAO Gazprom. The results of the audits performed are communicated to the Chairman of the Management Committee and on an annual basis - to the Management Committee and the Audit Committee of the Board of Directors.

On an annual basis, OAO Gazprom selects an independent auditor based on open tender results that is held in accordance with the Russian laws. OAO Gazprom’s Board of Directors specifies the auditor’s fees.

In 2013, ZAO PricewaterhouseCoopers was recognised as a successful tenderer and was approved as the auditor at the General Meeting of Shareholders of OAO Gazprom on 29 June 2013. The contract price proposed by the successful tenderer amounted to the equivalent of USD 6,780,000 (less VAT) and was approved by the Board of Director’s decision of 9 August 2013, No2237.

ZAO PricewaterhouseCoopers provides OAO Gazprom with audit-related services. OAO Gazprom and ZAO PricewaterhouseCoopers analyse the subject of the contract prior to its signing in order to ensure the auditor’s independence. In 2013, ZAO PricewaterhouseCoopers did not provide OAO Gazprom with audit-related services.

KEY RISK FACTORS

RISK MANAGEMENT

Risk management by OAO Gazprom is carried out within a single corporate structure. The structure encompasses all areas of the Company's operating activities and permits optimising the scope of risks in accordance with OAO Gazprom's interests.

The corporate risk management system has been developed in accordance with the action plan approved by the Chairman of OAO Gazprom's Management Committee.

The plan is to be carried out in three stages:

1. develop integrated approaches;
2. create a methodological framework;
3. roll out the risk management system across subsidiaries and associated entities.

As of December 31, 2013, the first-stage actions in the plan had been completed. Second-stage actions are now being agreed and approved. Third-stage actions are currently being developed.

Strategic and country-specific risks

Global economic crisis risks

On the back of continuing global economic upheaval, inveterate budget imbalances, and economic growth slowdown in BRICS countries following a deep global recession, the world remains highly uncertain as to the speed and process of economic recovery. The adverse economic environment may have an adverse impact on the Group's operations.

Management /impact on the level of risk. Gazprom's policy aims to support its financial stability, raise its financial profile and streamline its debt portfolio so that the Group could properly respond to any potential macroeconomic downturn.

European gas market risks

Gazprom is the largest natural gas supplier to Europe. European Union member states are actively liberalising their gas markets to encourage tighter competition and boost spot trading. Liberalisation may lead to a system where long-term contracts are partially discontinued.

The liberalisation policy also implies separation of gas production assets from transportation networks within the EU. This could mean that, unless legally exempted, the Group would find itself unable to hold and control the transportation business, and will also constrain investment initiatives in the EU.

Moreover, the EU's energy strategy aims to diversify its energy sources, including towards alternative energy.

To some extent, the disparity between long-term contract prices and spot gas prices also exposes Gazprom to short-term risks.

Management /impact on the level of risk. In its operations, Gazprom continues to rely on its system of long-term contracts to maximise its revenues and secure supplies to consumers, while actively negotiating with consumers over mutually beneficial arrangements depending on market movements. Discontinuance of a long-term contract system may disrupt the balance of demand and supply in the European gas market and have unpredictable implications, including threaten energy security of importing countries.

To increase its gas supplies to Europe, Gazprom has been implementing a set of measures designed to both set up a new infrastructure, and bolster European demand for gas, as well as strengthen the Company's position in sectors that may want to consume more Russian gas:

- construction of a gas pipeline under the South Stream Project and implementation of infrastructure projects;
- physical supplies of gas (including LNG) to new European markets;
- promote use of NGV fuels;
- strengthening its positions in gas related markets (primarily in the power market);
- expanding gas supplies to final consumers.

Gazprom views Asia-Pacific markets as its key diversification targets.

Renewable energy risks

A number of developed countries, mostly in Europe, consistently encourage the use of renewable energy sources (wind, solar, biomass, small scale hydro, geothermal and waste heat energy), including through government subsidies to foster the sector.

Hence, the renewable energy output can be expected to grow in these countries, which would displace gas-based power generation from the market and drive down gas consumption by major European importers.

Management /impact on the level of risk. OAO Gazprom is actively committed to raising awareness about economic, production and environmental benefits of gas, including in power generation. To secure supplies, renewable power generation should be supported by generation based on other fuels with high requirements to equipment mobility. From this standpoint, natural gas is the best choice as a fuel to support renewable power generation.

At the same time, Gazprom continues its projects intended to diversify operations, including projects to develop Russian and international NGV fuel markets.

Russian regulatory risks for the gas industry

The Russian Federation controls over 50% shares in OAO Gazprom. The government has its representatives on the Board of Directors that approves the financial plan and investment program. The government thereby controls OAO Gazprom's cash flows. Under the Federal Law "On Natural Monopolies", Gazprom's pipeline gas transportation is regulated as operations of a natural monopoly.

The government regulates:

- wholesale gas prices at which Gazprom sells the bulk of its gas on the domestic market;
- tariffs for gas transportation services to independent producers via trunk pipelines;
- tariffs for gas transportation services via gas distribution networks;
- fees for distribution and logistics;
- retail gas prices.

The government is also interested in efficient development of Gazprom as the Company is a major Russian taxpayer and supplies up to 50% of the country's primary energy resources.

Management /impact on the level of risk. Gazprom's strategy is aimed at maintaining mutually beneficial relations with the government to support national energy security and the Group's sustainable growth. OAO Gazprom drafts and implements its strategies jointly with government authorities as part of the Energy Strategy of Russia.

In 2010, the Russian Government adopted a directive No1205 "On improvement of gas prices state regulation" which provides that, in the medium term, wholesale gas prices for industrial consumers are regulated based on a gas price formula that provides for a parity between returns on domestic gas supplies and gas exports to be gradually achieved during the transition period and that accounts for the ratios to alternative fuel prices and decreasing coefficients which are determined based on average movement of regulated wholesale gas prices for all consumers during the year, except for population, which is established by the Russian Government and coefficients underlying the differentiation of gas prices by the Russian Federation regions. The actual period of transition to prices that will provide the parity between returns on domestic and export supplies will depend on how prices will move on foreign gas markets and on whether the regulated domestic gas prices will perform in line with forecasts of the Russian Government.

OAO Gazprom continues an active dialogue with the Russian Government on improvements to the Government's pricing policy.

Political risks

Deterioration of Russia's relations with other countries could negatively affect the Russian economy and those of the nearby regions and cause disruptions of gas supplies to Europe.

Over the past several years, Russia has been involved in conflicts involving other members of the CIS. On several occasions, this has resulted in the deterioration of Russia's relations with other members of the international community, including the United States and various countries in Europe. Many of these jurisdictions are home to financial institutions and corporations that are significant investors in Russia and whose investment strategies and decisions may be affected by such conflicts and by worsening relations between Russia and its immediate neighbors.

For example, relations between Ukraine and Russia have recently been strained over a variety of issues. Significant tensions are currently ongoing between Russia and Ukraine, where a powerful civil unrest has been growing momentum since November 2013 and eventually resulted in the ousting of the reigning Ukrainian President in February 2014, the accession of Crimea to Russia and the ongoing crisis in eastern Ukraine. These events have caused significant tensions between Russia and the United States and the European Union. As of now, there is still significant uncertainty regarding the eventual outcome of the Ukrainian crisis.

The emergence of new or escalated tensions between Russia and other countries, including any escalation of the crisis in Ukraine, or the imposition of international sanctions in response to these tensions, could negatively affect economies in the region, including the Russian economy. This, in turn, may result in a general lack of confidence among international investors in the region's economic and political stability and in Russian investments generally. Such lack of confidence may result in reduced liquidity, trading volatility and significant declines in the price of listed securities of companies with significant operations in Russia, including Gazprom's ADSs, and in Gazprom Group's inability to raise debt or equity capital in the international capital markets.

Political and economic tensions between Russia and Ukraine have caused renewed concerns regarding the reliability of gas supplies to Europe through Ukraine and the ability of Gazprom's Ukrainian counterparty to repay its debt for supplied gas and make payments for current gas deliveries. Any disputes with Ukraine could potentially lead to a disruption of the Gazprom Group's exports to Europe through pipelines crossing Ukraine.

In addition to disruptions that could be caused by commercial disputes, our transit of natural gas through pipelines in Ukraine could also be disrupted if Ukraine is unable to properly maintain their pipelines due to a lack of financial resources as a result of the global financial crisis. The ongoing political and economic crisis aggravated by poor economic conditions in Ukraine could also lead to a disruption.

An expansion of the US, EU and other sanctions programs could adversely impact operations and financial condition of the Gazprom Group.

The EU, US, Canada and other countries have imposed several rounds of limited economic sanctions in relation to the situation in Ukraine, freezing the assets, imposing travel restrictions, and prohibiting transactions with a number of designated individuals and a few listed companies including Russian citizens and companies. The US and European Union have stated several times recently that they are prepared to impose broader economic sanctions in response to the escalation of the crisis in Ukraine.

These sanctions might target one or more sectors of the Russian economy. In particular, the US Treasury Department has the authority to designate any of the "financial services, energy, metals and mining, engineering, and defense and related material" sectors of the Russian economy and sanction persons operating in such sectors. There can be no assurance that the existing or new sanctions will not be expanded to include any company of the Gazprom Group.

Gazprom sells a significant part of its products, purchases equipment and owns operating assets in Europe. A large portion of Gazprom Group's revenues and obligations are denominated in US dollars and euros. An expansion of the existing or introduction of new sanctions against any entity within the Gazprom Group could have a material adverse effect on the business, financial condition and results of operations of the Gazprom Group.

Management/impact on the level of risk. Gazprom is actively engaged in expanding its sales markets. The Eastern Gas Program, one of the Group's major projects, calls for exporting pipeline gas and LNG to Asia-Pacific countries. Additionally, in pursuing a policy of import substitution, Gazprom is adopting incentives to encourage the development of import substitution-related production and technologies among its suppliers and contractors.

Transit risks

The Gazprom Group is currently dependent on pipelines in Ukraine, Belarus and Moldova to deliver a significant portion of the natural gas the Group sells to customers in Europe, and Gazprom may not be able to prevent eventual disruptions in our transit of natural gas through these countries. There have been instances in which the Group’s gas deliveries intended for our European customers were diverted as a result of our disputes with the FSU transit countries. Any disruption in transit through Ukraine, Belarus and Moldova including a potential diversion of gas supplied to Europe could result in Gazprom’s failure to duly perform its obligations to deliver gas to its European customers. The ongoing political and economic crisis in Ukraine aggravates the concerns of Ukrainian counterparty of OAO Gazprom defaulting on its transit obligations and resorting to diversion of our supplies intended for Europe which could have a significant adverse effect on our results of operations and financial condition.

Management /impact on the level of risk. To mitigate its exposure to transit countries, the Group:

- phased transition to generally accepted gas pricing principles and mechanisms on a global gas market with regard to gas imported by FSU countries and for their gas transit services;
- implements gas transportation projects intended to diversify its export routes (with the second Nord Stream line commissioned and the South Stream Project continued);
- expands international UGSF opportunities;
- develops LNG sales.

Region and market entry risks

Geographical expansion is a priority in the Gazprom Group’s growth strategy. The Group runs hydrocarbon exploration and production projects in FSU, South America, South-East Asia, Africa and Middle East countries. It also explores new business opportunities in Asia, Africa, North and South America.

Management /impact on the level of risk. The Group sets up subsidiaries and joint ventures with foreign partners to gain the required operating experience in new regions. OAO Gazprom’s overseas representations work to enhance its relationships with government authorities, companies and organisations in relevant countries and jurisdictions, and to provide information and analytical support to international projects management.

Non-conventional gas production risks

Over the last decades, rising natural gas prices and technological advances have whetted the increased demand for non-conventional sources of natural gas. North American countries are expected to continue building up their output of gas from non-conventional sources in the longer run. Consequently, the North American gas market will cover the local demand for gas. Potential exports from North America may spur global competition.

Non-conventional gas production projects in various countries, including China, may lower these countries’ demand for gas imports.

Management /impact on the level of risk. Non-conventional gas production has an uncertain outlook, as in the longer run its production is only economically viable at steadily high prices, requires ongoing investment to keep the relevant formation productive, and is associated with considerable environmental risks.

For an objective assessment of the risk level, OAO Gazprom continuously monitors the trends in non-conventional oil and gas production worldwide, and explores relevant opportunities in global markets. Gazprom also keeps its operations and conventional natural gas supplies economically competitive by:

- controlling investment and operating expenses on production;
- perfecting and introducing new technologies to enhance conventional gas production methods.

As Russia has substantial non-conventional gas resources, Gazprom is developing relevant exploration and production technologies.

At the same time, perspectives of unconventional gas production are still uncertain as such a production is economically viable only when prices are consistently high and continued investments are required to maintain the formations productivity and it is also associated with significant environmental risks.

Geographical and climatic risks

The climate and geography of Gazprom's key regions of presence have a significant impact on the Group's operations. A considerable portion of Gazprom's gas output comes from Western Siberia where harsh climate complicates natural gas production and increases production costs. Gas fields in the Yamal Peninsula and Russian continental shelf will be developed in an even harsher climate.

Short-term climatic changes may also have a certain impact on Gazprom's gas sales and revenues: e. g. milder winters may result in lower – and colder and longer winters in higher – gas ”take-or-pay” obligations. However, over a number of years, this probability factor will only have an insignificant impact on Gazprom's sales and revenues as alternating colder and warmer winters will offset each other.

Management /impact on the level of risk. The Gazprom Group is designing and introducing successful processes for harsh climates. The Group also develops and implements programmes to enhance operational performance of its production and transportation systems, and the gas transportation network.

The Group is also actively engaged in the preparation and implementation of government programs aimed at enhancing the use of energy resources in Russia.

Customs, currency and tax regulatory risks

Risks of changes to currency regulations and tax laws of the Russian Federation

Gazprom is engaged in foreign trade, holds some of its assets and liabilities in foreign currencies and has accounts with foreign banks. While Russia continues to liberalise its currency legislation, the Russian Government and the Bank of Russia are tightening their grip over the foreign exchange market. OAO Gazprom is a major Russian taxpayer that pays federal, regional and local taxes, including the value added tax, profit tax, mineral extraction tax, transport tax, corporate property tax and land tax.

Russian tax laws are often amended or supplemented. Relevant changes affect both overall taxation and individual taxes. Laws that amend the procedure for assessing and paying specific taxes set forth in the Russian Tax Code are enacted every year, which makes it harder for taxpayers to forecast their operations in the mid- and longer term.

While OAO Gazprom complies with the requirements of tax laws, constantly monitors amendments and alterations to laws and other legal regulatory acts on taxation, assesses and forecasts the extent of their potential implications for its operations, the risk of tax claims against the OAO Gazprom may not be ruled out.

Certain risks are also caused by imperfections of the Russian judicial system and the judicial authorities lacking a uniform approach to certain taxation matters.

Management /impact on the level of risk. The principles underlying OAO Gazprom's operations include good faith and transparency for tax authorities. OAO Gazprom tracks changes in currency and tax law and seeks to meet their requirements to the letter, guided by best implementation practices. The Company is also committed to mutually beneficial relations with the Russian Government with a view to support national energy security and the Group's sustainable growth. Where necessary, OAO Gazprom may also resort to judicial remedies.

A major mid-term objective of the Gazprom Group is to build an efficient tax risk management system across the Group. A centralised database and ongoing monitoring of critical risks in the Group's entities will help timely identify such risks and minimise their negative impact at early stages.

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

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

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

In general, the existing procedure, which provides for an export customs duty for exported natural gas to be paid before the gas is transported and assessed based on indicative parameters of the shipment, still carries some risk as the amounts of duty payable after the actual delivery remain unpredictable. Furthermore, the need to fill out two tax returns – provisional and full – carry the risk that overpaid or unused advance payments will be confiscated to the federal budget three years after they are made. The relevant provisions of the customs law require further legal assessment in so far as they concern customs clearance of regular shipments.

Management /impact on the level of risk. The Group seeks to adhere to all requirements of customs laws, track amendments to legal regulatory acts at their earlier drafting stages and bring forward its proposals, which take into account the gas industry's interests, while interacting with regulatory authorities and related public organisations.

Meanwhile, there remain some issues with the customs duty that arise from the need to pay the duty before the delivery starts, based on expected pricing and volumes and related to the recognition and use of customs duties paid in advance. In this regard, the Group continues to cooperate with federal authorities on amendments to the Federal Law "On Customs Regulation in the Russian Federation" to improve the customs duty payment procedure.

Financial risks

Foreign exchange, interest rate and inflation risks

A significant share of Gazprom's revenues is denominated in US dollars or Euros, while most of its costs are denominated in roubles. A part of OAO Gazprom's debt portfolio falls to syndicated loans from Western banks, with many of these loans having an interest rate based on LIBOR/EURIBOR rates. Therefore, changes in inflation and exchange rates significantly affect Gazprom's performance.

Management /impact on the level of risk. Gazprom develops a methodological and contractual framework to use hedging instruments in line with the Russian statutory requirements. Starting from 2011, tax accounting of futures contracts, including transactions hedging foreign exchange and other risks are included in OAO Gazprom's Regulation on Tax Accounting Policies, which is approved on an annual basis. Foreign exchange and interest rate risks are naturally hedged by:

- estimating the Gazprom Group's net currency position and balancing OAO Gazprom's cash flows in terms of currency, volumes and receipt/payment dates;
- maintaining a balance of currencies in OAO Gazprom's debt portfolio close to the balance of revenue currencies.

Credit and liquidity risks

Gazprom's operations can be negatively affected by delayed or incomplete discharge of contractual obligations by some counterparties. In particular, increased gas prices in FSU countries against a rather low paying capacity of final consumers in the region entail a risk of incomplete and/or delayed payments for gas under relevant contracts.

A failure by foreign counterparties to pay for natural gas may expose OAO Gazprom to the risk of administrative sanctions imposed by Russian currency control authorities due to Gazprom's non-compliance with the currency legislation.

Management/impact on the level of risk. The Group implements a transparent policy, enforcing contractual obligations related to payments for gas supplies and defaulters. All counterparties involved in gas supplies to far abroad countries are assigned an internal credit rating (according to the approved Credit Risk Assessment Methodology). Based on counterparties' credit worthiness assessment and Monte Carlo method, credit risk is quantified under CreditVaR.

The key tools used to manage credit risks associated with gas supplies to far abroad countries include the List of Approved Counterparties that are allowed to transact with the Group, as well as guarantees to be provided by counterparties with poor credit ratings. The internal credit rating of such counterparties is subject to ongoing monitoring: should a rating materially impair, the relevant contract may be amended to mitigate non-payment risks.

The relations between the Gazprom Group and credit institutions are subject to credit risk limits fixed on a regular basis.

Market risks

A major share of Gazprom Group's revenues is generated by gas exports. Gas is supplied mainly under long-term contracts at prices linked to the global prices for relevant products (oil products, coal, and gas). Therefore, there are risks of failure to achieve revenue targets (export value of commodity) or a negative change in the portfolio value, which are caused by market factors. The key market risk factors include price risks associated with fluctuations of oil product prices and gas indices underlying the export contract prices, as well as volume risks associated with a certain flexibility that buyers have in terms of gas offtake.

A potential drop in oil prices, including that attributable to a potential decrease in US oil imports driven by growing non-conventional hydrocarbon production in the country, also may reduce Gazprom's income. However, lower oil and oil product prices would make Russian gas exported under oil-product linked contracts more competitive, which may increase the demand for gas in the longer term.

The portfolio contains contracts with different settlement currencies (mainly US dollars and Euros), so revenues may also be affected by foreign exchange risks.

Management /impact on the level of risk. The key method used to quantify market risks associated with gas sales to far abroad countries is Earnings at Risk (EaR) that measures the quantity by which revenues might change over a certain planning horizon. This involves modelling possible portfolio scenarios subject to the current contractual terms, as well as historical trends in price, volume and foreign exchange risk factors.

Risks assessment methodologies are improved to capture new market risk factors and trends in the existing factors.

Market and price risk mitigation steps are taken across a number of areas.

- As Russia's pricing policy evolves by shifting focus from government regulation of wholesale gas prices towards government regulation of gas transportation rates, the share of Gazprom's revenues from domestic supplies would increase, mitigating the risks associated with export sales.
- Gazprom enters new markets, such as Asia-Pacific or global LNG, which would mitigate the volume and price risks to a certain extent.
- Internal operations are mainly streamlined by modifying existing, or entering into new, contracts, and by determining approved types of transactions and financial instruments and, accordingly, counterparties to enter into such transactions. Currently, most long-term contracts include a "take-or-pay" provision, under which the buyer who fails to take a certain minimum quantity of gas must partially make up for deficiency amounts in future years by purchasing in excess of minimum commitments.

Furthermore, frequent fluctuations of crude oil and product prices and rouble exchange rates provide, to a certain extent, natural hedging of Gazprom's currency revenues denominated in roubles.

Operating risks

Subsoil license non-renewal risks

The Group explores and produces hydrocarbons under subsoil licenses. Most of its licenses may be suspended, altered or revoked in case of non-compliance with the license agreements.

The subsoil licenses for the Group's major fields expire in [2028]. Under Russian law, a license can be renewed but the subsoil user has no firm right to renew it.

Management /impact on the level of risk. Gazprom complies with the license requirements to mitigate the risk of license revocation, suspension or alteration.

Cost risk

In the years before the crisis, capital construction cost growth rates in the oil and gas sector exceeded inflation rates due to rising prices for raw and other materials, components and services, including prices for metals and gas-pumping units, and well drilling costs, etc.

During the crisis, certain cost items stabilised or even decreased, but accelerated cost growth is still possible in the longer run.

Management/impact on the level of risk. Gazprom's supplier selection is made through competitive procurement to conclude direct supply contracts.

Facilities risks

The Gazprom Group's key operations, including hydrocarbons production, transportation, refining and storage, carry a wide range of process and engineering, natural and climatic risks, as well as risks of adverse actions by personnel or third parties, including due to human error, embezzlement, terrorist attacks or sabotage.

If they occur, the above risks may materially damage the Gazprom Group's property interests and reduce Gazprom's operating and business performance.

Response to natural and industrial disasters and other adverse events is cost-consuming.

In its investment programs, Gazprom focuses on guaranteed completion (reconstruction) of investment projects, which carries, among other things, construction and installation risks associated with high potential damage.

Management /impact on the level of risk. The UGSS ensures system-wide reliability of gas supplies, which implies that, in case of emergency at any of its components, process and inter-system pipelines may be used to supply gas via other routes.

Stable operation of the system is achieved by implementing advanced diagnostic methods, and reconstructing and upgrading existing facilities.

The Occupational Health and Safety Policy developed, approved and pursued by OAO Gazprom aims to establish safe labour conditions and protect lives and health of employees in OAO Gazprom and its subsidiaries, as well as to support reliability of hazardous operating facilities.

To ensure stable performance of OAO Gazprom and its subsidiaries and minimise emergency response costs (including response to natural and industrial disasters, and other adverse events such as terrorist attacks and sabotage), property interests of OAO Gazprom's subsidiaries are covered by comprehensive insurance policies. The coverage includes property insurance (including offshore facilities), business interruption insurance for GPPs and liability insurance for construction, repair and operation of production facilities. Property insurance is on "against all risks" basis to fully cover loss (including total loss) of, or damage to, property for any reason whatsoever (except for standard exclusions).

<u>Hydrocarbon reserve estimation risks</u>

The Group's growth plans rely on the scope and locations of hydrocarbon reserves estimated in line with proven and generally accepted standards. Accuracy of reserve estimates depends on the quality of available information, as well as on interpretation of engineering and geological data.

However, the regions where the bulk of the Group's reserves is located have been extensively explored, which decreases these risks.

Management /impact on the level of risk. The Gazprom Group's reserves estimated under Russian reserves classification standards are recorded in its books only after the annual review and approval by the State Reserves Commission of the Russian Ministry of Natural Resources.

Reserve estimation procedures developed and implemented by OAO Gazprom comply with international PRMS standards and involve an independent appraiser.

Gazprom's long and unique track record in the area ensures highly accurate reserve estimates.

<u>Vertical integration and diversification risks</u>

In recent years, Gazprom has significantly expanded its petroleum business by purchasing OAO Gazprom Neft and entered the electric power generation and marketing business. The Group is also enlarging its operations in international natural gas markets through new trading techniques and LNG production and marketing.

Any failure to integrate past or future acquisitions may affect the Group's business, financial position and performance.

Management /impact on the level of risk. The Group is improving its corporate governance structure to diversify financial flows by business line and increase OAO Gazprom's performance as a vertically integrated company.

The organisational structures of gas production, transportation, underground storage and processing subsidiaries are being aligned with OAO Gazprom's corporate requirements, including the approved regulations on employee headcount and corporate control norms.

The existing governance procedures and projects aimed at improving performance of OAO Gazprom and its key subsidiaries are planned to be applied to other companies of the Group that have a material impact on Gazprom's performance.

Electric Energy and Oil Business Strategies designed, approved and successfully implemented by Gazprom aimed to increase Gazprom's market value and bring the Company to leading positions in electric energy and petroleum businesses.

As part of its Information Technology Strategy, OAO Gazprom is setting up a common information space to increase transparency of corporate reporting, from primary data sources to KPIs and risks.

Land and property registration risks

With its property and lands constantly growing, OAO Gazprom may face third party claims resulting from delays or errors in registration of its real estate and land titles.

The lack of documented real estate and land titles may discourage investors from investing into the oil and gas sector.

Intensive urban development in Russian regions requires OAO Gazprom to mitigate the risk of infractions in the protective zones of the UGSS and power facilities.

Management /impact on the level of risk. OAO Gazprom is actively committed to ensure that its titles to land under operating facilities and to real property are registered without delays.

The Group often resorts to legal remedies to protect the interests of OAO Gazprom and its subsidiaries, including legal action to acknowledge and register titles to real estate and land.

Large-scale work is underway to prevent and eliminate infractions in protective zones by creating their maps (charts) and including relevant information in the State Real Estate Cadastre.

OAO Gazprom is also engaged in the drafting of civil law and bills governing land matters. For these purpose the Company regularly holds international conference "Managing the corporations' real estate". Based on the first conference results the resolution which initiates establishing Corporate Owners' Club, an association aimed to formulating, structuring and promoting corporate owners' interests related to real estate management was approved. In October 2013, OAO Gazprom ensured the registration of non-profit partnership for managing the corporations' real estate "Corporate Owners' Club".

Environmental risks

The nature of the Gazprom Group's business implies natural resource management and, therefore, entails risks of damage to environment, human health and private property due to violation of environmental protection laws.

Damage to environment may entail

- legal implications, including suspension of business;
- financial costs related to penalties and compensation for damages;
- damage to business reputation.

Management /impact on the level of risk. The Gazprom Group pursues a coherent environmental policy, implementing programs, takes actions to mitigate environmental impact, finances environmental activities and introduces advanced resource- and energy-saving and other environmental protection technologies.

OAO Gazprom and most companies of the Group have in place and continuously improve environmental management systems certified under ISO 14001:2004.

Environmental aspects are accounted for and assessed throughout lifecycles of facilities of the Gazprom Group's companies. The Group conducts pre-design environmental surveys, assesses environmental impact from planned activities and runs environmental due diligence of projects. Facilities are constructed, operated and decommissioned in line with environmental laws and corporate environmental standards. Environmental monitoring is organised. Another important element of environmental risk management involves the use of the best available technologies in designing, retrofitting and upgrading operating facilities. OAO Gazprom also keeps a register of the best available technologies for the gas industry.

In 2013, OAO Gazprom entered into a comprehensive insurance agreement covering damage to environment and third-party lives, health and property from onshore or offshore exploration and drilling, production, transportation, processing/refining and storage of hydrocarbons, operation of major hazard facilities, construction and other related operations. Therefore, all operations exposed to ecological risks are covered by insurance. Insurance coverage applies to OAO Gazprom and its 30 subsidiaries, including OOO Gasflot, OOO Gazprom Geologorazvedka, OOO Gazprom Dobycha Shelf, OOO Gazprom Neft Shelf. Insurance agreement is voluntary and supplements the mandatory civil liability insurance contracts for dangerous facility owners (according to the Federal law "On mandatory civil liability insurance for the owners of dangerous facilities associated with environmental damage arising from accidents at the dangerous facility"). Insurance agreement substituted voluntary civil liability insurance contracts for operators of the increased danger sources which were previously concluded by each subsidiary. The Gazprom Group maintains transparency of its ecological information.

BRANCHES AND REPRESENTATIVE OFFICES OF OAO GAZPROM

Below is the information on branches and representative offices of OAO Gazprom based on its Charter:

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

Name		Location
Representative office	in Republic of Latvia	Riga
Representative office	in the Republic of Kazakhstan	Astana
Representative office	in Republic of Moldova	Kishinev
Representative office	in the Kyrgyz Republic	Bishkek
Representative office	in the Republic of Belarus	Minsk

CONVERSION TABLE

Metric measure	U.S. measure
1 bcm of natural gas	35.316 billion cubic feet (bcf) of natural gas
1 bcf of natural gas	0.028 bcm of natural gas
1 metric ton of crude oil	1,000 kilos, 2,204.6 pounds
	7.33 barrels of crude oil,
	8.18 barrels of gas condensate
	1.43 ton of fuel equivalent
1 barrel of crude oil	0.1364 metric ton of crude oil
1 barrel of gas condensate	0.1222 metric ton of gas condensate
1 British thermal unit	1million BTU = 0,028 tcm of natural gas= 0,02 ton of LNG
1 kilometer	Approximately 0.62 miles
1 ton of fuel equivalent	867 cm of natural gas, 0.7 ton of gas condensate, 0.7 ton of crude oil
1 mcm of natural gas	1.154 ton of fuel equivalent
1 barrel of gas condensate	1 barrel of oil equivalent (boe)
1 mcm of natural gas	5.89 barrels of oil equivalent (boe)
1 million tons of LNG	1.36 bcm of natural gas

GLOSSARY OF MAJOR TERMS AND ABBREVIATIONS

Terms and abbreviations	Description
Adjusted EBITDA	Earnings before interest, taxes, depreciation, and amortization adjusted by changes in impairment provisions
ADR of OAO Gazprom	American Depositary Receipt issued for OAO Gazprom shares.
APG	Associated petroleum gas
APR	Asia-Pacific Region, which includes inland countries of Asia, America and Pacific Ocean Area
Associated undertaking	Associated undertaking is a company over which the Gazprom Group has significant influence – significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies
bcm	Billion cubic meters
boe	Barrel of oil equivalent
bboe	Billion barrels of oil equivalent
Category ABC_1 hydrocarbon reserves	Explored reserves, according to the Russian reserves system. Gas reserves in categories ABC_1 are considered to be fully extractable. For reserves of crude oil and gas condensate, a predicted coefficient of extraction is calculated based on geological and technical factors.
Category C_2 hydrocarbon reserves	Category C_2 represents reserves of a deposit the crude oil or gas content of which is calculated on the basis of geological and geophysical data within the known gas areas. Category C_2 reserves are preliminary estimated reserves and represent a basis for exploration work at a particular field.
Central Asia	Kazakstan, Kyrgyzstan, Tadjikistan, Turkmenistan, Uzbekistan
Central Europe	Bulgaria, Bosnia-Herzegovina, Hungary, Macedonia, Poland, Romania, Serbia, Montenegro, Slovakia, Slovenia, Croatia, Czech Republic
cf	Cubic feet
CIS	Commonwealth of independent states – former Soviet Union republics except for Latvia, Lithuania and Estonia
cm	Cubic meter of natural gas measured under pressure of 1 bar at the temperature of 20°C
CS	Compressor station
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Europe	For the purposes of the Report includes Western and Central Europe
Europe and other countries	Countries other than Russia and the FSU countries.
FSU	Former Soviet Union republics, except for the Russian Federation
FTS of Russia	Federal Tariff Service
Fuel equivalent	Natural equivalent measuring unit used to compare different types of fuel. Recalculation of certain type of fuel to fuel equivalent is made by the ratio of enthalpy of that fuel (1 kg) to enthalpy of fuel equivalent (1 kg); the latter equals to 29.3076 Mega joule
G&G	Geological exploration works
Gazprom Group, Group, Gazprom	An aggregate of entities which includes OAO Gazprom (Head Office) and its subsidiaries

Terms and abbreviations	Description
Gazprom Neft Group	An aggregate of entities which includes OAO Gazprom Neft (Head Office) and its subsidiaries. Gazprom Group controls the Gazprom Neft Group.
GPC	Gas Processing Complex
GTS	Gas Transportation System
IFRS	International Financial Reporting Standards accepted in EU
Joint operation	Joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligation for the liabilities, relating to the arrangement. Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.
Joint venture	Joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. With regards to joint arrangements, where the Group acts as a joint venture, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.
kWh	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LNG	Liquefied Natural Gas
LSE	London Stock Exchange
mboe	Million barrels of oil equivalent
mcm	Thousand cubic meters
MICEX	Moscow Interbank Currency Exchange
Net debt	The sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities, net of cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations
NPZ	Refinery
OGCF	Oil and gas condensate field
Return on capital employed	Calculated as operating and non-operating profit before interest, net of income tax to the average capital employed. Average capital employed is calculated as the average of total equity and total debt at the beginning and at the end of year.
RUB	Russian Rouble
PRMS Standards	International classification and assessment of hydrocarbon reserves under PRMS (Petroleum Resources Management System). These standards do not only include the assessment of physical presence of hydrocarbons but also provide the economic viability of recovering the reserves and consider the period of commercial development of fields (term of development license).
SDPP	State district power plant
tcf	Trillion cubic feet
tcm	Trillion cubic meters
ton	Metric ton
Total debt	Long-term and short-term loans and borrowings, long-term and short-term promissory notes, restructured tax payable
TPP	Thermal Power Plant

Terms and abbreviations	Description
UGSF	Underground Gas Storage Facility
UGSS	Unified Gas Supply System of Russia
USD	The United States Dollars
VAT	Value Added Tax
Western Europe	Austria, Andorra, Belgium, Germany, Greenland, Greece, Denmark, Republic of Ireland, Iceland, Spain, Italy, Cyprus, Liechtenstein, Luxembourg, Malta, Monaco, The Netherlands, Norway, Portugal, San Marino, the United Kingdom and Republic of Ireland, Turkey, Finland, France, Switzerland, Sweden
YaNAO	Yamal-Nenets Autonomous District

ADDRESSES AND CONTACTS

Full name: Open Joint Stock Company Gazprom

Abbreviated name: OAO Gazprom

Location: 16 Nametkina str., Moscow, Russian Federation
Mailing address: 16 Nametkina str., Moscow, GSP-7, 117997
Phone: +7 (495) 719-30-01 (information). Fax: +7 (495) 719-83-33

Web-site: www.gazprom.ru in the Russian language, www.gazprom.com in the English language
E-mail: gazprom@gazprom.ru

Certificate on entry in the Unified State Register of Legal Entities issued by the Interregional Inspectorate of the Russian Ministry of Taxes and Levies for the Moscow city on 2 August, 2002, OGRN - 1027700070518
Taxpayer's identification number (INN): 7736050003

Department for Relations with Shareholders: Olga Igorevna Borodina
Phone: +7 (495) 719-27-86, 719-26-01. Fax: +7 (495) 719-39-37
E-mail: O.Borodina@adm.gazprom.ru

Department for Relations with Investors: Andrei Vitalievich Baranov
Phone: +7 (495) 719-25-89. Fax: +7 (495) 719-35-41
E-mail: A.Baranov@adm.gazprom.ru

Auditor of OAO Gazprom: ZAO PricewaterhouseCoopers Audit
Member of non-profit partnership «Audit Chamber of Russia» (NP ACR) being a self-regulatory organization of auditors – registration number 870 in the register of NP ACR members
Major registration record number (ORNZ) in the register of auditors and audit organizations 102010003683
Location and mailing address: ZAO PricewaterhouseCoopers Audit (ZAO PwC Audit), White Square Office Center, 10 Butyrsky Val, Moscow 125047 Russian Federation
Phone: +7 (495) 967-60-00. Fax: +7 (495) 967-60-01

Registrar: Closed Joint Stock Company Specialized Registrar – Holder of the register of gas industry (ZAO SR-DRAG)
Location and mailing address: 71/32, Novocheryumushkinskaya str., Moscow 117420, Russian Federation
Phone: +7 (495) 719-39-29. Fax: +7 (495) 719-45-85

Depository bank (ADR of OAO Gazprom): The Bank of New York Mellon

Phone (the US only): 1-888-BNY-ADRS (1-888-269-2377). Phone (other countries): 201-680-6825
E-mail: shrrelations@bnymellon.com
Web site: www.bnymellon.com/shareowner