GAZPROM

SUSTAINABILITY REPORT
2012–2013

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Note
The terms OAO Gazprom and the Company used in this Report refer to the parent company of the Gazprom Group, i.e., to Open Joint-Stock Company Gazprom.
The *Gazprom Group*, the *Group*, or *Gazprom* refer to OAO Gazprom and its subsidiaries taken as a whole.
Similarly, the *Gazprom Neft Group* and *Gazprom Neft* refer to OAO Gazprom Neft and its subsidiaries; *Gazprom Energoholding* refers to OOO Gazprom Energoholding and its subsidiaries; *Gazprom Neftekhim Salavat* refers to OAO Gazprom Neftekhim Salavat and its subsidiaries.

STATEMENT FROM OAO GAZPROM'S CHAIRMAN OF THE MANAGEMENT COMMITTEE

Dear friends!

We are glad to present you the *Gazprom Group's* third Sustainability Report.

In 2012–2013, we continued to work on implementing our strategy towards becoming a leader in the global energy industry by entering new markets, diversifying our business, and ensuring the reliability of supply. Strengthening our position in the industry helps the G*azprom Group* meet the growing energy demands of household and industrial customers, while making a substantial contribution to the socio-economic development of Russian regions.

The results of the reporting period brought *Gazprom* to the forefront of the global energy industry. Despite the complicated situation in the global, European, and Russian economies our gas exports to Europe reached a record level in 2012–2013. We were able to make an effective use of our competitive advantages – our resource potential and unique transportation infrastructure – against a backdrop of declining gas production in European countries and LNG shipments being redirected from Europe to Asia.

Realising the importance of Russian gas to European customers, *Gazprom* continually improves its system of interacting with foreign partners. We strive towards a mutual consideration of interests in all areas of cooperation, including prices and the conditions of supply. Today, we can say that our gas exports meet the needs of European customers in terms of both volume and price.

Our products are not only in Europe, but also in the Asia-Pacific region. Market diversification is an effective instrument for enhancing the sustainability of our business. In 2012–2013, significant work was carried out on preparations for signing a contract to supply China with natural gas. We have also continued our efforts to increase our presence in LNG markets, build our experience in marketing this product, and make decisions regarting the expansion of our LNG production facilities.

The development of our business in Eastern Russia, the start of production at new fields, and the launch of the Power of Siberia gas trunkline will contribute to the socio-economic development of Russian regions, improve residents' access to energy resources, and enhance their quality of life. *Gazprom* has strengthened positions in the Russian Far East in order to expand markets for its products, systematically working to promote the demand for gas in the Kamchatka Territory, the Primorsky Territory, and the Sakhalin Region.

As the largest natural gas supplier in the Russian Federation, *Gazprom* has a mission is to guarantee the nation's energy security and the stability of energy supply. In the reporting period, we achieved significant results in important areas such as the development of hydrocarbon resources in the Russian Arctic, the development of the Yamal fields, the strengthening of the heat generation segment of the *Group's* business, subsea gas production, and many others.

In 2012–2013, the *Group* continued implementing a large-scale programme for the improvement of access to gas in Russian regions. The programme delivered excellent results. The average level of access to gas supply in Russia, which was slightly higher than 53% in 2005, exceeded 65% by 2013.

In 2013, the *Gazprom Group* became the world's largest heat producer. The combination of our capabilities in the gas business with the *Group's* increased potential in heat and power generation helps meet the demands of heat and power customers, while achieving business results consistent with the expectations of shareholders.

By enhancing our approaches towards the operation of our gas transmission system unique in terms of both qualitative and quantitative parameters and optimising methods of building underground gas storage facilities, we effectively manage seasonal variations in gas demand, thus ensuring the high reliability, flexibility, and security of supply.

Gazprom carries out all of its activities in strict compliance with the Russian environmental legislation and international environmental law. As one of the Russia's largest users of natural resources, the *Group* implements large-scale environmental programmes that range from introducing innovative engineering solutions that help reduce the environmental impact of our gas production and transportation operations and promoting wider use of natural gas as vehicle fuel to educational campaigns and support for protected areas.

In 2013, which was declared the Year of the Environment at *Gazprom*, over 8.2 thousand environmental actions were implemented with the involvement of over 50 *Group* and contractor companies, more than 70 thousand employees, and 90 thousand pupils, students, and local community members.

Occupational health and safety has always been among our top priorities. The results of the reporting period have shown that integrated preventive measures, together with the introduction of corporate standards and best practices in occupational health and safety, have helped to substantially reduce the number of injuries, which decreased 1.5 times between 2010 and 2013.

Gazprom is a socially responsible company. We invest substantial funds in supporting culture, science, education, and sports. We built a number of key facilities for the planet's largest sports event – the Winter Olympics in Sochi – and sponsored the competing Russian teams and individual athletes.

Each new facility built by the *Gazprom Group* is a contribution to the socio-economic development of Russian regions. One example is the Adler TPP, which was launched in the reporting period. This modern thermal power plant not only supplied heat and power to Olympic facilities, but also helped raise Sochi's energy infrastructure to a qualitatively new level, creating a foundation for the rapid development of the city's economy and culture, and the enhancement of the living standard of its residents.

I would lile to emphasise that each employee of our company has contributed to *Gazprom's* success. We take pride in our cohesive and highly skilled team – our key strategic advantage in the tough competition for global leadership.

I am confident that the skills, expertise, and experience of the *Gazprom Group's* managers, specialists, and workers, as well as their diligence and commitment, will lead us to new accomplishments in the global energy market.

Alexey Miller
Chairman of the Management Committee
of OAO Gazprom

ABOUT THIS REPORT

This Sustainability Report of the *Gazprom Group* for 2012–2013 ("the Report") is the *Company's* third sustainability report; it continues the *Group's* tradition of publishing biannual non-financial reports.

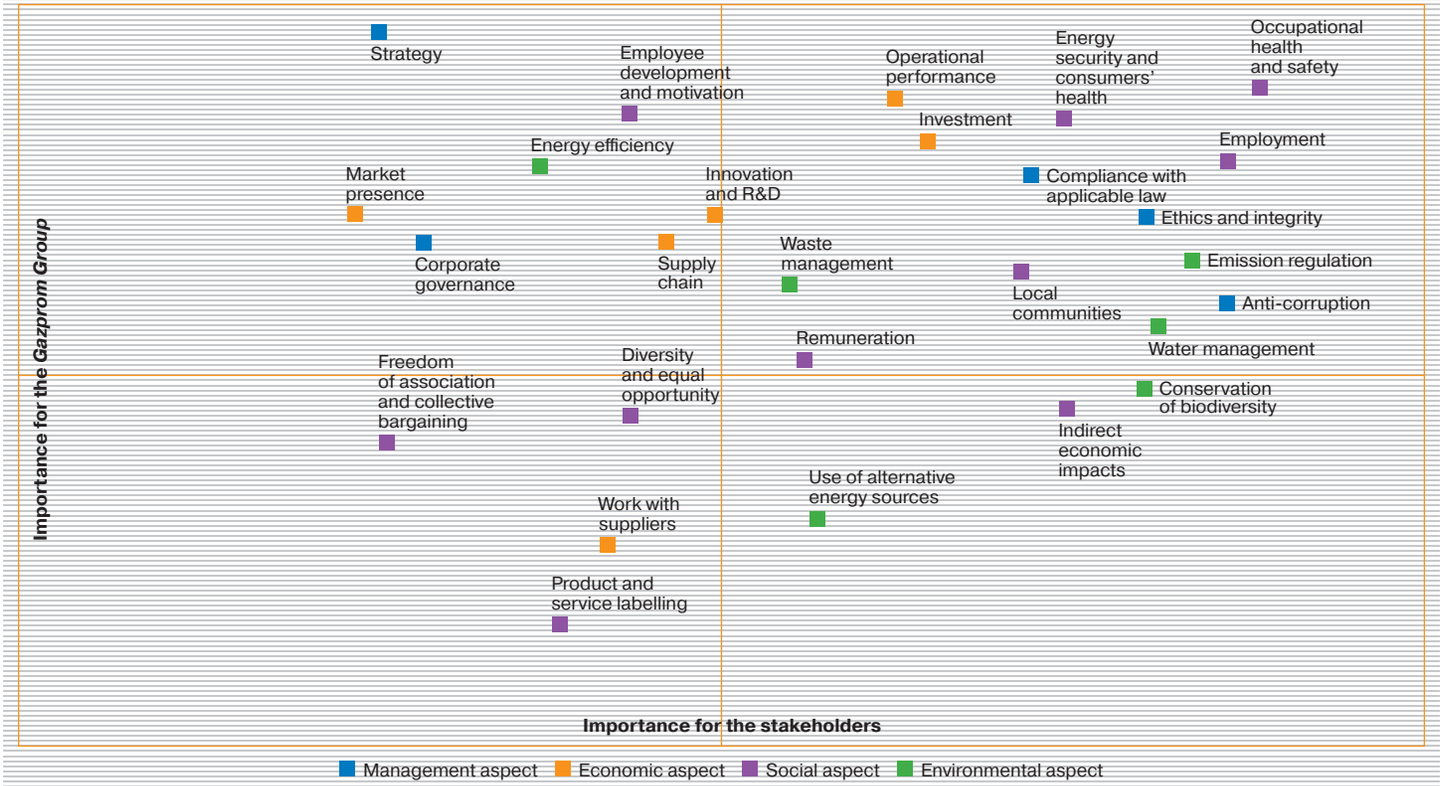
To ensure compliance with best practices in sustainability, improve corporate reporting processes, and enhance the transparency of operations, this Report has been prepared in accordance with the G4 version of the GRI[1] Sustainability Reporting Guidelines, the Core option.

An important feature of the new version of the GRI Guidelines is its approach towards the presentation of information that is material and significant to stakeholders. We identify the following key stakeholder groups:

- shareholders and investors;
- business partners and customers;
- employees;
- government and municipal authorities of the Russian Federation;
- regulators of EU countries and other market participants;
- local communities;
- non-governmental organisations;
- mass media.

The views and opinions of the *Gazprom Group's* stakeholders were taken into account in preparing this Report. Over the reporting period, information about key developments, the *Group's* performance, and its development prospects was communicated to stakeholders in a timely manner. Participating in business meetings, conferences, roundtable meetings and other events, and using electronic means of communication, specialists from OAO Gazprom and its subsidiaries engaged with stakeholders in order to evaluate and analyse their information needs with regard to sustainability. The results of this work are shown in the materiality matrix below.

Materiality Matrix of for key sustainability aspects of the *Gazprom Group*



1 GRI – Global Reporting Initiative, a system of international sustainability reporting standards.

The *Gazprom Group's* materilaity matrix for key sustainability aspects is an instrument developed and used for sustainability reporting purposes. The matrix shows the variety of information disclosure requirements of different stakeholders. Reporters tried to find an optimal balance between reasonable expectations and interests of various stakeholder groups, as well as economic and organisational implications of disclosing various pieces of information. To that end, we have made significant efforts to identify material aspects of the *Group's* activities.

By material aspects, we mean aspects of the *Group's* activities that influence or may influence the decisions of stakeholders and present sustainability risks or opportunities to the *Group*. Material aspects were evaluated in accordance with GRI G4 Guidelines methodology.

Aspects of *Gazprom Group's* activities were evaluated against two criteria:

- importance to stakeholders, and
- importance to the *Gazprom Group*.

As inputs for the materiality assessment, we used stakeholders' opinions, reports of Russian and international energy companies, public information sources, industry trends, as well as internal documents of OAO Gazprom and its subsidiaries. Based on expert assessment, all material aspects were ranked according a point rating system and consolidated in the *Materiality Matrix of the Gazprom Group* for key sustainability aspects in 2012–2013.

Based on the results of the materiality analysis, we identified the following key topics, which are covered in chapters of this Report.

Topics	Report chapters
RELIABILITY AND STABILITY of the *Gazprom Group* as a key supplier of energy resources to the internal market, as a business partner and as an international player in the energy market	1. Gazprom Group Profile
RESPONSIBILITY AND ETHICS in doing business and fulfilling, commitments to stakeholders	2. The Gazprom Group's Management System and Strategy
PROSPECTS of the *Gazprom Group's* development through shareholder value creation, unconditional compliance with the law, and adherence to best management practices	3. The Gazprom Group's Business in 2012–2013
	4. Development of Human Capital
	5. Occupational Health and Safety
	6. Resource Efficiency
	7. Environmental Performance
	8. Innovation Activities
	9. Contribution to Regional Development

The list of *Gazprom Group* companies, whose performance is covered by this report, has been compiled in accordance with the consolidation principles used in preparing IFRS consolidated statements (*IFRS 10 – Consolidated Financial Statements*).

Both the Report's scope in terms of covered activities and its boundary in terms of covered subsidiaries have been substantially expanded in comparison with the previous report.

The *Gazprom Group's* financial performance indicators have been compiled in compliance with the statutory consolidated accounting reports of OAO Gazprom and its subsidiaries, prepared in accordance with the reporting rules established in the Russian Federation, unless otherwise stated.

GAZPROM GROUP PROFILE

THE GAZPROM GROUP IS A VERTICALLY INTEGRATED GLOBAL ENERGY COMPANY FOCUSED ON THE EXPLORATION, PRODUCTION, TRANSPORTATION, STORAGE, PROCESSING, AND MARKETING OF GAS, CONDENSATE, OIL, AND PETROLEUM PRODUCTS, AS WELL AS THE GENERATION AND SALES OF ELECTRICITY AND HEAT. THE GROUP'S PARENT COMPANY IS OAO GAZPROM.

1.1. KEY ACTIVITIES AND SCALE OF OPERATIONS

Core business activities of the *Gazprom Group*[1]

GAS EXPLORATION AND PRODUCTION

- **17%** of global gas reserves
- **72%** of Russian gas reserves
- **13%** of global gas production
- **73%** of Russian gas production

OIL AND GAS CONDENSATE PRODUCTION

- **33.8 million tonnes** of oil
- **14.7 million tonnes** of gas condensate

GAS TRANSPORTATION

- **168.9 thousand km** of gas trunklines in Russia
- **659.4 bcm** of gas transmitted through the Russian GTS

GAS STORAGE

- **70.4 bcm** – capacity of **26** UGS facilities in Russia
- **4.1 bcm** of UGS capacity in Europe (owned and leased)
- **2.8 bcm** of UGS capacity in the FSU

ELECTRICITY GENERATION

- **15%** of electric power generation in Russia

GAS, OIL, CONDENSATE AND OTHER HYDROCARBONS PROCESSING

- **45%** of the total gas processing in Russia
- **19%** of the total oil and gas condensate processing in Russia
- **53.5 bcm** – gas processing capacity

GAS MARKETING

- **228.1 bcm** – gas supply to the Russian market
- **161.5 bcm** – gas exports to non-FSU countries

OIL AND GAS CONDENSATE MARKETING

- **8.4 million tonnes** – oil and gas condensate supply to the Russian market
- **13.4 million tonnes** – oil and gas condensate exports to the FSU and non-FSU countries

1 Indicators as of 31 December 2013.

The *Gazprom Group* is the world's largest oil and gas company in terms of natural gas reserves and production. *Gazprom's* hydrocarbon reserves make it possible for the *Company* to implement the most ambitious projects in order to realise the right of Russian and international stakeholders to access vital energy resources.

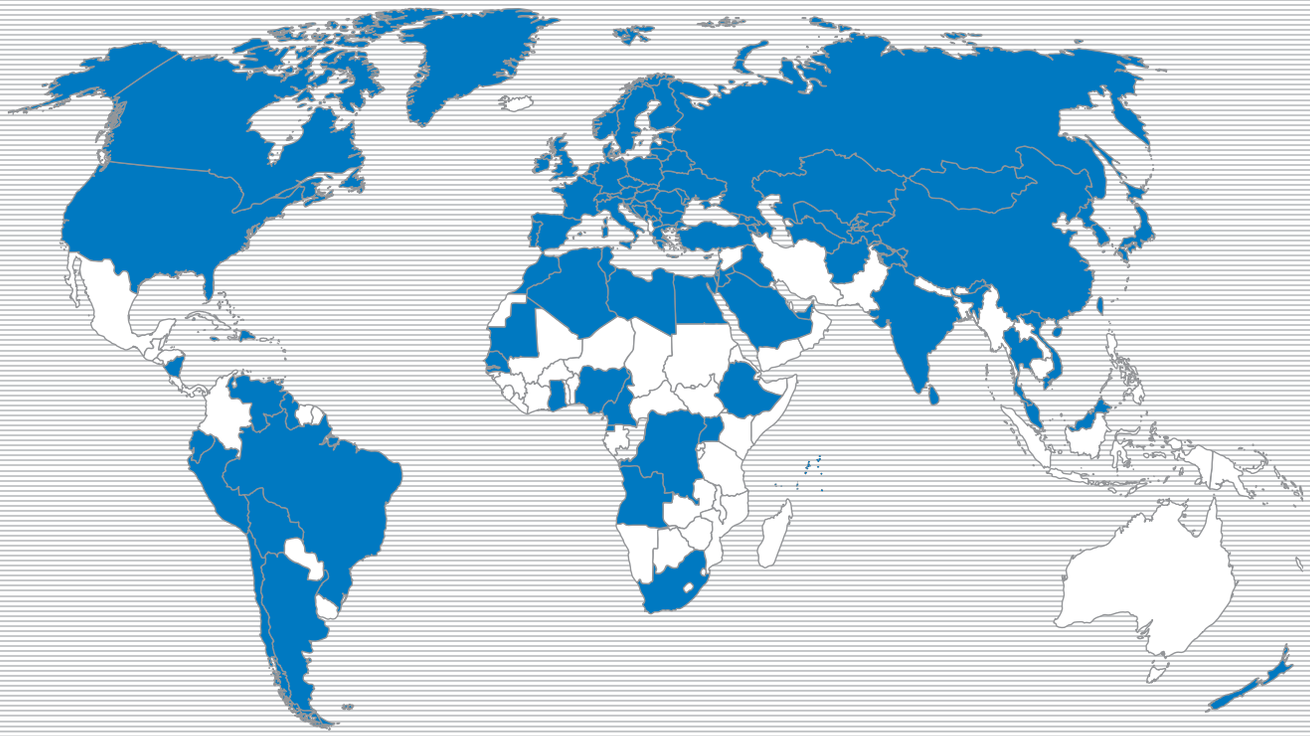
The *Group* is the largest gas supplier to the Russian market. OAO Gazprom is the owner and the operator of the Unified Gas Supply System (UGSS), which comprises natural gas production, transportation, processing, and underground storage facilities, and supports guaranteed gas supply to Russian and foreign customers. The *Company's* adaptive approach towards the management of its gas transmission system (GTS) makes it possible to promptly respond to changes in the market environment.

Developing its oil business and maintaining a competitive presence in the power sector are also among *Gazprom's* strategic objectives. The *Gazprom Group* is the largest owner of generating assets in Russia. After acquiring OAO MOEK, the Group has become the largest producer of heat not only in Russia, but worldwide.

A favourable location between Europe and Asia helps *Gazprom* expand its operations and strengthen its position in traditional international markets. *Gazprom's* reputation as a reliable supplier of energy resources helps it secure a substantial portfolio of long-term gas supply contracts to Europe and expand its presence in Asia and Latin America. As of the end of 2013, the *Gazprom Group* was involved in industrial and marketing operation in 96 countries.

More details on the geography of the *Group's* business are available in OAO Gazprom Annual Report 2013.

Geography of the *Gazprom Group's* business



Geography of the *Gazprom Group's* operations and marketing

Russia	
Former Soviet Union countries	
Europe	
Africa	
Middle East	
Asia-Pacific	
USA and Canada	
Central and South America	

Operations

- Hydrocarbon prospecting and exploration
- Gas and gas condensate production
- Coal bed methane extraction
- Oil production
- Gas transportation
- Underground gas storage
- Hydrocarbon processing
- Oil refining
- Electricity and heating energy generation

Marketing

- Trunk pipeline gas sales
- Sales of refined hydrocarbon products
- Oil and gas condensate sales
- LNG sales
- Gas sales to end consumers
- Electricity sales
- Product sales through gasoline stations, NGV-fuelling compressor stations or LHG filing stations

1.2. KEY PERFORMANCE INDICATORS

In 2013, OAO Gazprom was the world's number one oil and gas company and was ranked fourth among 2,000 largest publicly listed companies in the world in terms of profits[1].

i According to the annual ranking of the 2013 Forbes Global 2000. For more details, see: http://www.forbes.com/global2000/list.

Key *Gazprom Group's* operational performance indicators for the *Gazprom Group* in 2010–2013

Indicator	2010	2011	2012	2013
Gas production in Russia, bcm	508.6	513.2	487.0[2]	487.4
Condensate production in Russia, million tonnes	11.3	12.1	12.8	14.7
Oil production in Russia, million tonnes	32.0	32.3	33.3	33.8
Gas sales, bcm	480.4	503.6	466.8	461.8
Oil and gas condensate sales, million tonnes	29.1	28.4	27.7	21.8[3]
Natural and associated petroleum gas processing, bcm	33.6	33.2	32.4	31.5
Oil and gas condensate refining, million tonnes	50.2	53.5	61.5	66.1
Production of electricity, bn kWh	175.1	173.2	168.2	162.5
Heat production, million Gcal	106.9	100.2	102.5	112.5

Key *Gazprom Group's* financial performance indicators for the *Gazprom Group* in 2010–2013

Indicator	2010	2011	2012	2013
Sales, RUB bn	3,661.7	4,735.8	5,002.9	5,247.3
Profit from sales, RUB bn	1,161.8	1,624.8	1,356.6	1,429.9
Net profit, RUB bn	771.2	995.4	745.7	811.5
Capital expenditures, RUB bn	896.1	1,336.9	1,189.1	1,103.1
Average market capitalisation of OAO Gazprom, UDS bn	131.7	155.2	124.2	100.1

Key *Gazprom Group's* personnel indicators for the *Gazprom Group* in 2010–2013

Indicator	2010	2011	2012	2013
The *Group's* total headcount, thousand	400.6	404.4	431.2	459.5
Number of employees who received corporate training under skills upgrading and professional training programmes	151,826	165,786	178,928	261,780

1 In accordance with the IFRS consolidated financial statements of OAO Gazprom as of 31 December 2013.
2 The decrease in gas production was a result of a reduced demand both in Russia and abroad.
3 The decrease in oil and condensate sales was a result of the more efficient use of available refining capacities, which allowed to process more crude oil instead of selling it to European and other countries. Another factor was the exclusion of stable condensate supply to refineries of OAO Gazprom Neftekhim Salavat from the *Group's* domestic sales since 1 June 2012 as a result of the company's consolidation.

Key Environmental, Health and Safety performance indicators for the *Gazprom Group* in 2010–2013

Indicator	2010	2011	2012	2013
Total environmental expenditures of *Gazprom Group*, RUB bn.	20.51	24.61	39.10	59.36
Pollutant emissions to the air, thousand tonnes	3,225.3	3,124.2	3,410.9	3,076.4
Greenhouse gas emissions, million tonnes of CO_2-equivalent	137.2	133.4	123.8	122.2
Area of contaminated land at the year's end, ha	426.0	493.8	453.2	562.2
Lost-time injury frequency rate (LTIFR)	0.54	0.53	0.48	0.36

In 2012–2013, the *Gazprom Group* focused mainly on developing the Russian market and both holding on to and increasing its presence in international markets. For the purpose of implementing its strategic goal of diversifying sales, the *Company* continued to expand LNG production and actively prepared for its entry into the Chinese market.

Gazprom in Russia

Gazprom's strategic priorities include the development of the Russian gas market and the implementation of a programme for improving access to gas in Russian regions. In line with these priorities, the *Group's* key objectives in 2012–2013 included:

- development of fields (Bovanenkovskoye, Kirinskoye, Prirazlomnoye, Zapolyarnoye, Orenburgskoye, Novoportovskoye, and the Messoyakhskoye group of fields) and drilling of new production wells at the Priobskoye field;
- implementation of the Comprehensive Programme for the Reconstruction and Re-Equipment of Gas Production Facilities;
- construction of the Bovanenkovo – Ukhta gas trunkline system and the first stage of the Ukhta – Torzhok gas trunkline system;
- technology upgrade and re-equipment of gas transmission infrastructure, and the expansion of the GTS in order to ensure gas supply to the South Stream pipeline;
- expansion of the capacity of compressor stations (CS's) and the working capacity of underground gas storage (UGS) facilities;
- continued improvement of access to gas in Russian regions through the construction of new intercommunity pipelines;
- expansion of the gas motor fuel market.

The key objectives in other segments of the *Group's* business included:

- construction and upgrade of the *Gazprom Neft Group's* refining and petrochemical facilities;
- construction, technology upgrade, and retrofitting of *Gazprom Energoholding's* heat and power generating facilities.

Gazprom in the international markets

In the reporting period, the *Group's* main initiatives for strengthening its market position abroad included:

- developing and increasing production at overseas fields;
- identifying new prospective sites for UGS facilities, and constructing those facilities outside of Russia;
- diversifying Russian gas export routes to the European Union in order to minimise transit risks;
- increasing LNG sales by gaining a stronger foothold in existing markets and tapping into new markets (China, Asia-Pacific, Latin America).

1.3. KEY PROJECTS

1.3.1. Yamal Megaproject

The Yamal Peninsula is one of the key strategic oil- and gas-bearing regions of Russia due to its large hydrocarbon reserves and convenient location relative to the existing gas transmission infrastructure.

The development of Yamal hydrocarbon resources is one of the *Company's* largest energy projects and will allow it to expand gas production in Russia. Explored gas reserves, inferred and prospective gas resources in the region amount to 26.5 trillion cubic metres, which will allow up to 360 bcm of gas to be produced annually by 2030. As of 31 December 2013, there were 9 discovered gas fields and 17 condensate and oil/condensate fields with explored and inferred gas reserves totalling 14.5 trillion cubic metres, including 12.1 trillion in the fields for which the *Gazprom Group* held production licenses.

In 2012, production started at Bovanenkovskoye, Yamal's largest field with a design capacity of 115 bcm per year. In the process of constructing the necessary gas transmission infrastructure, the first stage of the Bovanenkovo – Ukhta pipeline and the first line of the Ukhta – Torzhok pipeline, with a total length of 2,600 km, were commissioned.

More details on the Yamal megaproject are available on the OAO Gazprom's official website: http://www.gazprom.com/about/production/projects/mega-yamal/.

1.3.2. Nord Stream Project

The Nord Stream project is intended to support the *Group's* strategic goal of diversifying Russian gas export routes to Europe. Nord Stream connects the world's largest gas fields being developed in Russia to the European GTS, bringing Russian gas to Germany, the UK, the Netherlands, France, Denmark and other countries.

In 2012, the Nord Stream pipeline reached its design capacity of 55 bcm per year.

More details on the project are available on the OAO Gazprom's official website: http://www.gazprom.com/about/production/projects/pipelines/nord-stream/.

1.3.3. The Eastern Programme: East Siberia, the Far East, and the Asia-Pacific Region

With their substantial hydrocarbon resources, East Siberia and the Russian Far East are regions of strategic importance to the *Company*. The *Gazprom Group* coordinates of the state programme for the development of an integrated gas production, transportation, and supply system in Eastern Siberia and the Far East, with potential gas exports to the PRC and other Asia-Pacific countries taken into account.

In line with the programme, gas production centres were created in the Kamchatka Peninsula and on the Sakhalin shelf in 2012–2013. Development of the Yakutia gas production centre has begun, while the Irkutsk gas production centre is still in the planning stage.

The Power of Siberia pipeline, which would connect the Yakutia and Irkutsk gas production centres to Khabarovsk, is also planned for construction.

More details on the programme are available on the OAO Gazprom's official website: http://www.gazprom.com/about/production/projects/east-program/.

1.3.4. Prirazlomnoye Oil Field

The development of the Prirazlomnoye offshore oil field in the Pechora Sea is an essential element of the *Gazprom Group's* business development strategy in the oil sector and its plans for the development of oil resources on the Russian continental shelf.

The field's recoverable oil reserves amount to 72.0 million tonnes, whereas the design production level (to be achieved after 2020) is about 6,6 million tonnes per year.

More details on the project are available on the OAO Gazprom's official website: http://www.gazprom.com/about/production/projects/deposits/shelf/.

THE GAZPROM GROUP'S MANAGEMENT SYSTEM & STRATEGY

OAO GAZPROM CONTINUALLY IMPROVES ITS CORPORATE GOVERNANCE SYSTEM IN ACCORDANCE WITH INTERNATIONAL STANDARDS AND BEST PRACTICES. THIS HELPS THE COMPANY ACHIEVE ITS GOALS, DEMONSTRATE STEADY PERFORMANCE, AND EFFECTIVELY IMPLEMENT SUSTAINABILITY PROGRAMMES.

2.1. CORPORATE GOVERNANCE SYSTEM

In the context of improving its corporate governance system, *Gazprom Group* seeks to ensure the maximum possible effectiveness and transparency of its activities, taking into account the key principles laid out in the Code of Corporate Governance (Behaviour) of OAO Gazprom.

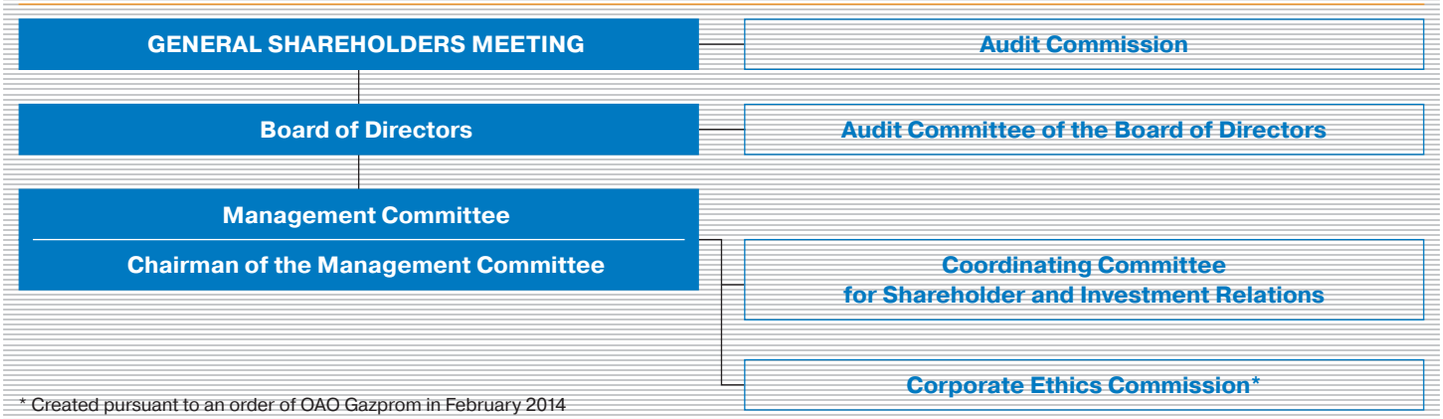
The *Company* seeks to adhere to Russian and international corporate governance standards and incorporates their provisions into relevant corporate documents being developed or updated. In 2012–2013, in order to further improve its corporate governance system, the *Company* adopted the Code of Corporate Ethics[1], the Dividend Payment Procedure[2], and the Regulation on the Oversight of Legal Compliance in the Field of Countering Unlawful Use of Insider Information and Market Manipulation[3]. Furthermore, it updated a number of corporate documents, including the Articles of Association, the Regulation on the General Shareholders Meeting, the Regulation on the Audit Commission of OAO Gazprom, the Regulation on the Audit Committee of the Board of Directors[4], and the Regulation on the Internal Control System[5].

More details on the key corporate governance documents are available on OAO Gazprom's official website: http://www.gazprom.com/investors/documents/, and in the Corporate Governance section of OAO Gazprom Annual Report 2013.

2.1.1. Governance and Supervisory Bodies

OAO Gazprom's corporate governance bodies include the General Shareholders Meeting (the supreme governing body), the Board of Directors, and executive bodies – the Management Committee and Chairman of the Management Committee. The Audit Commission, which is elected by the annual General Shareholders Meeting, oversees the reliability of OAO Gazprom's financial and accounting statements. Independent audits of the *Company's* financial and economic activities are carried out by an external auditor.

Structure of corporate governance and supervisory bodies of OAO Gazprom



* Created pursuant to an order of OAO Gazprom in February 2014

More details on *Gazprom's* corporate governance bodies and related corporate regulations are available in OAO Gazprom Annual Report 2013 and on the OAO Gazprom's official website: http://www.gazprom.com/about/management/corporate-governance/.

1 Approved on July 30, 2012, with amendments as of February 25, 2014.
2 Approved on June 28, 2013.
3 Approved on January 25, 2013.
4 Approved on May 21, 2013, with amendments as of February 25, 2014.
5 Approved on December 14, 2012, with amendments as of February 25, 2014.

The General Shareholders Meeting ensures the observance of rights and the legitimate interests of all shareholders, allowing them to immediately participate in making decisions on OAO Gazprom's activities and the appointment of corporate governance (Board of Directors) and supervisory (Audit Commission) bodies.

The Board of Directors provides general guidance for the *Company's* activities (except for issues falling within the competence of the General Shareholders Meeting according to the Articles of Association and the Federal Law "On Joint-Stock Companies"). OAO Gazprom's Board of Directors also plays an important role in determining corporate governance priorities. At its meetings, the Board of Directors regularly reviews the results of actions in the field of corporate governance, as well as various issues related to strategic development and day-to-day operations, approves key corporate documents, and makes decisions on various sustainability aspects. The Board of Directors annually appoints the Audit Committee in order to provide effective oversight over OAO Gazprom's financial and economic activities. The Board's Audit Committee is chaired by an independent director. The powers of the Board of Directors also include the appointment of the Company's executive bodies and the early termination of their mandates.

The sole executive body of OAO Gazprom is the Chairman of the Management Committee, whereas the collective executive body is the Management Committee. The Management Committee and its Chairman are responsible for the day-to-day management of the *Company*.

Audit of OAO Gazprom's corporate governance practices

An important development in the reporting period was the comprehensive independent audit of corporate governance practices of OAO Gazprom. Among other results, the audit demonstrated that the *Company* has a transparent ownership structure; the Articles of Association and other corporate documents clearly define shareholders' rights and duties; the principle of shareholders' voting equality is being observed; and there are mechanisms in place for protecting the voting rights of shareholders. The auditors provided recommendations on the further development of corporate governance practices in such areas as shareholders' rights, activities of governance and supervisory bodies, information disclosure, and corporate social responsibility.

In order to enhance corporate governance practices across the *Group*, in 2013 OAO Gazprom also initiated independent corporate governance audits of subsidiaries whose shares were publicly traded in the regulated securities market, and/or who publicly offered their bonds or other securities.

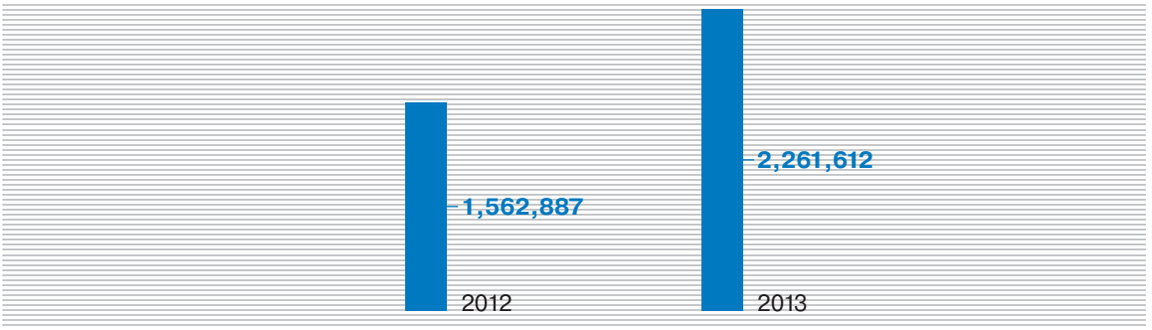
2.1.2. Remuneration of the Board of Directors and the Management Committee

The remuneration of members of OAO Gazprom's Board of Directors consists of two parts: a fixed basic salary and additional compensation. The basic salary is paid for performing the responsibilities of a member of the Board of Directors, whereas those serving as the Chairman of the Board of Directors, the Deputy Chairman of the Board, or as a member of a Board committee receive additional compensation. The additional compensation also depends on performance against Company-wide targets. Government officials or civil servants do not receive remuneration for their service on the Board of Directors. The remuneration of members of the Board of Directors is approved by the annual General Shareholders Meeting[1].

The amount of remuneration payable to members of the Management Committee of OAO Gazprom is determined based on their employment contracts and the Regulation on Annual Bonuses of Senior Management of OAO Gazprom; performance in the respective period and managers' contribution towards the *Company's* goals are also taken into account.

1 The amount of remuneration for members of the Board of Directors is determined in accordance with the corporate Regulation on Remuneration of the Board of Directors of OAO Gazprom.

Total remuneration paid to members of the Board of Directors, members of the Management Committee, and the Chairman of the Management Committee of OAO Gazprom[1], RUB thousand



Additional information on the remuneration of members of the Board of Directors and the Management Committee is available in the Gazprom Financial Report 2013 and on OAO Gazprom's official website: http://www.gazprom.com/f/posts/07/271326/gazprom-ifrs-2013-12m-en.pdf.

In accordance with Russian law OAO Gazprom makes contributions to the Pension Fund of the Russian Federation on behalf of its employees, including the Chairman of the Management Committee, members of the Management Committee, and members of the Board of Directors employed by OAO Gazprom. Furthermore, OAO Gazprom provides voluntary medical insurance to Chairman of the Management Committee, members of the Management Committee, and members of the Board of Directors employed by OAO Gazprom.

2.1.3. Shareholding Structure

OAO Gazprom is Russia's largest company in terms of market capitalisation. The majority shareholder of OAO Gazprom is the Russian Federation, which controls over 50% of its registered capital.

OAO Gazprom's shares are listed at Moscow Interbank Currency Exchange (MICEX), a Russian stock exchange, whereas its ADRs are traded on London, Berlin and Frankfurt exchanges.

Furthermore, a significant amount of OAO Gazprom's ADRs is traded in the US OTC market among qualified institutional buyers.

As of 31 December 2013, OAO Gazprom's market capitalisation was USD 99.9 bn.

Shareholding structure of OAO Gazprom, %

	As of 31 December 2012	As of 31 December 2013
The Russian Federation including:	50.00	50.23
Federal Agency for State Property Management	38.37	38.37
OAO Rosneftegaz[2]	10.74	10.97
OAO Rosgazifikatsiya[3]	0.89	0.89
ADR holders[4]	26.96	25.78
Other holders	23.04	23.99

1 Including salaries, bonuses and remuneration for serving on OAO Gazprom's governance and management bodies, as well as personal income tax and insurance premiums.
2 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 Rosneftegaz was 100%.
3 As of December 31, 2012 and December 31, 2013, OAO Rosneftegaz held 74.55% of the shares in OAO Rosgazifikatsiya.
4 The depositary of OAO Gazprom's ADR programme is the Bank of New York Mellon.

The corporate governance system of OAO Gazprom is based on the principle of fully observing the rights of shareholders. The *Company's* approach towards shareholder relations implies protecting shareholders' rights and interests regardless of the amount of shares held, with due regard to the existing corporate pattern (vertical integration, business diversification, and the ownership structure).

2.2. THE GROUP'S STRATEGY AND SUSTAINABILITY

2.2.1. Strategic priorities of the Gazprom Group

Strategic priorities of *Gazprom Group's* business

Gas business

Activities in the Russian market
- holding on to the existing positions in the Russian market in terms of gas supply volumes, while ensuring the reliability of supply;
- development and upgrade of the Unified Gas Supply System (UGSS) aligned with the growth in gas production, including expansion of the UGSS in Russia's eastern regions, as well as building up gas storage and LNG production capacities;
- development of new gas production centres in the Yamal Peninsula, the Russian Arctic shelf, Eastern Siberia, and the Russian Far East;
- upgrade of existing and construction of new gas processing, gas chemical, and helium plants;
- expansion of the wholesale and retail sales networks for gas and gas processing products.

Expansion of international market presence
- growth of the *Group's* share in the European market to 32%, and in the market of Northwestern Asia – to 10%–15% in terms of the volume of gas supply;
- implementation of pipeline construction projects in order to diversify gas transportation routes to Western Europe bypassing third countries;
- growth of the share of LNG in Gazprom's export portfolio and the achievement of a 10%–15% share in the global LNG trade by 2030, contingent on the realisation of the base scenario of the development of the *Company's* LNG business.

Oil business

Upstream
- adding new resources and fields through exploration works and acquisitions within Russia and abroad;
- expansion of production in the medium term by means of implementing major projects in new oil production regions and offshore projects, while maintaining stringent project cost control;
- development of tight oil reserves and enhancement of the oil production factor in traditional oil production regions;
- maintenance of the existing reserves-to-production ratio.

Downstream
- enhancement of the quality of petroleum products manufactured by the *Company* and increase in the refining depth at existing refineries;
- expansion of access to foreign refining capacities;
- expansion of sales of refined petroleum products to end customers.

Electricity business

Efficiency improvement
- further actions for cost optimisation and financial performance enhancement through the implementation of the Lean Production Programme and the Increasing Shareholder Value Programme, and the optimisation of the corporate repair and investment programmes;
- analysis of profitability of electric power projects in selected European and Northwestern Asian countries;
- expansion of cogeneration.

Attraction of investments
- construction of new highly efficient capacities that would help enhance operational and financial performance of generation companies;
- IPO of OOO Gazprom Energoholding.

OAO Gazprom's strategy incorporates the basic principles and priorities of the Energy Strategy of Russia through 2030 and the General Development Scheme of the Gas Industry through 2030.

In 2013, OAO Gazprom's Board of Directors reviewed the Long-Term *Company* Development Strategy aimed at becoming a leading global energy company, which is to be achieved through the diversification of sales markets and products, an increased reliability of supply, the enhancement of operational efficiency, and the most efficient utilisation of the *Company's* in-house R&D capacity.

Gazprom's Strategy is focused on realising the potential of the key segments of the *Company's* business.

Based on the defined strategic goals and priorities, OAO Gazprom prepares long-term and short-term development plans. The *Company's* main instrument of long-term planning is a system of strategic targets, which are established on the basis of the *Company's* development priorities for each of the key aspects of its activities:

- financial and economic activities;
- market position and customer relations;
- management of internal corporate processes;
- innovation and HR potential.

The *Company's* strategic targets are interrelated and focused on ensuring its sustainable development in the long term. The range of strategic targets reflects the nature of the *Company's* business, its development prospects, and factors specific to *Gazprom*, such as its as social responsibility for reliable customer supply, the availability of a unique gas transmission system, existing corporate values, etc.

The *Company's* system of strategic targets is based on Level 1 strategic targets. The Board of Directors of OAO Gazprom sets such targets for the end of a ten-year planning period. To support the achievement of those strategic targets set by the Board of Directors, the Company develops a ten-year development programme to be approved by Chairman of the Management Committee. The programme defines detailed Level 2 strategic targets for the budget process.

Those Level 2 strategic targets that focus on sustainable development include:

- energy and resource efficiency targets (energy consumption per unit of production sold, specific process losses);
- environmental targets (pollutant and greenhouse gas emissions);
- industrial safety and occupational health targets (accident and injury rates);
- social targets (employee training).

The ten-year *Company* development programme provides a foundation for medium-term and short-term investment, financial and operational planning (for three years and one year, respectively), and for the development of a system of mandatory performance targets for a budgeting period.

A number of strategic targets and mandatory performance targets are taken into account in determining the remuneration of the *Company's* executives. This helps improve the effectiveness of the *Company's* operations and align them with strategic goals.

2.2.2. Sustainability Management System at Gazprom Group

The achievement of strategic goals would be impossible without a thorough analysis of risks and opportunities (including sustainability-related) an integrated analysis of the *Company's* contribution to the development of the regions where it operates, and an assessment of the effectiveness of its social investments. The operations of *Gazprom Group* play a strategic role in the socio-economic development of the Russian Federation and affect the interests of an enormous number of people.

For *Gazprom*, sustainable development means running its business in each operating segment and area in a way that meets the needs of the present without compromising the ability of future generations to meet their own needs.

The *Gazprom Group* contributes to sustainable development by meeting the needs of its shareholders, society at large, investors, partners, and other stakeholders to the maximum extent possible and in an economically and socially sound manner.

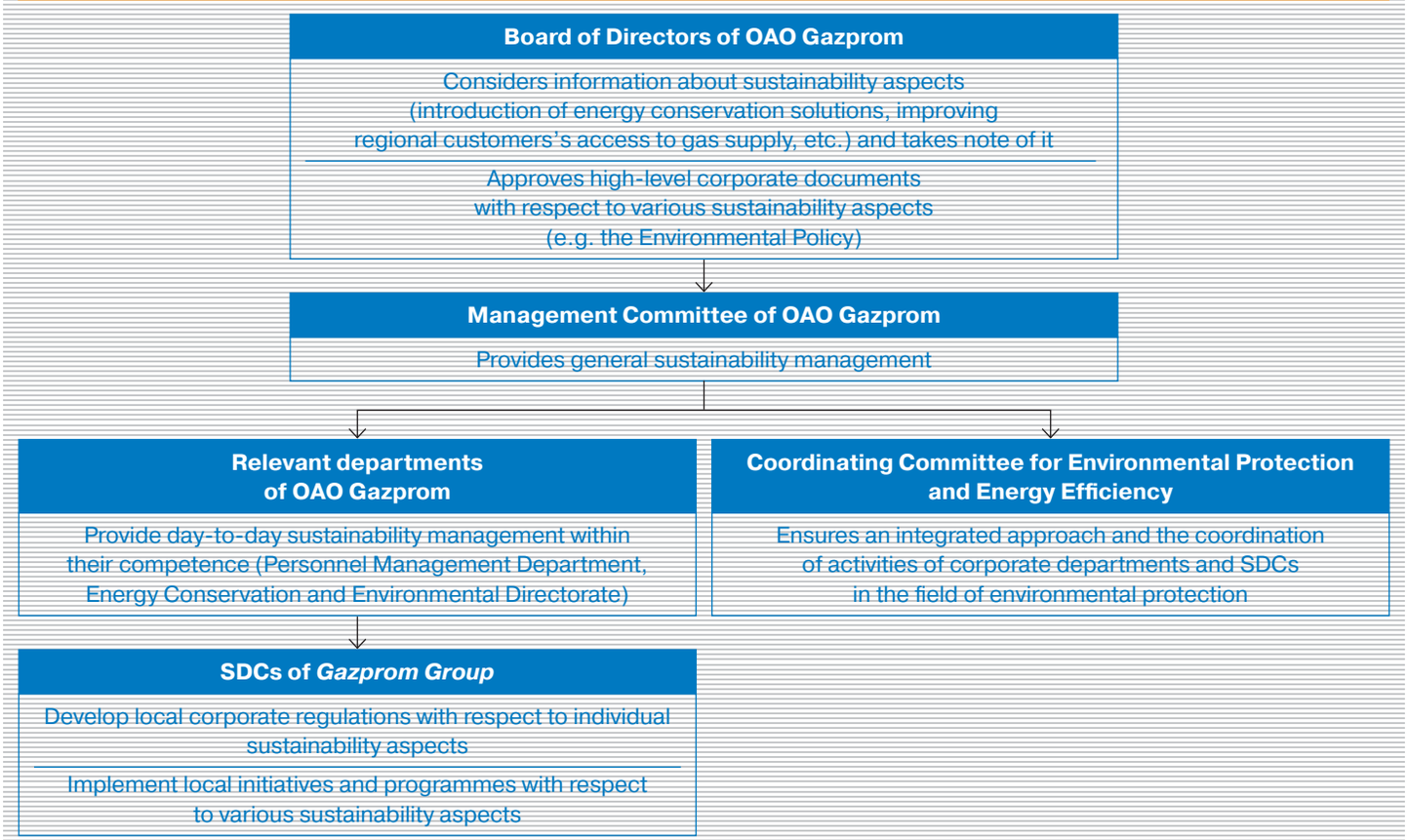
The *Group's* priorities in the field of sustainability, determined taking into account the scale and nature of its business, include:

- provision of essential energy resources to the country's economy and household customers;
- reliability and safety of the production and transportation of energy resources;
- environmental protection and reduction of adverse environmental impacts;
- responsible business practices and strict compliance with assumed contractual obligations;
- responsible labour practices and continuous oversight of workplace safety;
- fulfilment of assumed social commitments;
- contribution to the socio-economic development of regions where the *Company* operates through the development of infrastructure and the implementation of charity and sponsorship programmes;
- contribution to the technology development of the Russian fuel and energy complex through the implementation of large-scale innovation development programmes;
- growth of shareholder value.

The *Gazprom Group's* commitment to sustainability principles is reflected in key strategic documents of the *Company*, the agendas of its management and supervisory bodies, as well as its approaches towards individual processes, projects, and activities.

The sustainability management system encompasses all levels of the *Gazprom Group's* organisational hierarchy.

Sustainability management system of the *Gazprom Group*



The responsibility for sustainability management is distributed across different levels of the *Gazprom Group's* organisational hierarchy. OAO Gazprom's Board of Directors is responsible for strategic guidance in the field of sustainability management, and for the review and approval of the respective high-level corporate documents.

Throughout 2012–2013, OAO Gazprom's Board of Directors discussed issues related to all sustainability aspects.

In 2012–2013, issues related to various sustainability aspects were an integral part of the Board of Directors' meeting agendas.

Key sustainability-related agenda items of meetings of OAO Gazprom's Board of Directors

Aspect	Agenda items
The management aspect	– On the enhancement of OAO Gazprom's corporate governance system. – On the auditing of OAO Gazprom and its subsidiaries in terms of the transparency and quality of corporate governance. – On the approval of the Code of Corporate Ethics of OAO Gazprom. – On the launch of OAO Gazprom's Management Equity Participation Programme. – On the approval of non-financial reporting practices, including a request for the Management Committee to publish corporate sustainability reports on a regular basis.
The economic aspect	– On the long-term development strategy of OAO Gazprom. – On OAO Gazprom's strategy of gas processing in the Russian Federation. – On the implementation of OAO Gazprom's Innovation Development Programme through 2020 in 2012.
The social aspect	– On the implementation of OAO Gazprom's social programmes. – On OAO Gazprom's HR management policy.
The environmental aspect	– On the environmental policy of OAO Gazprom and its subsidiaries, and the introduction of voluntary environmental responsibility mechanisms at OAO Gazprom. – On measures to enhance the efficiency of the utilisation of associated petroleum gas in Russia.

Additional information on the agendas of meetings of OAO Gazprom's Board of Directors is available in the Disclosure section of *Gazprom's* official website: http://www.gazprom.com/investors/disclosure/facts/2013/.

The day-to-day management of sustainability aspects is carried out by the relevant corporate departments of OAO Gazprom and, at the level of the *Gazprom Group's* subsidiaries and dependent companies (hereinafter – SDCs), by their executives. The *Group's* companies may develop their own sustainability policies and programmes consistent with the overarching principles of the *Gazprom Group* and tailored to the respective region and industry.

Thus, the responsibility for the practical implementation of sustainability principles, lies to a significant extent, with the *Group's* subsidiaries and dependent companies, who manage their day-to-day operations and engage with the relevant stakeholders. The *Gazprom Group's* overall contribution to sustainable development depends on how effectively these companies respond to sustainability challenges and fulfil their commitments.

2.3. SUSTAINABILITY RISKS

Risk management is an instrument for improving the quality of decision-making at *Gazprom Group*. The *Company* systematically works to build a comprehensive risk management system supporting the timely identification of potential risks, their assessment, and the selection of the most appropriate approaches towards minimizing potential adverse consequences. At the *Gazprom Group*, risk analysis is viewed as an important element of the corporate governance system and carried out on an ongoing basis. Its results are an important factor in the corporate planning and budgeting processes.

In the middle of 2011, an Action Plan for the Development of a Corporate System for Key Risks Management, a document focused on the consolidation of risk management approaches across the *Gazprom Group*, was approved.

Evolution of the risk management system at *Gazprom Group*

The objective of the Plan is the development of a comprehensive methodological framework for the *Group's* risk management processes. To provide coordination and information support of this process, a dedicated corporate unit – the Administration for the Risk Management System Development at OAO Gazprom – was created in 2013. The objectives of the Administration include:

- collection of relevant information, risk identification, description, and assessment;
- preparation of risk reports for the *Company* management;
- coordination and methodological support of risk management activities of OAO Gazprom's business units and *Group* companies.

In 2014–2015, the *Company* will focus its efforts on the establishment of a process for interacting with SDCs with respect to risk management. To that end, a number of corporate regulations are planned to be developed, including a Scheme of Interaction between OAO Gazprom and its Subsidiaries and Dependent Companies with Regard to the Management of the *Gazprom Group's* Risks.

OAO Gazprom continually manages risks associated with the *Company's* activities at both strategic and operational levels.

Within the unified corporate framework of OAO Gazprom, risk management is defined as a continuous iterative process of decision-making and execution, integrated into the overall management of the *Company* and comprising risk identification, assessment, and response, as well as the planning of risk management and monitoring actions and the evaluation of their effectiveness. This process is aimed at the optimisation of risk magnitude in line with the interests of OAO Gazprom and encompasses all areas of its activities.

The *Gazprom Group's* risk management system encompasses key sustainability risks and includes actions to minimise them.

Sustainability risks

Risk	Actions to minimise risks
Risks related to environmental pollution	– Implementation of the *Gazprom Group's* Environmental Policy; – Enhancement of the environmental management system and its certification to the international standard ISO 14001:2004; – Identification and assessment of environmental aspects across the entire lifecycle of the *Group's* industrial facilities, including pre-design assessments; – Environmental damage liability insurance; – Dialogue with environmental NGOs and local communities on possible actions to mitigate adverse environmental impacts.
Risks related to geographic and climatic conditions	– Development and introduction of effective techniques and processes suitable for severe climatic conditions; – Implementation of corporate programmes to improve the efficiency of gas production and transportation systems, and the functioning of gas transmission networks; – Development and implementation of state programmes for improving the efficiency of energy resource use in Russia.
Risks related to the operation of industrial facilities and occupational safety	– Maintenance of alternative gas supply routes to be used in case of an accident at the *Group's* industrial facilities; – Introduction of modern equipment diagnostics techniques, upgrade and re-equipment of the *Group's* industrial facilities; – Implementation of the Occupational Health and Safety Policy aimed at creating safe workplace conditions and protecting the lives and health of employees, including OHS training activities, among other measures.
Risks related to government regulation of the sector	– Continual collaboration with government authorities with regard to the development and implementation of the *Gazprom Group's* strategy and the Energy Strategy of Russia, among other topics; – Development of proposals for the improvement of the government policy on energy pricing.
Risks related to the development of renewable energy sources	– Projects for the diversification of the *Group's* business, including the development of markets for environmentally safe gas motor fuel in Russia and abroad; – An awareness campaign regarding economic, engineering, and environmental advantages of the use of natural gas in various fields including power generation, among others.

2.4. IMPROVING OPERATIONAL EFFICIENCY

2.4.1. Fighting Corruption and Conflicts of Interest

The *Group* sees fighting corruption – a phenomenon stemming from the conflict between an employee's personal interests and the interests of the *Company* – as an instrument for enhancing the effectiveness of OAO Gazprom's business. In 2012, the Code of Corporate Ethics of OAO Gazprom – an essential component of the *Company's* anti-corruption system – was approved. The current version of the Code of Corporate Ethics was approved by OAO Gazprom Board of Directors on 25 February 2014.

The Code of Corporate Ethics of OAO Gazprom deals with such issues as conflicts of interest, prevention of corruption, gifts, family members working together, rules of business conduct etc. The document also defines implementation mechanisms for its requirements, the Corporate Ethics Commission being the body responsible for the respective activities. At a request of *Company* employees, the Commission also provides explanations of Code provisions. Any person can contact the Commission by means of:

- an e-mail message sent to: ethics.comission@adm.gazprom.ru;
- a voice communication via the corporate hotline +7 (495) 719-11-71.

The requirements of the Code apply to all SDCs controlled by OAO Gazprom as long as they do not have corporate ethics codes of their own. In 2013, 250 subsidiaries and dependent companies adopted their corporate ethics codes, based on the Code of Corporate Ethics of OAO Gazprom and tailored to the activities of individual companies.

Fighting corruption in procurement activities

The *Gazprom Group* pays serious attention to combatting corruption in all significant business processes including procurement activities, among others. In 2012–2013, the following developments took place in this field:

- in order to ensure the transparency of corporate procurement processes, since the beginning of 2013 most of the competitive tenders have been carried out electronically at the electronic trading platform of OAO Gazprombank;
- in order to prevent any affiliation between the potential suppliers or contractors and the *Company's* management, the standard procurement documentation includes a requirement to provide the appropriate documents that disclose of the entire chain of ownership, including the ultimate beneficiaries.

2.4.2. Management Decision Support System

An essential prerequisite for the enhancement of the *Company's* performance and competitiveness is the development of an effective management system based on modern management approaches and information technology.

The *Company* addresses this objective in an integrated way within the framework of the IT Strategy of OAO Gazprom, which focuses on the creation of the *Group's* integrated information space by means of the vertical and horizontal integration of various information systems. This helps the *Company* accumulate data on all areas of its activities in a single storage and provide decision support to active business processes at all stages of the management cycle, including planning, operations management, monitoring, and performance review.

The IT Strategy of OAO Gazprom focuses on the creation of an integrated information space by means of the vertical and horizontal integration of core management information systems and auxiliary information systems.

The key components of the *Company's* integrated information space include:

- enterprise-level management information systems based on standardised solutions (templates) for specific business profiles, and intended to bring management processes at subsidiary enterprises in compliance with the requirements of the parent company;
- vertically integrated solutions on the basis of the Corporate Data Warehouse, intended to support the management of the gas business at the corporate level;
- a performance management system making use of key performance indicators and built on the basis of the Corporate Data Warehouse;
- system-wide solutions providing information and technology integration of functional components of the target system architecture (a corporate data warehouse, a database of relevant industry regulations and reference materials, a corporate web portal).

The creation of a shared information environment will help ensure data unification, as well as the transparency and traceability of corporate reporting processes from primary data sources to *Company*-wide key performance indicators.

Plans for the implementation of the IT Strategy of OAO Gazprom are approved on an annual basis; the implementation process includes over 20 major projects.

In 2012–2013, the *Company* put into operation a number of vertically integrated solutions supporting corporate business processes to manage the replacement of hydrocarbon reserves, hydrocarbon production, processing, and marketing, equipment maintenance and repair, materials and equipment supply, and HR management and documentation management.

Furthermore, in the reporting period a number of standardised enterprise-level management information systems were deployed in the following segments of *Gazprom's* business:

- gas and condensate production – for first-stage business processes at OOO Gazprom Dobycha Astrakhan and OOO Gazprom Dobycha Yamburg;
- gas and condensate transportation – for second-stage business processes at OOO Gazprom Transgaz Samara;
- gas and condensate processing – for first-stage business processes, except for dispatch control, at OOO Gazprom Pererabotka;
- hydrocarbon export – at OOO Gazprom Export;
- electricity generation – for first-stage business processes at OAO Mosenergo, OAO OGK-2, and OOO Gazprom Energoholding.

Thus, during the reporting period the *Company* completed the deployment of most of the planned management information systems at the corporate level and implemented several pilot projects for the implementation of standardised enterprise-level management information systems at subsidiaries in specific sectors, namely in the gas business and electricity generation. As a result, the number of users of management information systems at the *Gazprom Group* reached almost 37 thousand in 25 Russian regions.

The *Gazprom Group's* key objectives with regard to IT for 2014–2015 include the replication of standardised enterprise-level management information systems at subsidiaries in such business segments as the production and transportation of gas and condensate, as well as further inter-system integration and the effective operation of existing systems in line with the *Company's* business objectives.

Specific business objectives of the *Group* are supported by numerous local subsystems and databases integrated into the shared corporate information space.

For example, the *Company* has an electronic database of internal corporate regulations based on the platform of major legal reference systems – Garant and Consultant Plus. Since 2013, the *Company* has been working on providing access to the centralised database for the subsidiaries, branches, and representative offices of OAO Gazprom. At present, *Gazprom's* database of internal corporate regulations contains some 10 thousand documents.

The *Company* has introduced an electronic arbitration system for the Arbitration Court of OAO Gazprom, making it possible to settle disputes using video-conferencing and electronic document

exchange. In 2012–2013, the Court held over 70 hearings through video-conferencing supported by secure document exchange.

An essential element of the *Company's* common information space is the *Gazprom Group's* network of certification centres supporting legally significant document exchange within the *Company* based on digital signature technology.

2.4.3. KPI Monitoring and Evaluation System

The central element of the *Company's* philosophy of improving management system, which underpins its IT Strategy, is a system of key performance indicators (KPIs). The Corporate Data Warehouse based on the KPIs is the core component of the target system architecture. It is intended to provide information and analytical support for decision-making by the *Company's* senior executives.

One of the most important developments in the improvement of the management system in 2012 was the deployment of the KPI-based Corporate Data Warehouse – the core component of the target system architecture envisioned by the IT Strategy.

The KPI system comprises planned, projected, and actual performance indicators produced by the data collection and processing systems of various business processes of the *Gazprom Group*. It includes strategic and other mandatory targets used in strategic planning, budget management, and investment management processes, as well as monitoring indicators used to track performance with regard to the strategic and operational objectives of OAO Gazprom.

The *Gazprom Group's* integrated KPI monitoring system encompasses 26 entities, including the *Gazprom Group* as a whole, key business segments (the gas, oil, and electricity businesses), specific areas of the gas business, the functional business processes of the gas business, foreign trading companies and subsidiaries, and investment projects. The KPI-based process of monitoring the performance of *Gazprom Group* includes the following stages:

- collection of data on the activities of monitored entities necessary for the calculation and analysis of KPIs;
- data processing – calculation of indicators on the basis of collected data for the subsequent analysis of the performance of monitored entities and preparation of KPI reports;
- KPI analysis and reporting – the use of developed analytical tools for evaluating the performance of monitored entities with the subsequent aggregation and consolidation of analysis results in the form of KPI reports, which are intended to support decision-making by the top management of OAO Gazprom. Performance monitoring is carried out on a daily, quarterly, and annual basis.

Over 15 business units of OAO Gazprom and more than 115 subsidiary companies are involved in data collection and processing in the Corporate Data Warehouse ("CDW") and subsequent KPI reporting. In 2012–2013, over one thousand users on a quarterly basis added primary data in more than 700 categories to the CDW, carried out data analyses, and prepared reports on almost 300 KPIs.

The use of the KPI system and associated analytical tools helped the *Gazprom Group* enhance the management effectiveness by allowing the *Company's* executives to timely identify problematic areas and the potential for improved performance, and then provide specific instructions to managers responsible for the respective entity or KPI. Furthermore, the KPI system facilitates the engagement of employees of the *Company's* business units and subsidiaries in systematic analytical work focused on the enhancement of the *Group's* performance.

The main KPI system development objectives for the medium term include:

- improving the resolution and depth of KPI analysis through the enhancement of the *Company's* management accounting practices;
- introducing functionality for a comprehensive assessment of the performance of each subsidiary and the *Company's* operations in each geographic segment;
- expanding the system's forecasting capabilities and enhancing the accuracy of forecasts in order to support a proactive response to changes in the business environment.

Gazprom CEO's automated workstation

In 2013, a project to develop an automated workstation for the Chairman of the Management Committee of OAO Gazprom was completed. The workstation is a hardware and software suite providing 24/7 access to the *Group's* KPI system for the Chairman of the Management Committee. The workstation can produce two types of performance reports:

- daily monitoring reports that contain current gas balance data and forecasts of the implementation of quarterly gas production and sales plans;
- quarterly and annual reports for each monitoring entity (by organisation, product, geography of operations etc.), which support all main types of analysis (structural, comparative, factor, trend analysis, plan/fact/forecast).

The workstation presents reports in the form of information panels containing graphs, charts, and data tables, and provides access to more detailed analytical reports produced by the Corporate Data Warehouse. To attract attention to problematic areas, the system uses colour-coded alerts to indicate the status of specific monitored entities and KPIs.

2.4.4. Introduction of the Automatic Dispatch Control System of the Unified Gas Supply System

One priority area for enhancing the *Gazprom Group's* overall performance is the improvement of the Dispatch Control business process that supports the control of gas flows in the Unified Gas Supply System (UGSS) in Russia and abroad. To that end, the *Company* has introduced an Automatic Dispatch Control System (ADCS) of the UGSS focused on ensuring the reliability and security of gas supply to customers.

The ADCS is a software and hardware suite that supports the real-time collection, processing, and presentation of information for the purpose of identifying optimal gas transportation routes and supply volumes. The main sources of information about the operational regimes of the UGSS are the gas production and transportation subsidiaries of the *Group*; other entities involved in the information exchange include the foreign dispatch centres of OAO Gazprom Export, business partners in the CIS, and the Hydrometeorological Centre of Russia.

Recognizing the social importance of the ADCS' function – ensuring a reliable and secure gas supply to customers – the *Company* continually takes action to enhance the system in order to improve its performance, increase the volume and speed of information processing, and implement automated data verification processes.

In 2012–2013, the ADCS of the UGSS helped the *Gazprom Group* achieve the following results:

- reduction of OAO Gazprom's overall costs through making faster and better informed gas dispatch decisions;
- minimisation of the time for responding to and eliminating accidents through their timely identification;
- maintenance of a high throughput of the UGSS and the delivery of planned gas volumes through the advance planning of repair works and keeping all affected parties informed;
- enhancement of the transparency of operational control by means of the automation of report distribution processes and the provision of access to the ADCS.

According to the action plan for the implementation of OAO Gazprom's IT Strategy, in 2014–2015 the Company will continue upgrading the ADCS.

Among other actions, it is planned to enhance the methodological framework underpinning the ACDS and use it to improve the corporate decision support systems. It is also planned to use the results of corporate R&D projects to improve dispatch control processes.

2.5. STAKEHOLDER ENGAGEMENT

The *Gazprom Group* sees stakeholder engagement as an instrument of improving the effectiveness of its sustainability management. The *Group* companies carry out various public events (consultations, negotiations, roundtable meetings, conferences, exhibitions) on a regular basis to discuss a broad range of issues, including the engineering, economic, environmental, and social aspects of their activities. This helps the Company collect various proposals on improving its performance and minimise risks through maintaining a dialogue with its stakeholders on the issues of concern to them.

In its stakeholder engagement activities, *Gazprom* relies on the following principles.

Materiality. *Gazprom* engages with all stakeholders having material influence on *Gazprom Group* or materially influenced by its activities.

Inclusiveness. *Gazprom* considers the opinions of all significant stakeholders and takes their interests into consideration in running its business.

Responsiveness. *Gazprom* has built a system for responding to any significant questions raised by its stakeholders.

The *Gazprom Group* has identified the following key stakeholder groups:

- shareholders and investors;
- business partners and customers;
- employees;
- government and municipal authorities of the Russian Federation;
- regulators of EU countries and other market participants;
- local communities;
- non-governmental organisations and civic associations;
- mass media.

In the reporting period, the *Gazprom Group* engaged with all significant stakeholder groups. The *Group's* SDCs use various stakeholder communication channels adapted to the regional and industry specifics and the nature of business of individual companies. One permanent stakeholder relations mechanism is the handling of requests and complaints from external stakeholders. Complaints and inquiries submitted formally are registered in corporate document flow systems, and the process of handling them is properly overseen. In order to maintain direct contact with local community members, some subsidiary companies have telephone hotlines that receive and register even anonymous calls.

Stakeholder engagement mechanisms used by *Gazprom Group*

Shareholders and investors	Government and municipal authorities of the Russian Federation	Regulators of EU countries and other market participants	Local communities
Corporate unit/body responsible for engagement			
– Coordinating Committee for Shareholder and Investment Relations – Shareholder Relations Division	– Regional Policy Commission – Department for Relations with the Russian Federation Authorities	– International Business Department – Prospective Development Department	– Environmental departments of SDCs – PR departments of SDCs – Regional Policy Commission
Engagement mechanisms			
– Development of a Shareholder and Investment Relations Plan – Meetings and teleconferences – Information disclosure – Work with inquiries	– Development of draft legal acts – Agreements with the governments of Russian regions – Presentations on the *Gazprom Group's* activities for heads of government bodies	– International energy conferences and participation in the work of international organisations – Participation in the development of roadmaps – Preparation of regulatory documents concerning the energy sector	– Open public hearings – Information centres – Information disclosure – Charity and sponsorship projects
Examples of engagement			
– Annual General Shareholders Meeting – Investor Days in Moscow, London, and New York – Quarterly teleconferences to discuss the *Group's* IFRS consolidated financial statements – Tour of *Group* subsidiaries and industrial facilities in the Leningrad Region for the representatives of leading investment companies (12 July 2012) – Over 350 communications for investors and analysts	– Participation in the drafting of laws and regulations concerning the use of natural gas as a motor fuel, the development of gas production on the Russian continental shelf, the improvement of tax, land, natural resource, and environmental legislation, etc. – Cooperation agreements with 81 Russian regions – 67 agreements on the expansion of the gas supply network – 17 agreements on the expansion of the use of natural gas as a motor fuel	– Participation in the international conference Russia – EU Energy Dialogue: Gas Aspect (30 May 2013) – Negotiations on gas supply, ensuring the reliability and security of gas transportation, the construction of new transboundary energy infrastructure facilities and their regulation	– 19 public hearings, held mainly as part of the environmental impact assessment of planned Olympic facilities and exploration well drilling – Information centres based in local libraries along the route of the Trans-Sakhalin pipeline system (Sakhalin Energy) – Some 600 actions and events as part of the Year of the Environment at *Gazprom*, including the production of TV and radio programmes, public meetings, and creation of dedicated pages on the websites of the *Group's* SDCs

Business partners	Non-governmental	Employees	Mass media
Corporate unit/body responsible for engagement			
– Relevant units of OAO Gazprom – Relevant units of SDCs	– Environmental departments of SDCs – PR departments of SDCs – Social services and units	– Personnel Management Department	– Information and Communications Department
Engagement mechanisms			
– Conferences – Summits – Contracts – Cooperation agreements – Industry associations	– Joint programmes and research projects – Open public hearings – Information disclosure	– Internal communications system – Feedback – Meetings between the top management and employees – Employee satisfaction surveys	– Press conferences – Press tours, visits to *Gazprom's* industrial sites – Senior executive meetings with media representatives – Press releases
Examples of engagement			
– Russia & CIS Oil & Gas Executive Summit – Summit of Heads of State and Government of Gas Exporting Countries Forum – St. Petersburg International Economic Forum – St. Petersburg International Gas Forum – World Gas Conference	– Participation in the Carbon Disclosure Project (CDP) – an international initiative for investors to disclose information about greenhouse gas emissions and the risks associated with climate change – Two-way collaboration in a broad range of areas, including assistance to vulnerable social groups, the construction and development of sport facilities and economic and social infrastructure, the support of cultural initiatives, spiritual revival etc.	– Preparation and approval of the General Collective Agreement of OAO Gazprom and its Subsidiaries for 2013–2015 – Workshop meetings for representatives of personnel management departments of OAO Gazprom subsidiaries	– Official press releases – 361 (2012) and 326 (2013) – Press conferences and briefings – 78 (2012) and 80 (2013) – Interviews with the senior executives of OAO Gazprom – 67 (2012) and 74 (2013) – Press tours to traditional gas-producing regions and gas transportation facilities – 9 (2012) and 13 (2013) – Comments and responses to journalists' questions – over 1,500 annually in 2012–2013

THE EFFECTIVE AND BALANCED ACTIVITIES OF THE COMPANY TODAY ARE ITS FOUNDATION FOR SUSTAINABLE DEVELOPMENT IN THE FUTURE.

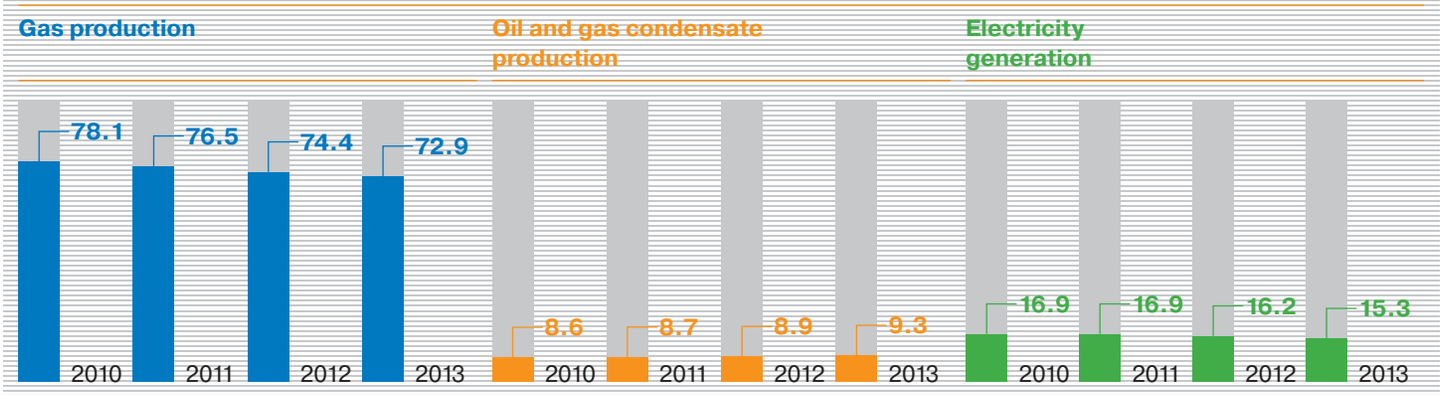
3.1. OPERATIONS IN THE RUSSIAN MARKET

3.1.1. General Information

The *Gazprom Group* is Russia's largest energy company, the national leader in gas and condensate production, processing, and transportation, and in the production and distribution of electricity and heat. In 2012–2013, as in previous years, the *Gazprom Group* played a special role in the national economy, providing energy resources to customers in the gas, oil, and electricity markets.

The *Gazprom Group* is the leader in the Russian fuel and energy market.

The *Gazprom Group's* contribution to the performance of the Russian fuel and energy sector in 2010–2013, %

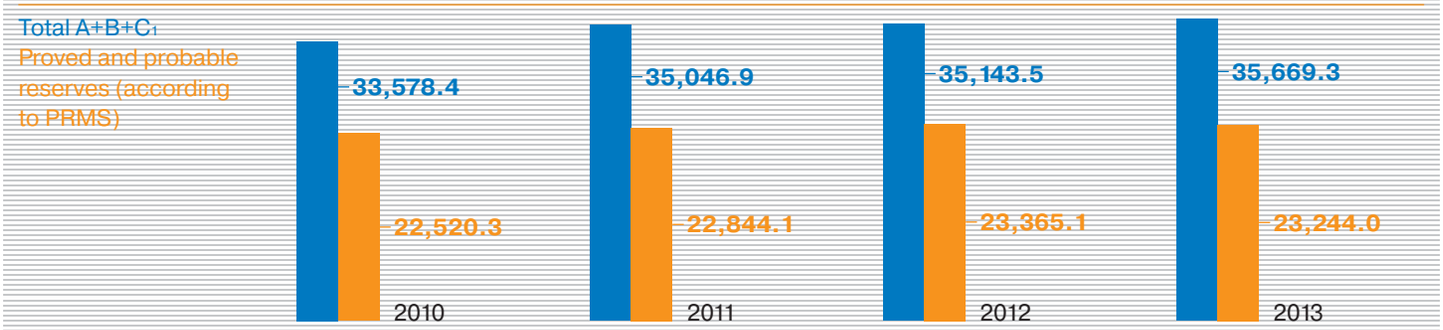


Gas business

The core activities of the *Gazprom Group* include natural gas production, transportation, processing, and marketing.

Gazprom has the largest natural gas reserves among Russian and foreign public companies. The *Gazprom Group* publishes estimates of its reserves according to both the Russian classification system and the PRMS[1] standards, which ensures equal access to the information by all interested parties.

Proved and probable natural gas reserves of the *Gazprom Group* in 2010–2013, bcm

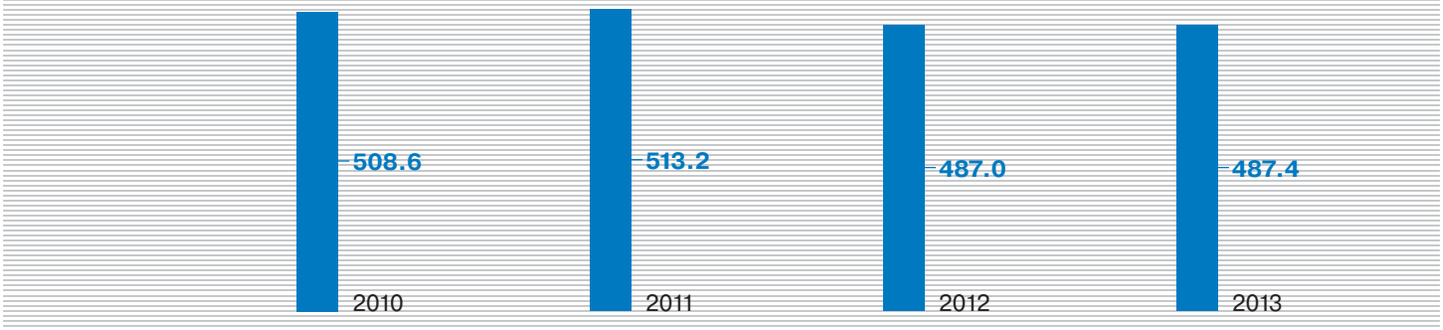


1 Petroleum Resources Management System.

The increase in natural gas reserves according to the Russian classification by 649.7 bcm in 2013 compared with 2011 was a result of geological exploration works, the acquisition of new assets and new production licenses, including those for the Leningradskoye, Rusanovskoye, Ledovoye, and Ludlovskoye offshore fields in the Kara and Barents seas. Based on production plans and the projected results of exploration activities, it is expected that in 2014–15 *Gazprom* will maintain its explored gas reserves at the level of 35.7–35.8 tcm.

The increase in gas reserves according to the international standards by 420.4 bcm in 2013 compared with 2011 was a result of the audit of new fields and deposits (Nydinskaya area at the Medvezhye gas field, as well as the Malyginskoye, Zapadno-Tambeyskoye, Tasiyskoye, Yuzhno-Kirinskoye, and Tota-Yakhinskoye fields) as well as geological exploration works (at the Chayandinskoye, Kruzenshternskoye, and other fields).

Natural gas production by the *Gazprom Group* in Russia in 2010–2013, bcm



A decrease in *Gazprom's* gas production in Russia in 2012–2013 compared with 2010–2011 was a result of a reduced demand for the natural gas and an increase in gas production and sales by independent providers.

The Yamal Peninsula and Russian northern seas have been identified as the long-term strategic priorities in gas production. In the near future, Eastern Siberia and the Russian Far East will become the *Company's* major gas production regions. *Gazprom* will expand gas production through the development of the Sakhalin offshore fields, as well as fields in the Sakha Repiblic (Yakutia) and Irkutsk Region.

In line with its strategic objectives, in the reporting period the *Group* continued developing the national gas transmission system. Over 2012–2013, the total length of *Gazprom's* gas trunklines and extensions increased by 4.2 thousand km compared with 2011, reaching 168.9 thousand km.

OAO Gazprom is implementing new pipeline construction projects in order to increase the gas supply to the domestic market while meeting its contractual obligations as an exporter. In 2012–2013, the key projects included the Gryazovets – Vyborg gaz trunklines and the Bovanenkovo – Ukhta (1st stage) and Ukhta – Torzhok (1st stage) system of gas trunklines. The Gryazovets – Vyborg gas trunklines will help supply customers in Northwestern Russia, whereas the Bovanenkovo – Ukhta will bring gas from the Yamal fields to Central Russia.

More details on the pipeline construction projects are available in the Major Gas Transportation Projects section of the Gazprom in Figures 2009-2013 factbook.

Alongside the construction of new pipelines, *Gazprom* is implementing projects for the upgrade or overhaul of existing components of the gas transportation infrastructure.

When free transmission capacity is available, OAO Gazprom grants independent companies access to the GTS, provided that the applicants have the necessary engineering infrastructure and their gas conforms to the technical standards. In 2013, independent providers transported 111.4 bcm of gas through the GTS, which is 16.3% higher than in 2012 and 36.7% higher than in 2011.

An integral component of the UGSS are underground gas storage (UGS) facilities, which help manage seasonal variations in gas supply, level peak demand, maintain the flexibility and reliability of supply, and optimise operational regimes of export pipelines and investments in the development of the Russian gas supply system. In Russia, *Gazprom* has 22 UGS facilities with 26 reservoirs including 17 depleted gas reservoirs, 8 aquifer reservoirs, and one salt cavern reservoir. During the winter heating period, *Gazprom's*

UGS network provides, on average, some 20% of the gas supply to Russian customers, whereas during unusually cold weather its share may reach 40%. For example, at the peak of the use of UGS facilities during the 2012/2013 heating season, they accounted for 38.3% of the total gas consumption in Russia.

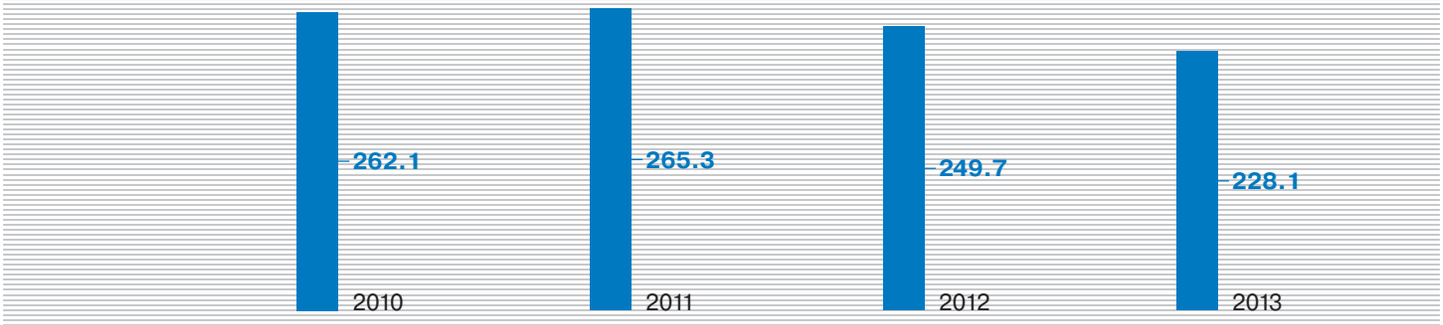
Gazprom takes active steps to provide its UGS facilities with highly effective automatic control and simulation systems, which helps optimise their operational regimes.

In 2012–2013, the overall working capacity of *Gazprom's* Russian UGS facilities increased by 3.7 bcm, totalling 70.4 bcm at the end of 2013.

In September 2013, Kaliningradskoye – the first salt cavern gas storage site in Russia – was commissioned.

The upgrade, modernisation, and expansion of existing storage sites alongside the construction of new UGS facilities is a strategic objective of OAO Gazprom. It is planned to bring the maximum daily extraction rate of the *Company's* storage sites to 789.9 mcm/day by the 2015/2016 heating season.

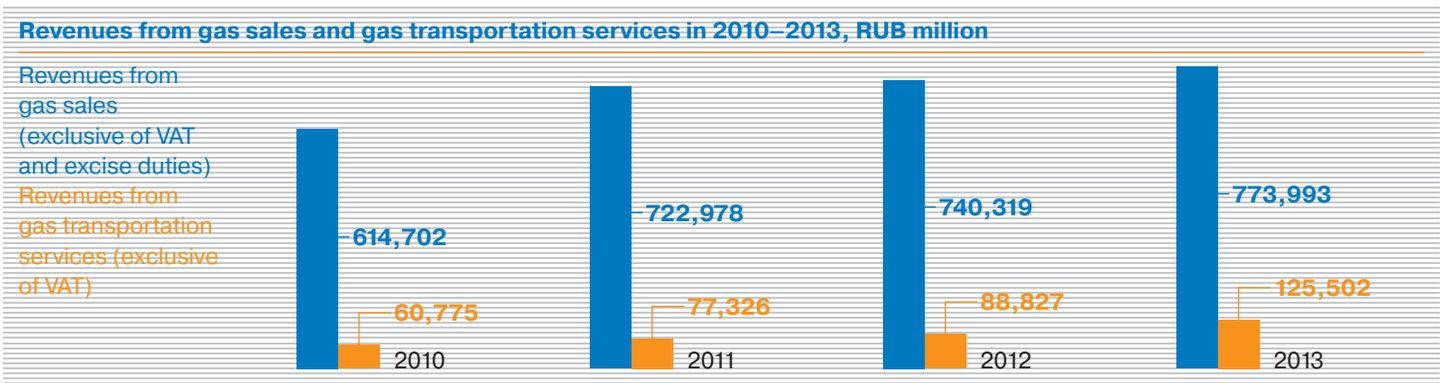
The *Gazprom Group's* gas sales in the Russian market in 2010–2013, bcm



In the reporting period, the *Gazprom Group's* gas sales decreased as result of a decline in demand due to relatively warm weather and an increased supply by independent producers, including OAO Novatek, the group of OAO Rosneft Oil Company (including OOO Itera Oil & Gas Company), OAO Lukoil Oil Company and others.

In 2013, the key customers of the *Gazprom Group's* gas in Russia included the electric power sector – 35.5% of total sales, household customers – 18.7%, and the housing utilities sector – 14%.

Revenues from gas sales and gas transportation services in 2010–2013, RUB million



Oil business

The *Gazprom Group's* core activities in the oil segment of its business include hydrocarbon exploration, the production and sale of oil and gas condensate, and the manufacturing and sale of petroleum products.

The *Gazprom Group's* reserves of liquid hydrocarbons in Russia in 2010–2013, million tonnes

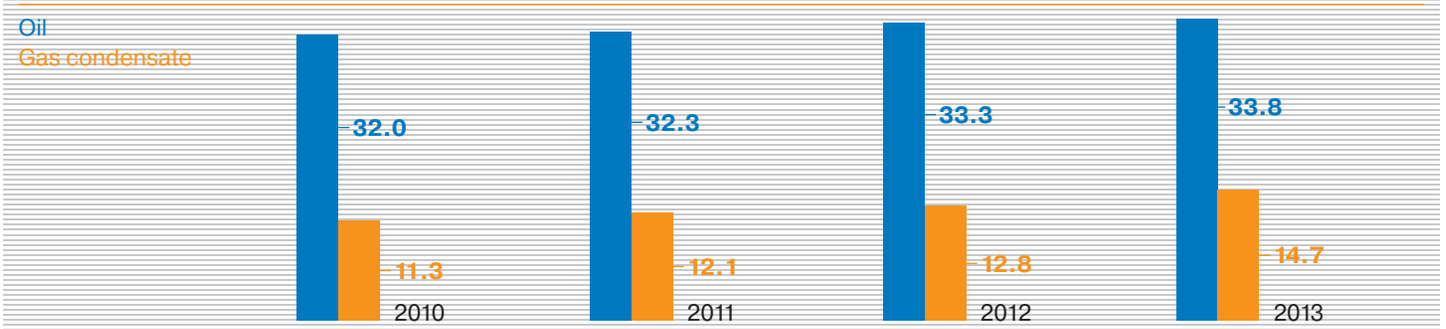
Indicator	2010	2011	2012	2013
Gas condensate				
Total A+B+C_1	1,284.8	1,395.5	1,382.9	1,381.2
Proved and probable reserves (according to PRMS international standards)	719.3	757.8	808.7	832.4
Oil				
Total A+B+C_1	1,732.9	1,767.3	1,778.1	1,814.6
Proved and probable reserves (according to PRMS international standards)	1,181.9	1,216.1	1,237.7	1,254.2

In 2012–2013, reserves of the Yuzhno-Kirinskoye field were included in the audit, and the estimate of reserves of the Chayandinskoye field's Botuobinsky stratum were increased. Furthermore, in 2012 two new fields – Yuzhno-Shinginskoye and Severo-Romanovskoye – and 39 new deposits at existing fields operated by OAO Gazprom Neft were discovered. In 2013, the Vostochno-Myginskoye field in Tomsk Region, 31 oil deposits and two gas deposits were discovered.

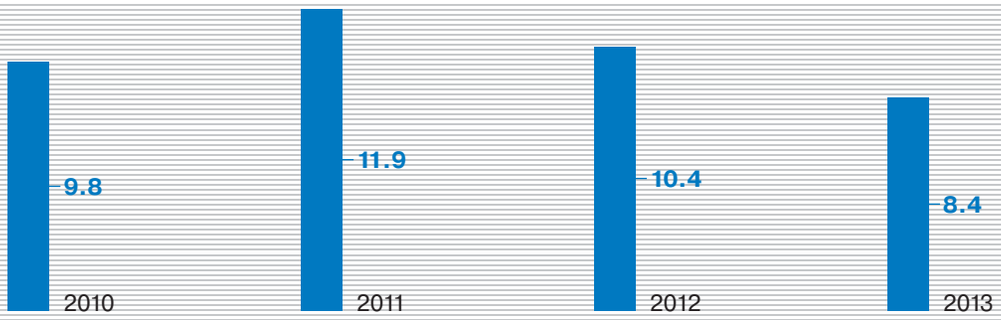
Within the *Gazprom Group*, oil production operations are carried out mainly by the subsidiary companies of OAO Gazprom Neft. The growth of oil production in 2013 was a result of the Comprehensive Programme for Reconstruction and Re-Equipment of Production Facilities. In 2014, it is planned to produce 14.5 million tonnes of gas condensate and 33.7 million tonnes of oil.

The *Gazprom Group's* sales of oil and gas condensate in Russia (exclusive of VAT and excise duties) amounted to RUB 116.1 bn in 2012 and RUB 95.8 bn – in 2013.

Oil and gas condensate production by the *Gazprom Group* in Russia in 2010–2013, million tonnes



The *Gazprom Group's* sales of oil and gas condensate in the Russian market in 2010–2013, million tonnes



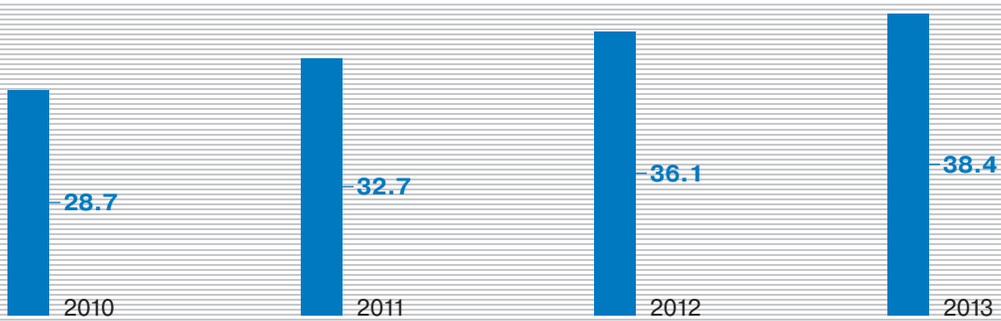
Hydrocarbon processing

The *Gazprom Group* is developing its value chain from hydrocarbon production to marketing, seeking to expand the manufacturing of high value-added products and diversify its business. The *Group's* strategic goals in the field of hydrocarbon processing include increasing the extraction rate of valuable components of natural gas and liquid hydrocarbons, their efficient use for the manufacturing of high value-added products, and the efficient use of non-renewable natural resources.

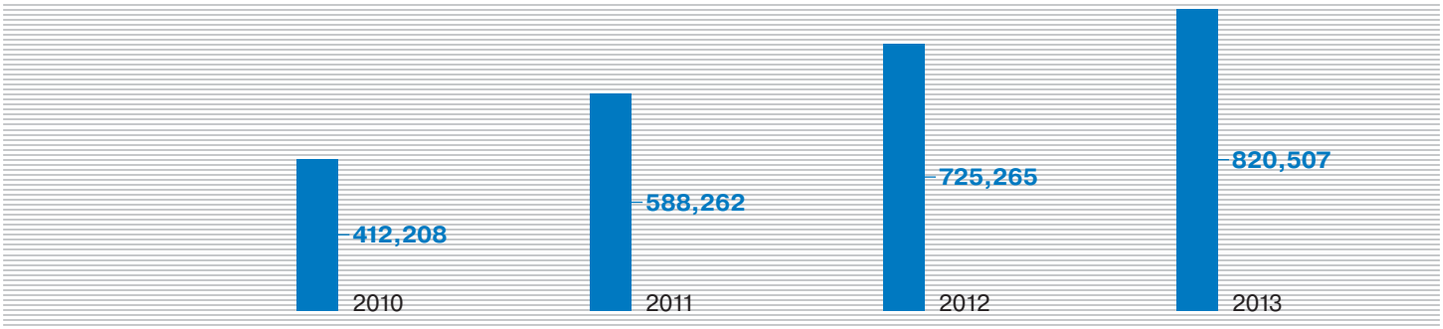
The *Gazprom Group's* hydrocarbon processing segment comprises the gas and condensate processing plants of OAO Gazprom and the oil refineries of OAO Gazprom Neft. Furthermore, the *Group* includes OAO Gazprom Neftekhim Salavat, one of the largest oil refining and petrochemical complexes in Russia, and OOO Sibmetakhim, the owner of a methanol production plant based in Tomsk.

The main gas and liquid hydrocarbon processing products include dry natural gas, liquefied hydrocarbon gases, motor gasoline, naphtha, diesel fuel, aviation fuel, sulphur, and helium.

The *Gazprom Group's* sales of hydrocarbon processing products in Russia in 2010–2013, million tonnes



The *Gazprom Group's* revenues from sales of hydrocarbon processing products in Russia (exclusive of VAT and excise duties) in 2010–2013, RUB million

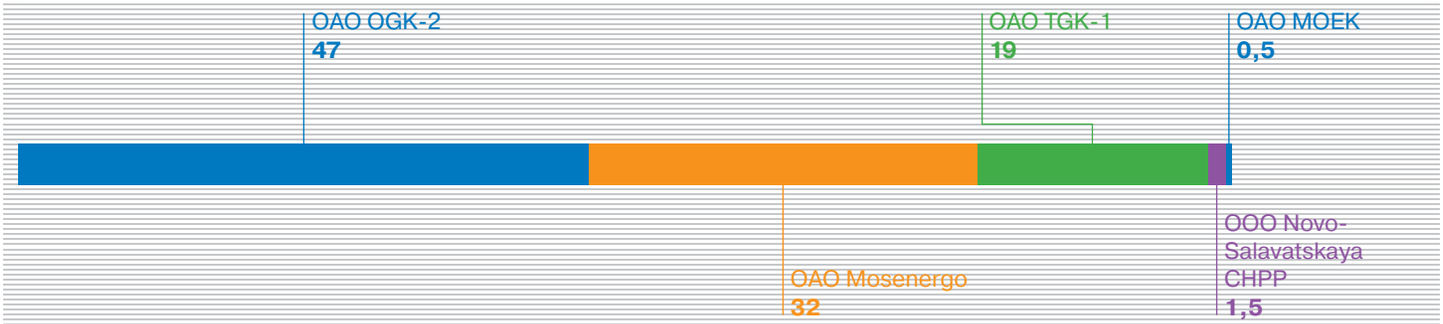


More details on hydrocarbon processing products manufactured by *Gazprom* are available in the Sales of Crude Oil, Gas Condensate and Refined Products section of the Gazprom in Figures 2009-2013 factbook, and on OAO Gazprom's official website: http://www.gazprom.com/f/posts/00/463337/gazprom-in-figures-2009-2013-en.pdf.

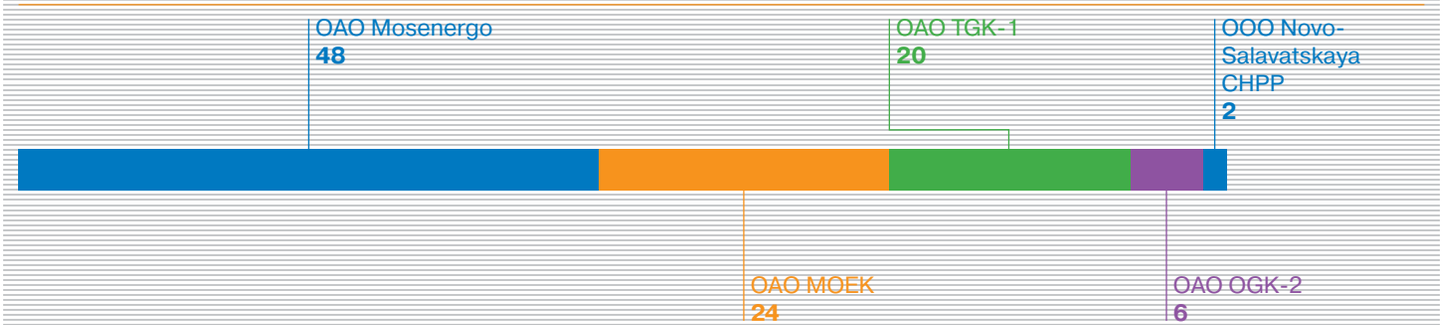
Energy business

The *Gazprom Group* is the largest owner of generating assets in the Russian Federation. The installed electricity capacity of the *Group's* assets is around 38.2 GW, or 17% of the total generation capacity of the Russian power sector.

The *Gazprom Group's* installed electricity generation capacity in Russia, 2013, %



The *Gazprom Group's* installed heat generation capacity in Russia, 2013, %



In 2012–2013, the *Gazprom Group* produced 328.3 bn kWh of electricity in Russia, including 166.9 bn kWh in 2012 and 161.4 bn kWh in 2013. Heat generation in the reporting period amounted to 213.5 million Gcal, including 101.0 million Gcal in 2012 and 112.5 million Gcal in 2013. The decrease in

power generation was a result of reduced demand. The average capacity factors in electricity and heat generation were 48.3% and 31.4% respectively in 2013 compared with 50.9% and 31.7% respectively in 2012.

In 2013, revenues from the sale of electricity and heat in Russia amounted to RUB 363.0 bn, or 12.0% more than in the previous year.

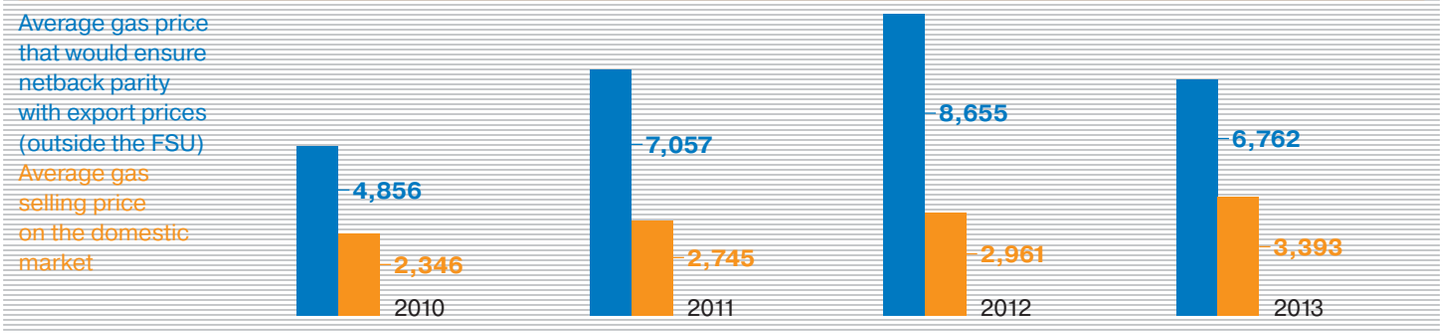
3.1.2. Tariff Policy and Pricing Factors

The *Gazprom Group's* activities with regard to pricing are aimed at finding an economically justified balance between interests and expectations of stakeholders in the gas, oil, and electricity segments of its business.

Gas business

According to legislation, natural gas in Russia is sold to customers at both regulated and unregulated prices. OAO Gazprom is the largest gas supplier at regulated prices, which are differentiated between customer groups (household vs. industrial customers), as well as between price zones based on the relative distance from the production region to the consumer.

OAO Gazprom's gas prices for Russian customers in 2010–2013, RUB/tcm



In Russia, regulated wholesale gas prices are annually set by the Federal Tariff Service (FTS) based on the Forecast of Socio-Economic Development of the Russian Federation produced by the Ministry of Economic Development. Since price indices are based on general macroeconomic parameters and do not take into account the actual economic status of regulated entities, gas prices for the Russian market are set at a level that does not allow the *Company* to recover sufficient revenue for the development and upgrade of the UGSS in the interest of Russian customers.

In 2012–2013, wholesale gas prices for household customers were 22% lower than those for industrial customers.

As a result, in 2013 regulated gas prices for industrial customers within Russia were almost two times lower than the level that would ensure netback parity with export prices.

In order to optimise domestic gas prices for industrial customers in the medium term, the Russian Government decided to increase the prices, on average, by 15% annually. However, in September 2013 the planned increase rates were substantially reduced due to the economic situation. The prices in the second half of 2013 were applied to 2014. Beginning 1 July 2015, prices are going to be increased by 6%; and from 1 July 2016 – by 5%.

The *Gazprom Group* continues systematic work for the gradual development of market-based gas pricing mechanisms in the domestic market.

To facilitate the development of market-based gas pricing mechanisms, on April 16, 2012, the Russian Government adopted Resolution No. 323 'On Natural Gas Trading at Commodity Exchanges and Amendments to the Russian Government's Regulations on State Regulation of Natural Gas Prices and Access to OAO Gazprom's Gas Transmission System' (with amendments introduced by Resolution of the Russian Government No. 566 dated June 19, 2014 'On Amending Certain Acts of the Russian Government

concerning Gas Sales in the Russian Federation'). The document allowed OAO Gazprom and its affiliates to sell up to 17.5 bcm of natural gas at unregulated prices at commodity exchanges or through electronic trading starting from 2013.

Launching an exchange trade in natural gas and re-launching the trade in physical gas volumes on electronic trading platforms, which was suspended in 2009, are important measures towards the establishment of market pricing principles in the domestic gas market. These measures would help produce market-based indicators essential for the entire gas pricing system.

The *Gazprom Group* believes that a transition from setting wholesale gas prices to regulating their maximum level would be an effective measure for the development of the domestic gas market. Such an approach would allow *Gazprom* to sell gas at prices below the established regulated level and rationally use its competitive advantage over independent gas producers.

Oil business

In 2012–2013, prices for the oil produced by the *Gazprom Group* were determined by the state of the global oil and petroleum product market, export netback parity indicators, commodity exchange indices, other market indices, the supply-demand balance in the Russian market, and other factors affecting the market.

In order to establish economically sound prices for oil and petroleum products, the *Gazprom Group* actively supports the development of stock exchange trading as an effective and transparent pricing mechanism.

OAO Gazprom Neft, the main producer and provider of oil and petroleum products in the *Gazprom Group*, is a co-founder of the St. Petersburg International Commodity Exchange, where it has been regularly selling petroleum products since 2009.

Electricity business

The *Gazprom Group's* power generating companies participate in both wholesale and retail electricity and capacity markets; their main sales market is the wholesale market functioning as part of the United Energy System of Russia.

The *Group* companies are represented in the first and second price zones of the wholesale electricity and capacity market. Households and equivalent customer categories receive electricity on the basis of regulated contracts, with prices determined by rates established by the FTS of Russia on a regular basis.

3.1.3. Business Development in the Domestic Market

The Russian market is significant to the *Gazprom Group* because of its high potential. The *Group* is continuing its large-scale programme for the expansion of the gas distribution infrastructure in Russian regions, developing domestic markets for gas motor fuel and helium, and expanding its share of the bunkering market.

Improving of access to gas in Russian regions

One of the *Gazprom Group's* strategic priorities is the implementation of the Programme for Improving Access to Gas in Russian Regions, which has immediate significance for the socio-economic development of Russian regions and their living standards.

More details about the *Gazprom Group's* Programme for Improving Access to Gas in Russian Regions are available in Section 9 of this Report.

Natural gas as a motor fuel

OOO Gazprom Gazomotornoye Toplivo was appointed as a single operator to develop the gas motor fuel market. Expanding the use of gas as a motor fuel is another strategic priority of the *Gazprom Group's* business.

Gas motor fuel

The main types of gas motor fuel include compressed or liquefied natural gas (methane), and liquefied hydrocarbon gases (propane/butane mixes).

In Russia, compressed natural gas (CNG) and liquefied hydrocarbon gases (LHG) are typically used. In other countries, they also actively use liquefied natural gas (LNG).

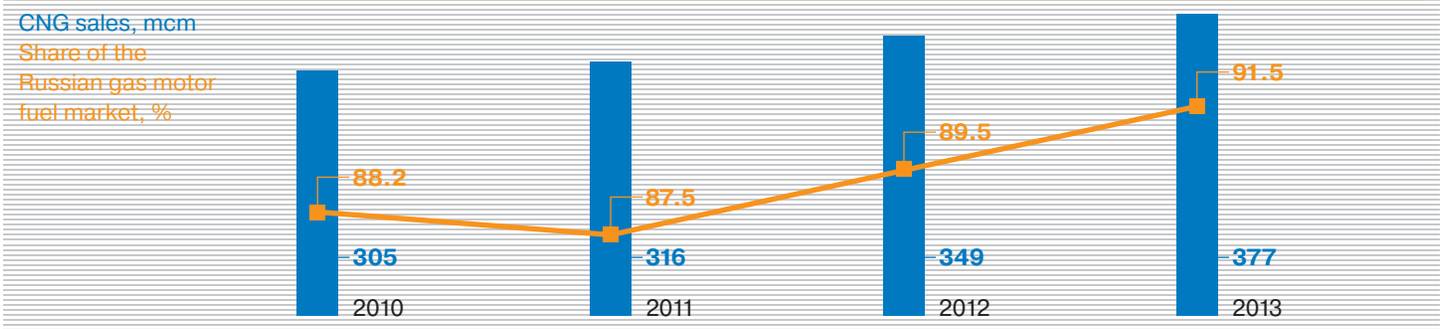
Gas motor fuel is an alternative to traditional motor fuels such as gasoline and diesel fuel, and has significant economic and environmental advantages over them.

At the end of 2013:

- The *Gazprom Group's* share in the Russian gas motor fuel market was 91.5%;
- The *Group's* network of NGV-fuelling compressor stations included 206 stations;
- Total CNG sales at NGV-fuelling stations of OAO Gazprom's subsidiaries amounted to 377 mcm.

In 2013, the *Group's* investments in the construction of gas motor fuel infrastructure totalled RUB 89.43 million. In 2014, investments are planned to be increased by a factor of 100 to RUB 8,876.4 million.

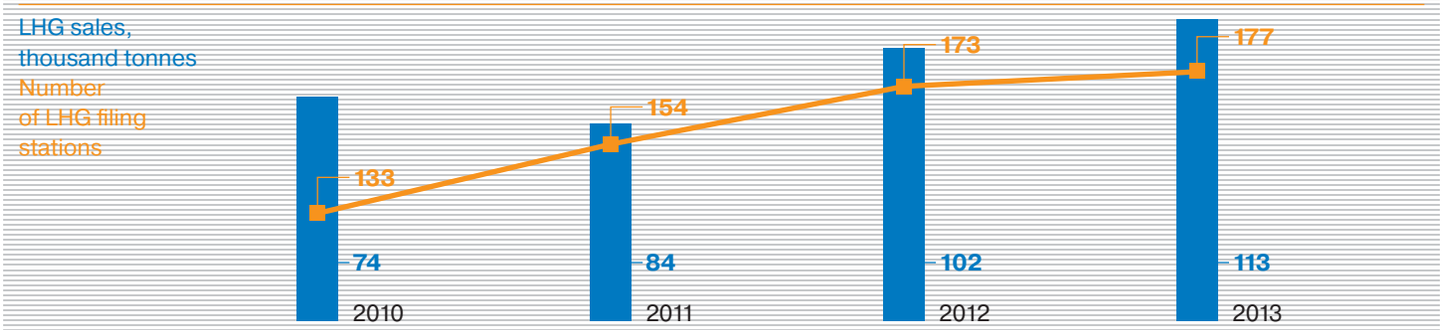
The *Gazprom Group* in the Russian CNG market in 2010–2013



Liquefied hydrocarbon gases

OAO Gazprom Gazenergoset is an operator for LNG production. In 2013, the *Group's* LHG retail network was expanded into two more regions and currently encompasses 15 Russian regions. The overall LHG sales in 2013 were 113 thousand tonnes, or 2.3% higher than in 2012.

The *Gazprom Group* in the Russian LHG market in 2010–2013



Detailed information about the *Gazprom Group's* policy with regard to the development of the gas motor fuel market is available on OAO Gazprom's official website (http://www.gazprom.com), and on the websites of OAO Gazprom Gazomotornoye Toplivo (http://gazprom-gmt.ru) and OAO Gazprom Gazenergoset (http://www.gazpromlpg.ru).

Helium production and sales

Due to its unique properties, helium is widely used in space technology, the aircraft industry, shipbuilding, the chemical and metals industry, welding, nuclear and laser equipment, medicine, and scientific research. Expanding helium production and sales both in Russia and abroad is a prospective area of development for the *Gazprom Group*.

At present, the main helium producer in Russia is the Orenburg Helium Plant, owned by OOO Gazprom Dobycha Orenburg.

Orenburg Helium Plant – the main helium producer in Russia

- Throughput (in terms of gas processed) – 15 bcm per year.
- Source of helium – natural gas from the Orenburgskoye oil and gas condensate field.
- Helium output in 2013 – 3.57 mcm.

In July 2013, the construction of a new OG-500 helium liquefaction unit began at the plant site. The new unit will help expand wholesale sales of liquefied helium in the Russian Federation. The unit was put into operation in 2014.

OAO Gazprom Gazenergoset is a *Gazprom's* single operator in Russia for helium distribution.

The key priorities with respect to the development of the helium market can be defined as follows:

- Expanding helium production by means of the development of the Chayandiskoye field, whose gas has significant helium content, and the construction of the Amur Gas Processing Plant next to the city of Svobodny (Amur Region). OAO Kriogenmash, an industrial asset of Gazprombank, prepares technical and commercial proposals for the procurement of certain production units for the Amur Gas Processing Plant, and also designs and manufactures equipment for the production and storage of commercial helium;
- Building an effective organisational and commercial model of the *Group's* helium business, involving the development of transportation and logistical infrastructure, among other aspects;
- Using international best practices. At present, in the *Group* there are Memorandums of Understanding in place with the world's largest helium producers and providers, including: Air Products, Linde AG, Air Liquide, Taiyo-Nippon-Sanso/Matheson, and Praxair Inc. The partners have prepared proposals for organising the production of commercial helium, supplying production equipment, and long-term purchases and exports of helium.

Ship and aircraft fuel

The *Gazprom Group's*, bunkering fuel business is operated by OAO Gazpromneft Marine Bunker, a subsidiary of OAO Gazprom Neft and the leader in Russia's bunkering market.

Performance of Gazpromneft Marine Bunker

Indicator	2013	Target for 2025
Bunkering fuel sales, million tonnes	2.3	8.2
Share of the Russian bunkering market, %	18.6	27
Number of own terminals	6	7
Number of own vessels	8	20

In 2013, Gazpromneft Marine Bunker expanded the geography of its operations in Russia and started providing bunkering services at the Nizhnekamsk River Port. It also became the first bunkering operator in the Black Sea region to receive a permit for providing bunkering services at the Sochi Sea Port.

The *Gazprom Group's* main suppliers of aircraft fuel and aircraft refuelling services are ZAO Gazpromneft-Aero, a subsidiary of OAO Gazprom Neft, and OAO Gazprom Gazenergoset. Gazpromneft-Aero is the leader in the Russian retail market of aircraft fuel: at the end of 2013 the company's market share was 22.9%.

It operates the largest aircraft fuel retail network in Russia, which is comprised of 38 fuelling complexes and provides services at 44 aiports.

In 2011, Gazpromneft-Aero was designated the sole supplier of aircraft fuel and refuelling services for 11 military airbases of the Russian Ministry of Defence; in 2012 it was chosen as the sole supplier of fuel and refuelling services for 11 more airbases. In 2013, the company started providing refuelling services to 5 more airbases, including Chernyakhovsk (Kaliningrad), Pushkin (St. Petersburg), Kant (Kyrgyzstan), Cheremuski (Chita), and Ulyanovsk-Vostochny (Ulyanovsk). At present, the company services 27 airbases of the Ministry of Defence. Since 2011, the company has supplied them with over 1 million tonnes of aviation kerosene.

Gazpromneft-Aero's own infrastructure includes the latest aircraft refuelling technology and ensures an uninterrupted supply of aircraft fuel to airports. In 2013, investments in the development of the aircraft refuelling business surpassed RUB 2.7 bn. *Gazprom Neft's* strategy for the development of this business segment expects the sales of aviation kerosene in Russia and abroad to increase to 5.3 million tonnes by 2025, and the expansion of the sales network to include 220 airports.

3.2. INTERNATIONAL BUSINESS

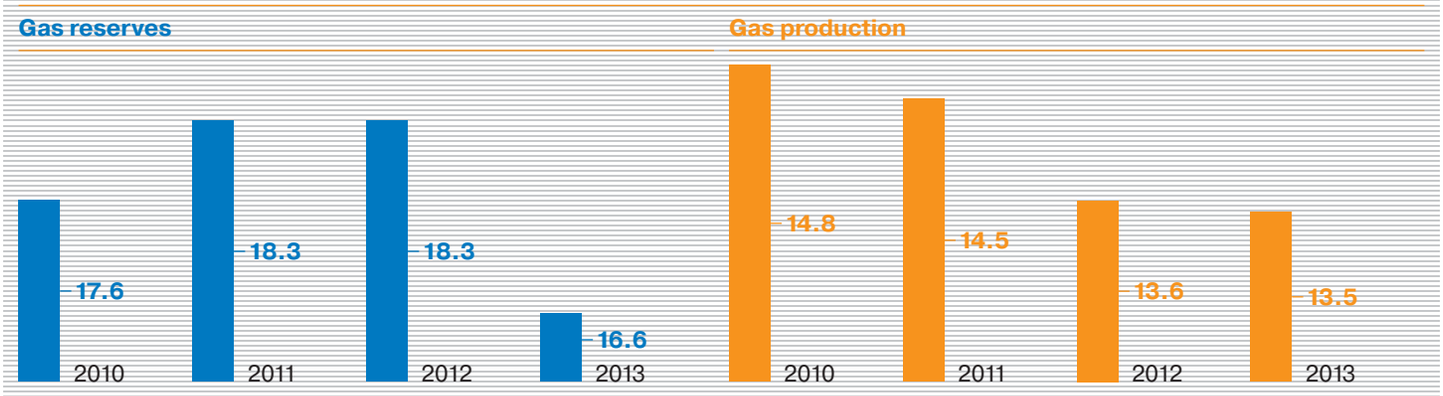
One of the main priorities of the Gazprom Group's development strategy is expanding the geography of operations. The *Group* implements hydrocarbon exploration and production projects in the CIS, South America, Southeast Asia, Africa, and the Middle East, and is one of the main suppliers of gas to Europe. Gazprom actively participates in international projects aimed at the expansion of the *Company's* resource base outside of Russia.

3.2.1. General Information

Gas business

The *Gazprom Group* is the world's largest exporter of natural gas, and plays an important role in ensuring international energy security.

The *Gazprom Group's* share of global gas reserves and production, 2010–2013, %



The *Gazprom Group* is the largest supplier of natural gas to Europe, meeting over one fourth of the overall European demand. The European market accounts for over one third of the total volume of *Gazprom's* gas supply and over one half of the *Group's* revenues from gas sales.

In 2013, OAO Gazprom's gas supplies to the European market under long-term contracts amounted to 161.5 bcm, up 16% y-o-y because of the following reasons:

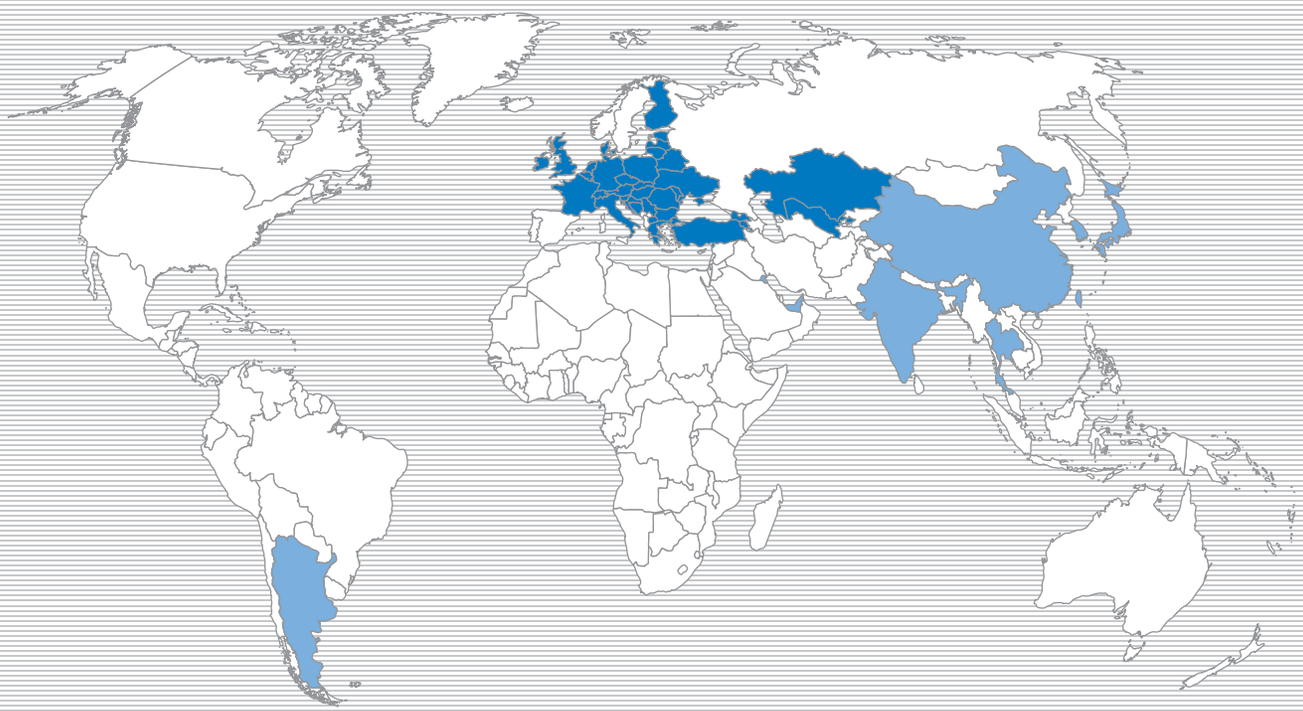
- reduced supply by alternative providers, including other gas exporters to Europe and Europe's own producers;
- revision of off-take obligations under take-or-pay contracts.

The *Gazprom Group* supplies pipeline natural gas to 24 non-FSU countries, including Germany, Turkey, Italy, the United Kingdom, Poland, France, the Czech Republic, Hungary, Slovakia, Austria, Finland, Bulgaria, the Netherlands, Greece, Serbia, Romania, Ireland, Slovenia, Switzerland, Denmark, Bosnia and Herzegovina, and Croatia. Pipeline gas is delivered to the FSU countries, including Armenia, Belarus, Georgia, Kazakhstan, Latvia, Lithuania, Moldova, Uzbekistan, Ukraine, and Estonia. The *Gazprom Group* also operates in the Asian market, supplying LNG to the PRC, Japan, South Korea, Taiwan, and Thailand. Insignificant amounts of LNG are also supplied to Argentina, the UAE, India, Kuwait, and the United Kingdom.

OAO Gazprom has representative offices in the People's Democratic Republic of Algeria (Algiers), the State of Qatar (Doha), the Islamic Republic of Iran (Tehran), the PRC (Beijing), the Kingdom of

Belgium (Brussels), and the Federative Republic of Brazil (Rio de Janeiro). The *Company* is currently working towards opening a representative office in Tokyo, Japan. Furthermore, OAO Gazprom subsidiaries (including OOO Gazprom Export, among others) have representative offices in Austria, Azerbaijan, Bulgaria, Germany, Greece, Macedonia, Poland, Romania, Slovakia, Turkey, Ukraine, Finland, and the Czech Republic.

Geography of international operations



Pipeline natural gas
LNG sales

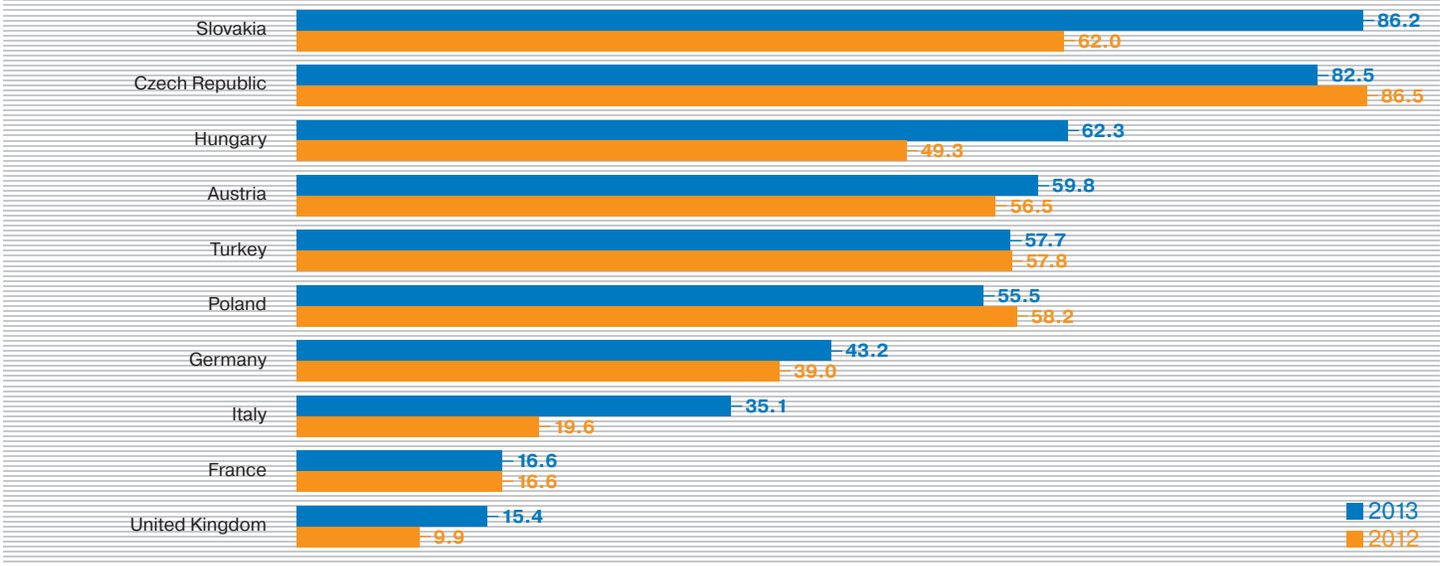
The *Gazprom Group's* international gas sales in 2010–2013, bcm

Region/country	2010	2011	2012	2013
FSU countries and the Baltic states	70.2	81.7	66.1	59.4
Armenia	1.4	1.6	1.7	1.7
Belarus	21.6	23.3	19.7	19.8
Georgia	0.2	0.2	0.2	0.2
Estonia	0.4	0.7	0.6	0.7
Kazakhstan	3.4	3.3	3.7	4.7
Latvia	0.7	1.2	1.1	1.1
Lithuania	2.8	3.2	3.1	2.7
Moldova	3.2	3.1	3.1	2.4
Ukraine	36.5	44.8	32.9	25.8
Uzbekistan	–	0.3	0	0.3

Non-FSU countries	148.1	156.6	151	174.3
Austria	5.6	5.4	5.4	5.2
Belgium	0.5	0	0	0
Bosnia and Herzegovina	0.2	0.3	0.3	0.2
Bulgaria	2.3	2.5	2.5	2.9
Croatia	1.1	0	0	0.2
Czech Republic	9.0	8.2	8.3	7.9
Finland	4.8	4.2	3.7	3.5
France	8.9	8.5	8.2	8.6
Denmark	0	0	0.3	0.3
Germany	35.3	34.1	34.0	41.0
Greece	2.1	2.9	2.5	2.6
Hungary	6.9	6.3	5.3	6.0
Ireland	0	0	0.3	0.5
Italy	13.1	17.1	15.1	25.3
Macedonia	0.1	0.1	0.1	0
Netherlands	4.3	4.5	2.9	2.9
Poland	11.8	10.3	13.1	12.9
Romania	2.6	3.2	2.5	1.4
Serbia	2.1	2.1	1.9	2.0
Slovakia	5.8	5.9	4.3	5.5
Slovenia	0.5	0.5	0.5	0.5
Switzerland	0.3	0.3	0.3	0.4
Turkey	18.0	26.0	27.0	26.7
United Kingdom	10.7	12.9	11.7	16.6
Other countries	2.1	1.3	0.8	1.2

The *Gazprom Group* is working towards enhancing the reliability of gas supply to European customers, further developing its gas transportation infrastructure, optimising and redistributing requested transportation capacities, and minimising the impact of suspensions of pipeline operations and other incidents.

Share of Russian gas in the energy balance of major customers in Western and Eastern Europe, 2012–2013, %



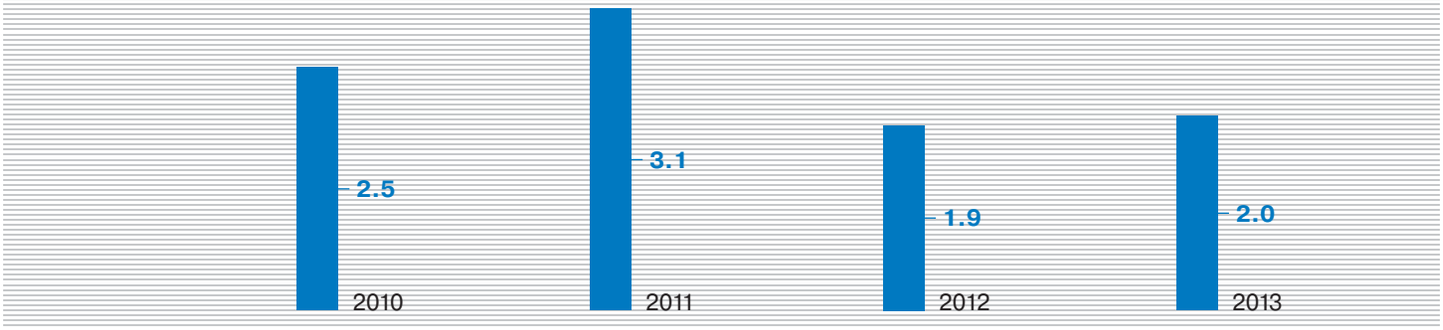
The key pipeline routes used for exporting gas include the Uzhgorod and Balkan corridors, the Yamal – Europe pipeline, the Blue Stream and the Nord Stream. The Uzhgorod corridor, the Yamal – Europe pipeline, and the Nord Stream are the main routes used for transporting Russian gas to the European market.

In 2013, some 23% of gas supplies to the European market under long-term contracts were channelled through the Nord Stream and Blue Stream. A total of 23.8 bcm of gas, or 101.7% more than in 2012, was supplied via the Nord Stream, whereas 13.7 bcm, or 6.8% less than in 2012, was supplied through the Blue Stream.

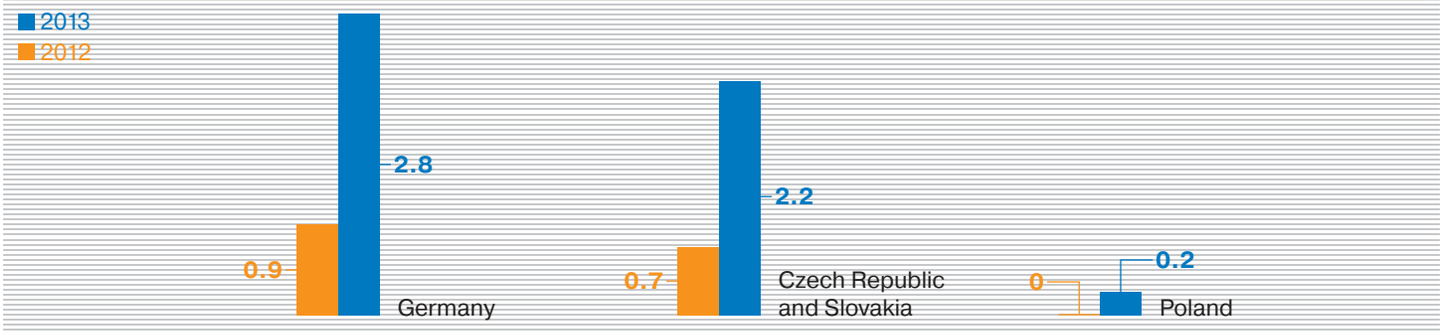
In the reporting period, *Gazprom* continued systematic work towards expanding its share of the global LNG market. In 2013, the *Group's* priorities in this area included LNG marketing and marine transportation, the promotion of existing and planned LNG projects, and strengthening *Gazprom's* position as a leading global gas supplier. Gazprom Marketing and Trading – a *Gazprom Group* company responsible for LNG marketing and marine transportation – delivered 24 LNG shipments totalling 2 bcm (in 2012, 22 shipments totalling 1.82 bcm were delivered).

At the end of 2013, the *Group's* hydrocarbon exploration and production portfolio comprised 35 overseas projects, including 18 projects with the *Group's* subsidiaries as operators. The Sarikamysh area (Tajikistan), Pannonian Basin (Serbia, Romania, and Hungary), and El Assel license area (Algeria) accounted for the bulk of exploration works performed overseas with the *Group's* subsidiaries as operators. Other overseas projects where the *Gazprom Group's* subsidiaries were involved in exploration drilling included those in Bolivia (3.3 thousand m) and the Junin-6 project in Venezuela (1.3 thousand m).

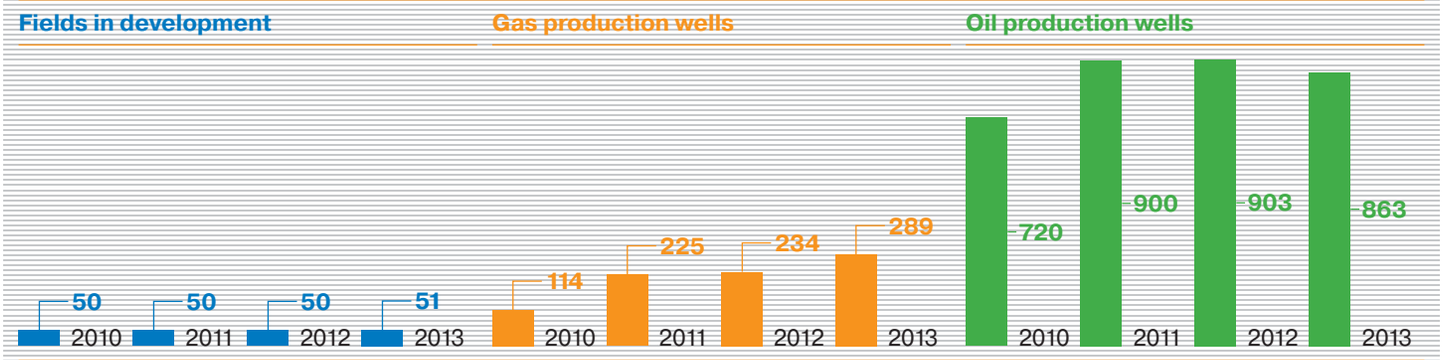
International LNG sales in 2010–2013, bcm



International gas motor fuel sales[1], mcm



Number of overseas fields developed by the *Gazprom Group* and production wells in 2010–2013



	2010	2011	2012	2013
Fields in development	50	50	50	51
Gas production wells	114	225	234	289
incl. operational	95	104	111	94
Oil production wells	720	900	903	863
incl. operational	613	603	623	543

1 The difference between the indicators of gas motor fuel sales disclosed in the OAO Gazprom Annual Report 2013 is subject to the fact that the volume of international gas motor fuel sales stated in the Annual Report includes sales through *Gazprom Group's* own NGV-refueling compressor stations. Furthermore, Vemex sales in the market of the Czech Republic and Slovakia were calculated prior to the deconsolidation of this company. The chart shows the total sales of motor fuel on the markets of Germany, the Czech Republic, Slovakia and Poland, including sales at the gas stations of third companies.

The *Gazprom Group* also participates in several overseas oil and gas projects at the production stage.

The *Gazprom Group's* oil and gas projects at the production stage

Field	Production volume	
	2012	2013
Wingate, North Sea	0.7 bcm of gas	0.4 bcm of gas
	4.5 thousand tonnes of condensate	2.1 thousand tonnes of condensate
Shakhpakhty, Uzbekistan	0.3 bcm of gas	0.3 bcm of gas
Blocks 05-2 and 05-3, South China Sea offshore Vietnam[1]	–	305.9 bcm of gas
	–	59.4 thousand tonnes of condensate

Underground gas storage in foreign countries

In seeking to enhance the reliability of gas supply to international customers, *Gazprom* uses UGS facilities outside of Russia. The *Group* has access to the working capacity of UGS facilities based in Austria, the United Kingdom, Germany, and Serbia. At the beginning of the 2013 winter season, *Gazprom* had a total of 4.1 bcm of working storage capacity with the maximum extraction rate of 51.0 mcm per day.

In 2013, *Gazprom* injected 3.9 bcm of gas (including buffer gas) into European UGS facilities, whereas the total extraction amounted to 4.1 bcm as a result of an unusually long and cold winter.

In FSU countries, *Gazprom* uses UGS facilities in Armenia, Belarus, and Latvia. As of 31 December 2013, the total working capacity of the *Group's* UGS facilities in the FSU was 2.8 bcm, whereas the maximum daily withdrawal rate was 42.8 mcm per day. A growth in the working capacity was the result of an increased capacity of the Mozyr UGS facility in Belarus.

In 2013, a total of 2.5 bcm of gas was injected into UGS facilities of FSU countries, and the overall extraction was 2.1 bcm.

Working capacity of the UGS facilities in Western Europe used by the *Gazprom Group* (owned and leased) in 2010–2013, bcm

Indicator	2010	2011	2012	2013
Germany				
Rehden	1.00	0.82	0.50	0.50
UGS facilities of Vitol and VNG (leased)	0	0	1.54	0,60
Katharina	0	0	0.11	0.12
Austria (Haidach)	0.86	1.89	1.89	1.89
Serbia (Banatski Dvor)	0	0.23	0.23	0.23
United Kingdom (Humbly Grove) (leased)	0.23	0.23	0.23	0.23
France (UGS facilities of Vitol) (leased)	0.30	0	0	0

1 Developed on the basis of a production sharing agreement with the *Gazprom Group's* stake being 49%.

As a result of the commissioning of new caverns in 2012, the working capacity of the Katharina UGS facility (Germany) will be increased to 0.16 bcm in 2014. Furthermore, in 2014 the *Gazprom Group* will acquire 1.9 bcm of new capacity at the Bergermeer UGS site (the Netherlands). The working capacity of the Etzel site (Germany) will be increased to 0.25 bcm. In 2016, construction of the Damborice UGS facility is planned to be completed in the Czech Republic, where *Gazprom* will acquire 0.46 bcm of working capacity.

Oil business

In order to strengthen its position in the international petroleum markets, the *Gazprom Group* participates in a number of overseas projects aimed at increasing its resource base outside Russia. The companies involved in the implementation of the *Group's* hydrocarbon exploration, development, and production in Bosnia and Herzegovina, Hungary, Venezuela, Iraq, Libya, Serbia, and Romania include Gazprom EP International B.V., the *Gazprom Neft Group* (including the Serbian subsidiary NIS), and Wintershall AG.

Projects in Iraqi Kurdistan accounted for the bulk of exploration works among overseas oil exploration projects operated or controlled by the *Group's* subsidiaries. Exploration drilling was also carried out in Bolivia and Venezuela (Junin-6 project).

Gazprom's stake of C96 and C97 oil concessions in Libya owned by Wintershall AG amounts to 49%. In 2013, under these concessions *Gazprom's* share of extraction amounted to 2.4 million tonnes of oil and 0.3 bcm of gas (versus 4.1 million tonnes of oil and 0.6 bcm of gas in 2012). The significant decline in production was a result of a force-majeure declared by the company in August 2013 due to political tensions after the 2011 civil war in Libya.

In Venezuela, the *Group* participates in the Junin-6 project. In 2013, within the project production of oil amounted to 0.1 million tonnes. The *Gazprom Group's* stake at the development stage is 8%.

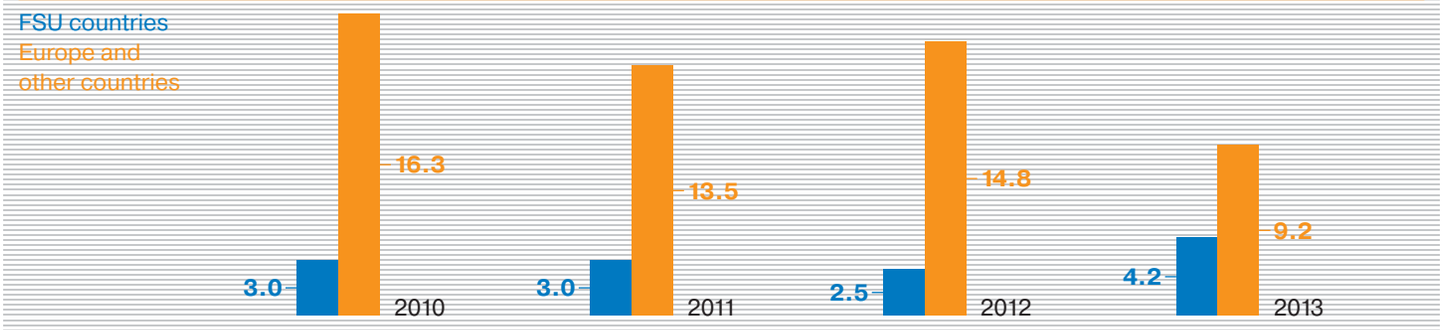
A production sharing agreement for the Halabja block was signed with the Regional Government of Kurdistan. The project operator is OAO Gazprom Neft, with an 80% stake. In 2014–2015, a 2D seismic survey (1,000 linear km), electromagnetic and geochemical survey, and the beginning of preparatory work for the drilling of the first exploration well at the block are planned to be carried out.

In Serbia and Angola, the *Group* produces 1.7 million toe (tonnes of oil equivalent) at fields with proved reserves totalling 15 million toe. It is expected that in the near future, *Gazprom* will reach production stage in Middle East projects with total estimated recoverable reserves ($C_1 + C_2$) of 2.12 bn toe.

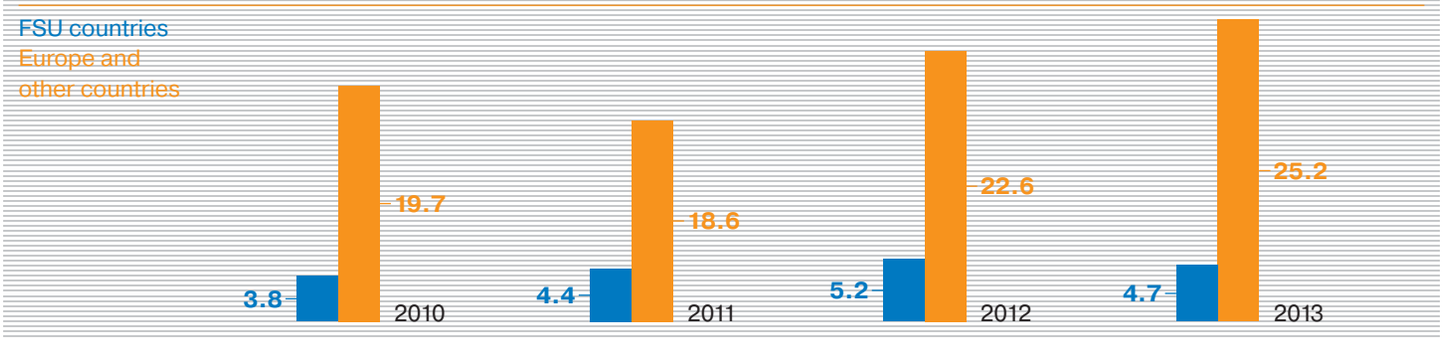
In 2012, the *Gazprom Group's* oil and stable gas condensate exports totalled 17.3 million tonnes, and in 2013 13.4 million tonnes.

Oil exports to non-FSU countries are channelled mainly through Gazprom Neft Trading GmbH (Austria), a trading subsidiary of the *Gazprom Neft Group* that supplies oil and petroleum products to ultimate customers. *Gazprom Neft* is among the worlds's major exporters of crude oil.

Oil exports in 2010–2013, million tonnes



Exports of liquid hydrocarbon refined products in 2010–2013, mn tonnes



In 2013, the *Gazprom Group's* key oil export markets in terms of non-FSU supplies were North Western, Central European and Mediterranean countries, where Urals grade crude oil was primarily sold. Supplies to FSU countries went primarily to Belarus (to the Mozyr Oil Refinery) and Kazakhstan (Pavlodar Oil Chemistry Refinery).

Sales of oil and gas condensate declined y-o-y due to an increased use of these materials as inputs for refining compared to the sales of these resources in non-FSU markets.

In 2013, total sales of *Gazprom Group's* oil and gas refined products were 29.9 million tonnes, up 7.6% y-o-y.

The *Gazprom Group's* exports of oil products, million tonnes

Products	2012			2013		
	Non-CIS	CIS	Total	Non-CIS	CIS	Total
High-octane gasoline	0.32	0.65	0.97	0.27	0.72	0.99
Low-octane gasoline	0.20	0.19	0.39	0.22	0.18	0.40
Naphtha	1.19	0.06	1.25	1.20	0.00	1.20
Diesel fuel	3.93	0.54	4.47	4.80	0.63	5.43
Fuel oil	6.66	0.23	6.89	6.71	0.22	6.93
Aviation fuel	0.22	0.23	0.45	0.32	0.20	0.52
Ship fuel	1.00	0.00	1.00	0.57	0.00	0.57
Other products	0.61	0.45	1.06	0.52	0.26	0.78
Total	**14.13**	**2.35**	**16.48**	**14.61**	**2.21**	**16.82**

OOO Gazpromneft Marine Bunker provides bunkering services at international seaports in Gothenburg (Sweden), Kalundborg (Denmark), Constanta (Romania), and Tallinn (Estonia). One of the most important developments of the year 2013 was entering new international markets as a result of the acquisition of bunkering companies based in Romania (Gazpromneft Marine Bunker Balkan S.A.) and Estonia (AS Baltic Marine Bunker). Gazpromneft Marine Bunker's plans for the next three years involves the active expansion of its international operations in Europe, the Middle East, and Asia.

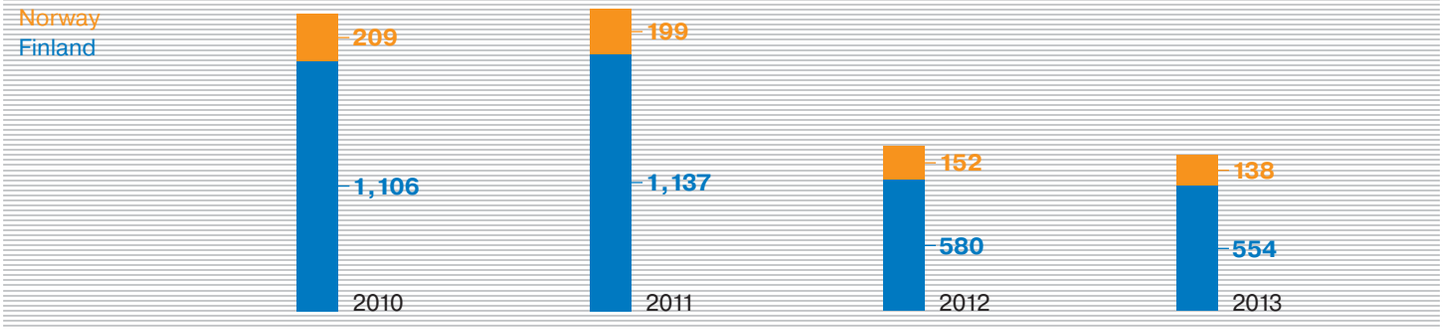
In 2013, ZAO Gazpromneft-Aero expanded the geography of its international operations, providing aircraft refuelling services in 49 countries (170 cities) vs. 38 countries (127 cities) in 2012. The company's strategy includes plans for further expanding its international airport network, which would help guarantee timely refuelling and reasonable fuel prices to air carriers.

Electricity business

One of OOO Gazprom Energoholding's key subsidiaries is OAO TGK-1, which has a number of power plants based in Northwestern Russia, making it possible to export electricity to Finland and Norway.

In 2013, the total exports of electricity produced by TGK-1 amounted to 692.02 million kWh, 5.7% lower y-o-y. In 2013, the decrease in export volumes of electricity was mainly caused by reduced electricity purchases by Finland.

Electricity exports in 2010–2013, million kWh



3.2.2. Tariff Policy and Pricing Factors

Gas business

The *Gazprom Group* considers long-term supply contracts as the key instrument for enhancing the reliability and stability of gas supply, while ensuring on the investments of producers and exporters.

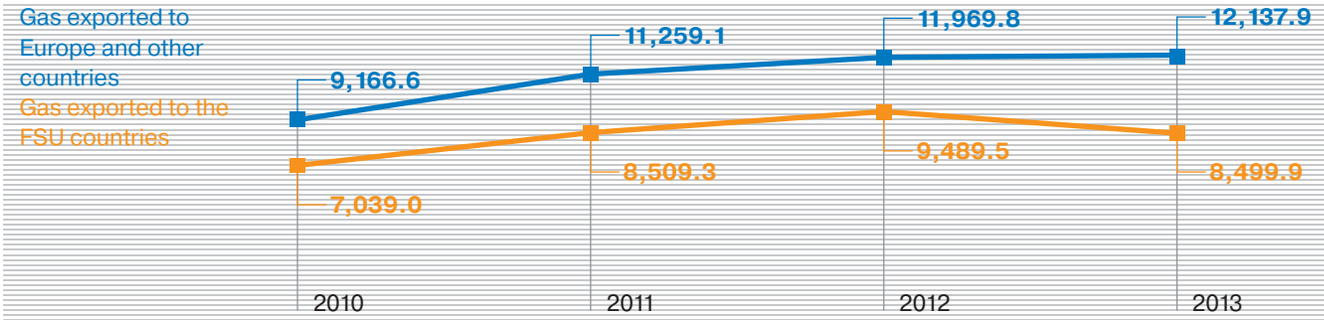
The commitment of European customers to long-term supply contracts with the *Gazprom Group* is shown through the continuation of export contracts with Western partners, including such companies as GDF SUEZ (France), E.ON Ruhrgas, Wintershall Holding, WIEH (Germany), Gasum (Finland), RWE Transgas (Czech Republic), Eni (Italy), EconGas, GWH, Centrex (Austria), Conef Energy (Romania), WIEE (Switzerland), and others.

In 2013, OAO Gazprom continued to rely on oil indexation as the main pricing principle for long-term gas export contracts. This approach is an essential long-term business planning instrument for meeting the interests of both customers and exporters, while ensuring the continuity and sustainability of the industry's investment cycle.

In some cases, major gas suppliers to the European market give up oil indexation, linking their prices to spot gas prices instead. At the same time, they demand additional flexibility in their contracts with European customers in order to be able to reduce supply in the event of low market prices or divert their gas to more attractive markets, especially to the premium gas markets of the Asia-Pacific region.

The *Gazprom Group* systematically engages with its stakeholders on pricing issues in order to ensure the transparency of its business and compliance with international requirements and standards. The *Group* fairly assesses its corporate interests and seeks to achieve a reasonable balance between the interests of various stakeholder groups. For example, in 2013 prices under long-term contracts with certain European partners were revised; overall, *Gazprom* continued adapting its contract system to the current market situation in order to improve the competitiveness of Russian natural gas. At the same time, the *Group* retained the key principles behind its long-term contracts, including oil indexation.

Average price for natural gas exported by the *Gazprom Group* to the FSU, Europe, and other countries (including customs duties) in 2010–2013, RUB/tcm

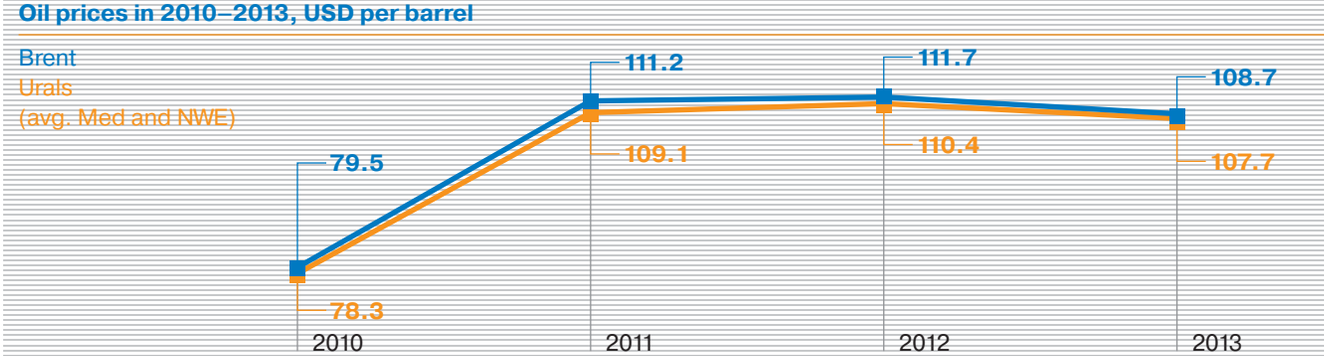


Oil business

International and domestic oil prices significantly affect the *Group's* business. According to PIRA, Urals oil prices (CIF Med) in 2013 were in range between USD 96.8 and USD 117.4 per barrel.

International prices for oil products depend mainly on global oil prices, the balance between supply and demand, and the level of competition in different markets. Changes in the international market, in their turn, affect domestic prices. Different types of oil products are characterised by different price dynamics.

Oil prices in 2010–2013, USD per barrel



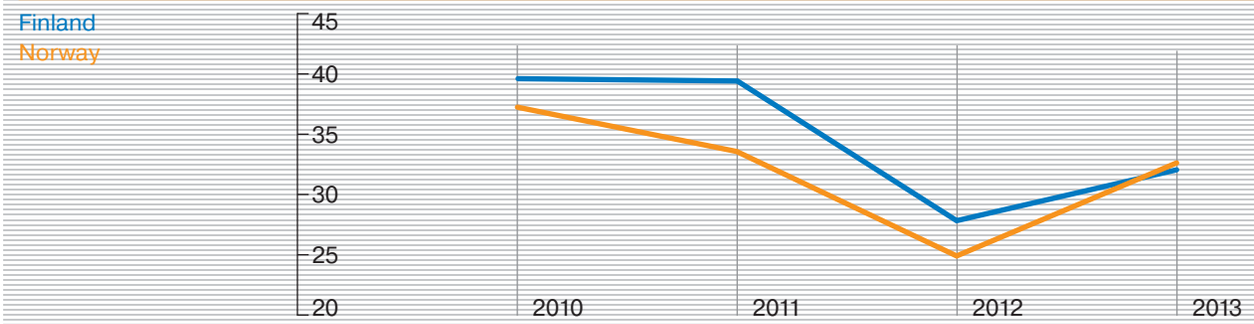
Oil products prices in 2010–2013, USD per tonne

	2010	2011	2012	2013
Gasoline Premium (avg. NWE)	735.3	983.9	1,036.4	986.9
Naphtha (avg. Med and NWE)	704.7	920.8	926.8	892.4
Diesel fuel (avg. NWE)	689.7	959.0	980.2	938.5
Gasoil 0.2% (avg. Med and NWE)	627.7	931.9	953.8	920.5
Fuel oil 3.5% (avg. NE)	436.2	602.6	623.5	583.8

Electricity business

Prices for electricity exported by the *Group* are linked to Nord Pool Spot prices. Until 2012, prices for exported electricity significantly exceeded domestic ones, driving an increase in exports. However, in the last couple of years the Nord Pool Spot price was less attractive then domestic electricity prices in Russia.

Average price of electricity exported to Finland and Norway in 2010–2013, EUR per MWh



3.2.3. Prospects for the Expansion of the Group's International Business

Gas business

Despite global economic instability and the significant efforts of the world community towards improving energy efficiency and implementing energy-saving solutions, the global demand for energy resources is expected to grow in the long term. The key drivers of this growth include rising population levels, increased standards of living, and global urbanisation.

By 2030, the Asian and European markets will become the main importers of natural gas on a global scale and be competing for gas supplies.

Since most Asia-Pacific countries are energy-deficient nations, their economies are highly dependent on imported energy resources. At present, the *Gazprom Group* continues LNG marketing in niche and new regional markets in the Asia-Pacific, and carries out consultations with potential LNG importers in Latin America and the Middle East. In 2012, a medium-term LNG supply contract for 2013–2014 with Kogas (South Korea) and a long-term LNG supply contract with GAIL (India) were signed. In 2013, the Gazprom Group signed medium-term LNG supply deals for 2014–2015 with ENARSA (Argentina) and Petronas (Malaysia).

To expand its LNG business, in addition to purchasing spot LNG shipments from third countries, Gazprom Marketing and Trading makes an active effort to enter medium-term deals with a range of customers. In particular, the company signed agreements with Enel, Endesa, Iberdrola, and Petronas for LNG delivery from Nigeria, Spain, and other countries in 2013–2015. To ensure reliable LNG supply, Gazprom Marketing and Trading is developing an LNG carrier fleet of its own. At the end of the reporting period, the company operated four modern LNG tankers under a long-term lease agreement. Two more vessels were at the construction stage (the commissioning date is 2014).

In 2013, the *Gazprom Group* started marketing the products of its LNG plant in Vladivostok, which will have a total capacity of 10 million tonnes per year; the first stage of the plant is to be commissioned at the end of 2018. Currently, the Group carries out negotiations with potential customers in Japan, South Korea, Taiwan, China, and in emerging and new market segments in the Asia-Pacific region.

Despite the high uncertainty of demand forecasts, a continued decline in European gas production will lead to the European market's increased dependence on imports in the long term. The *Gazprom Group* continues to implement its development strategy for the European gas market, seeking to strengthen its position as the largest gas supplier to the region.

Oil business

The *Group's* key priorities for the development of its liquid hydrocarbon business by 2025 include:

- in production – active participation in international projects (the *Gazprom Neft Group* plans to produce at least 10% of its oil outside Russia);
- in refining – ensuring conformance to international standards and a modern technology level, achieving a 77% light oil product yield;
- in marketing – selling 100% of manufactured products through the *Company's* own channels. Franchising may be used for replicating successful business models. It is planned to ensure the maximum possible commercial presence in the key customers' markets. The *Company* will seek to achieve a 30% share in the aircraft fuelling services, bunkering, and bitumen materials markets.

Europe and Southeast Asia, North and West Africa, the Middle East, and Latin America remain the *Company's* priority regions for the development of its international petroleum business.

Electricity business

In 2012–2013, pursuant to the decisions of the Board of Directors of OAO Gazprom, the *Company's* experts carried out an analysis of the electricity markets in Europe and Asia. Based on the results, the three most prospective Asian countries – Japan, the PRC, and Vietnam – were identified for a subsequent indepth study. In Europe, potentially prospective markets for gas-based power generation projects include the United Kingdom, France, and the Balkan countries.

In September 2013, OOO Gazprom Energoholding and the Serbian energy company NIS (with a 56.15% stake owned by OAO Gazprom Neft) signed a memorandum on the construction of a combined-cycle thermal power plant (TPP) with a capacity of up to 208 MW in Pančevo, Serbia. The power generated at the TPP will primarily meet the energy demand of NIS's refinery and the petrochemical complex HIP Petrohemija, a strategic partner of NIS. The Pančevo TPP is a significant pilot project for OOO Gazprom Energoholding and is a demonstration of the *Gazprom Group's* intention to enter the international electricity market.

Cooperation with international energy organisations in Europe and the Asia-Pacific region

OAO Gazprom is a member of such international organisations as the International Gas Union and the European Business Congress, and participates in their activities on a regular basis. *Gazprom Group* representatives serve on governing bodies of these organisations, and participate in their research projects and working groups.

The *Gazprom Group* also collaborates with the World Energy Council, the World Petroleum Council, the Gas Centre of the UN Economic Commission for Europe, and the NGV Association Europe on a permanent basis. The *Company's* representatives participate in events of the intergovernmental organisation Gas Exporting Countries Forum as Russian national experts.

On June 13, 2013, it was desided to set up a permanent Coordinating Committee for Cooperation at OAO Gazprom to enhance the effectiveness of cooperation with the International Gas Union. The new committee was granted an extended mandate, combining the functions of the former Coordinating Committee and organising committees, which were created annually to prepare for the International Gas Congresses.

OAO Gazprom regularly participates in meetings of the Russia-EU Inter-Parliamentary Working Group on Energy, a body created at the initiative of the State Duma of the Russian Federation to discuss problematic aspects of the Russia – EU Energy Dialogue with representatives of the European Parliament. Another form of engagement is the annual participation of Gazprom representatives in the international conference Russia – EU Energy Dialogue: Gas Aspects, a forum for discussing various aspects of Russia – EU cooperation with regard to the gas industry, global energy security, and the development prospects of energy markets.

To promote the interests of the *Gazprom Group* in international markets, *Company* representatives participate annually in major international conferences, exhibitions, and economic and energy forums, including the Gastech International Conference and Exhibition on LNG, LPG, and Natural Gas Industries, CERA Week, the Offshore Technology Conference Asia, the Offshore Technology Conference and Exhibition, the International Conference and Exhibition for Oil and Gas Development of the Russian Arctic, the CIS Oil & Gas Summit, and other events.

3.3. INVESTMENT

3.3.1. Investment Management System

As a leader among the world's oil and gas companies in terms of the scale of investment programmes, the *Gazprom Group* implements a broad range of major integrated projects both in and outside Russia. The *Company* ensures a level of investment necessary for maintaining its production levels and meeting international gas supply obligations.

At the *Gazprom Group*, key investment management functions are distributed across business segments. The investment objectives of individual segments are aligned with the overarching strategic goals of the *Group*.

Key investment objectives of the *Gazprom Group*

Gas business	Oil business	Electricity business
– Ensuring planned gas production levels. – Ensuring reliable and safe operation of the UGSS. – Meeting contractual export obligations. – Enhancing the reliability of gas supply to Russian customers. – Expanding the manufacturing of gas chemical products, increasing the extraction rate of valuable gas components, and upscaling the production of high value-added products. – Meeting social obligations.	– Maintaining production rates at mature fields. – Developing tight oil reserves and ensuring the rational use of subsoil resources. – Starting offshore projects in the Russian Arctic. – Expanding the overseas exploration and production business. – Increasing the quality of manufactured petroleum products and refining depth, as well as developing marketing channels.	– Ensuring reliable and secure electricity and heat supply to customers. – Enhancing the investment attractiveness of the companies.

To support the effective implementation of its investment programme, the *Gazprom Group* has a transparent and effective management system, which ensures sound and timely decision-making, monitoring of the implementation of investment programmes and projects, and indicator-based performance assessment.

Gas business

OAO Gazprom develops a draft annual Investment Programme of OAO Gazprom and projections for the subsequent two years in accordance with the corporate Regulation on the Development and Implementation of the Investment Programme of OAO Gazprom, as well as an annual Timeline for the Development of the Three-Year Socio-Economic Development Plan and Budget of OAO Gazprom.

The approved Investment Programme is implemented by subsidiary companies, with OAO Gazprom acting as an investor. Core business departments and OAO Gazprom's Finance and Economic Department continually monitor the implementation of the investment programme.

Oil business

The *Gazprom Neft Group* produces an updated investment plan and investment programme for the current year at the end of the first half of the year. The updated investment programme is reviewed by relevant departments and then approved by OAO Gazprom Neft's Management Board and the Board of Directors.

Electricity business

At OOO Gazprom Energoholding, there are three units responsible for investment management, including the Investment Projects Department for the Central Region, the Investment Department, and the Technology Upgrade and Re-Equipment Directorate of the Operations Department.

Corporate control over the implementation of priority investment projects in accordance with the approved business plans of Gazprom Energoholding's SDCs is exercised through the formulation of the parent company's position for voting at meetings of the Boards of Directors and the committees of SDCs.

3.3.2. Improvement of the Group's Investment Management Processes

In the reporting period, OAO Gazprom revised its system of preparing corporate investment projects and the key principles of developing corporate investment programmes.

OAO Gazprom created an Investment Commission to enhance the quality of corporate investment planning. The Commission thoroughly analyses investment needs based on the comprehensive assessment of proposed investment projects, their ranking in terms of priority, readiness for implementation, and other factors. For each approved project, the Commission defines the maximum possible amount of financing.

To ensure a balance between various components of the investment programme, OAO Gazprom has introduced new principles of setting investment cost standards and quotas. These principles help determine the economically justified amounts of investment necessary for the development of priority corporate projects and the maintenance of existing capacities.

To control costs of investment projects, OAO Gazprom practices fixed contract prices, continual oversight of proper contract fulfilment, and the selective monitoring of compliance with agreed due dates and other terms and conditions of contracts.

To reduce investment costs, OAO Gazprom has in place a comprehensive system of cost control measures, including new approaches toward the formation of the corporate investment programme and competitive procurement mechanisms. These measures helped the *Company* substantially reduce investment costs.

To enhance the quality, reliability, and effectiveness of investment management, the *Gazprom Group* deploys various information and decision support systems:

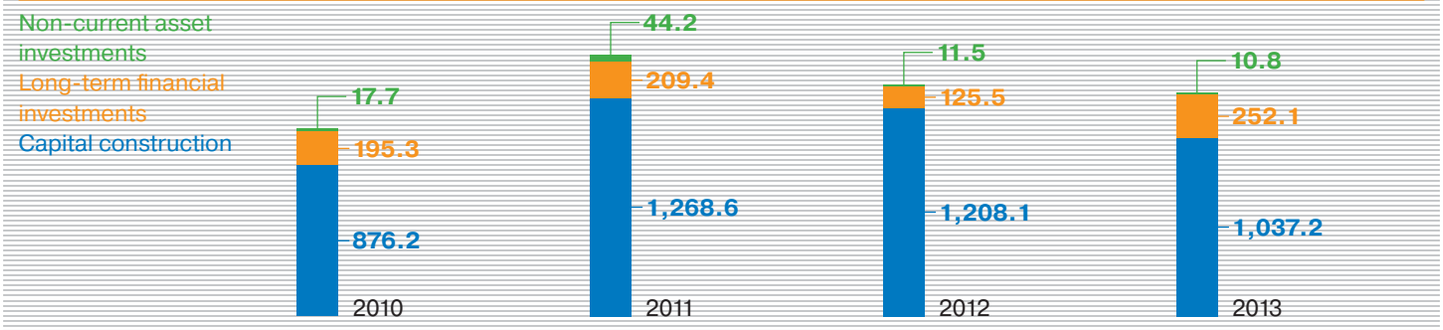
- the *Company* deploys an information system to support investment management at OAO Gazprom, which would help computerize the development of the corporate investment programme and ensure the continuous monitoring of its implementation;
- OAO Gazprom Neft has deployed Merak Peep, software for evaluating the economic performance of oil and gas exploration and production projects, which helps build the most efficient investment project portfolios;
- OOO Gazprom Energoholding has introduced specialised management information systems that provide real-time access to information about investment projects and support the production of monthly reports on the implementation of capacity supply agreements.

3.3.3. Implementation of the Investment Programme in 2012–2013

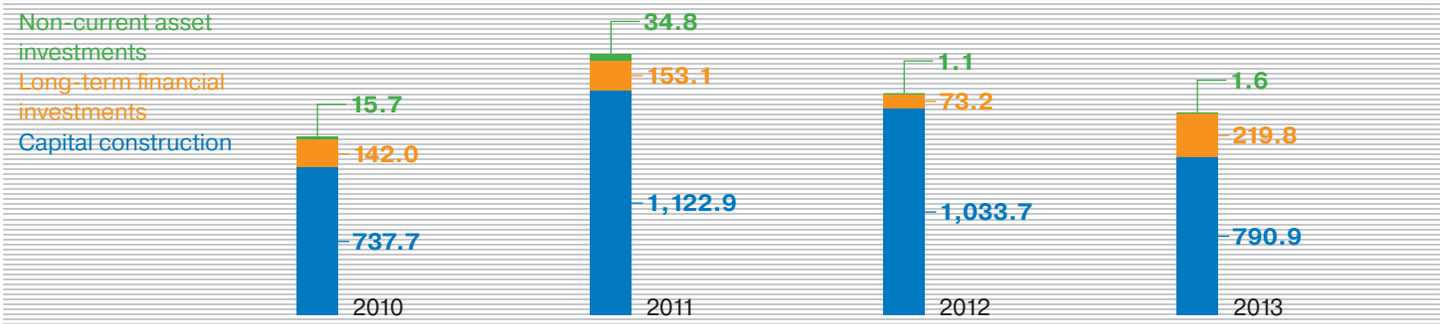
The *Gazprom Group* actively implements nationally significant investment projects involving hydrocarbon production and supply in regions with unique natural and climatic conditions, including areas above the Arctic Circle, the Arctic shelf, Eastern Siberia, the Russian Far East, and Kamchatka.

The main components of the *Gazprom Group*'s investment programme include capital construction, long-term financial investments, and the acquisition of non-current assets.

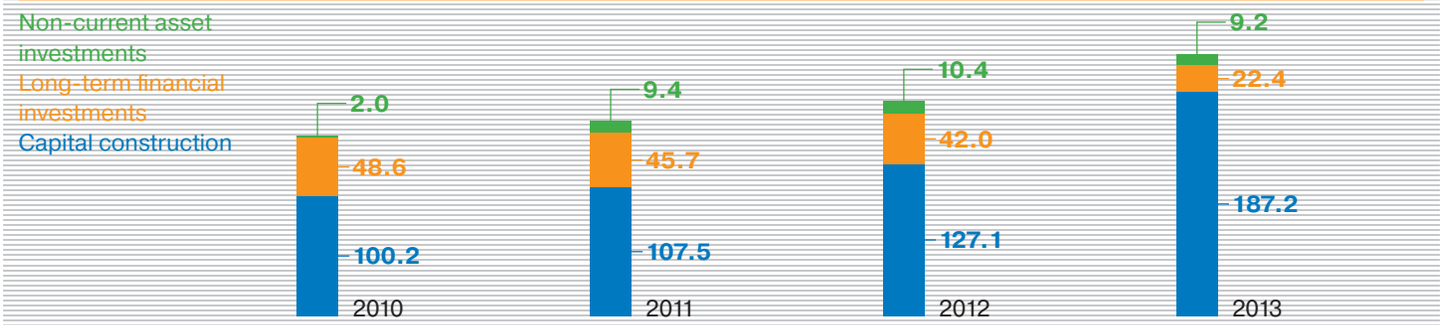
Investments of the *Gazprom Group* (gas, oil, and electricity businesses) in 2010–2013, RUB bn (incl. VAT)



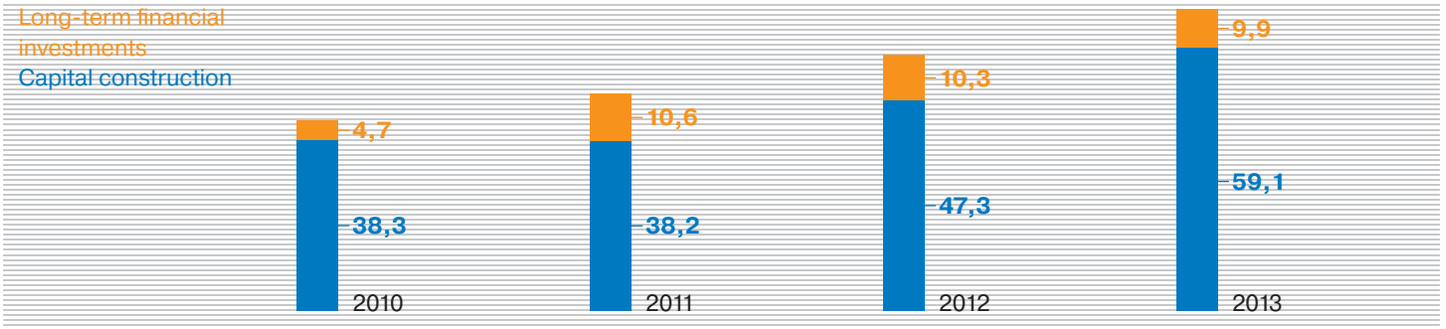
Investments in the gas business of the *Gazprom Group* in 2010–2013, RUB bn (incl. VAT)



Investments in the oil business of the *Gazprom Group* in 2010–2013, RUB bn (incl. VAT)



Investments in the electricity business of the *Gazprom Group* in 2010–2013, RUB bn (incl. VAT)



More details on the key areas and results of *Gazprom Group's* investment activities are available in the Performance Results section of the OAO Gazprom Annual Report 2013.

3.4. PROCUREMENT AND COST CONTROL SYSTEM

The *Gazprom Group* has a unified corporate system in place for the competitive procurement of goods and services, based on the principles defined by the corporate Regulation on the Procurement of Goods and Services by OAO Gazprom and the *Gazprom Group's* subsidiaries. To enhance the oversight of corporate procurement, the Procedure of Oversight of Procurement Activities of *Gazprom Group* Companies was approved in 2013.

The full text of the Regulation on Procurement is available on the official website of OAO Gazprom: http://www.gazprom.ru/f/posts/21/053269/2013-03-28-polozhenie-o-zakupkah.pdf.

OAO Gazprom's Corporate Costs Department is the key corporate unit overseeing the *Gazprom Group's* procurement activities. The Department formulates a common procurement policy applicable to all subsidiaries and selects significant contractors or suppliers in order to prevent conflicts of interest and maintain a healthy competitive environment.

The *Gazprom Group's* procurement policy is based on the separation of responsibilities for the identification of procurement needs and the selection of specific contractors or suppliers. This approach helps meet the needs of OAO Gazprom and its subsidiaries for goods and services on time and in full. Unified planning, tendering, contracting, and reporting rules apply to both centralised (controlled by the Corporate Costs Department of OAO Gazprom) and non-centralised (managed by SDCs) procurement of goods and services.

When purchasing goods and services for use at hazardous and strategically important facilities, special requirements for goods, services, and their providers are included in the procurement documentation in order to comply with applicable safety legislation and policies. Potential providers and suppliers are checked against these requirements.

To expand the access of small and medium business to procurement, the *Gazprom Group* has taken steps toward the preparation of a special list of goods and services. Procurement documentation includes provisions specifically intended to attract Russian small and medium businesses as subcontractors. Furthermore, procurement items announced by *Gazprom* companies contain lists of goods and services that are recommended to be delivered by the contractor or supplier with the involvement of small and medium businesses.

To enhance procurement management practices and improve their effectiveness, OAO Gazprom is currently deploying an Electronic Procurement System. The project aims to improve the effectiveness and quality of the corporate procurement of goods and services and enhance internal procurement management processes. The deployment of the system will be completed in Q4 2014.

OAO Gazprom Neft already has a comprehensive full-cycle procurement information system based on SAP solutions and containing all information and documents about corporate procurement. The system contains end-to-end information encompassing all stages of the procurement process (from planning to contract fulfilment) together with the associated oversight and reporting procedures.

The Corporate Costs Department actively works to optimise the *Gazprom Group's* operating and investment costs. This work is carried out on the basis of the Comprehensive Cost Optimisation Action Plans annually approved by OAO Gazprom.

Since 2012, OAO Gazprom has worked on the implementation of a Presidential Directive on the reduction of costs for state-controlled companies[1]. A corporate methodology for calculating the reduction of procurement cost per unit of output has been prepared, reviewed by the Russian Ministry of Energy, and approved by OAO Gazprom's Board of Directors. *Gazprom* submits quarterly reports on the implementation of the Directive to the Ministry of Energy in accordance with the established procedure. The reduction in procurement costs per unit of output in real terms as compared to 2010 was 18.3% in 2012, and 11.8% in 2013.

The key cost control measures include:

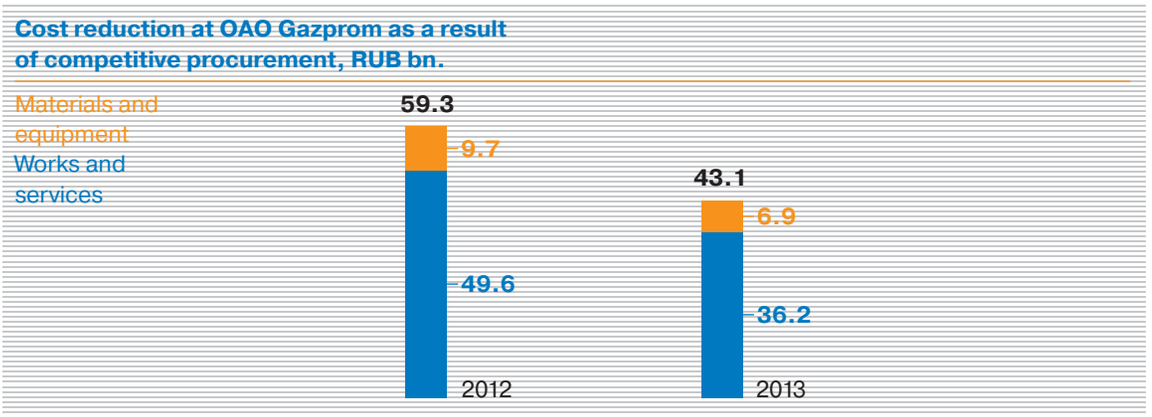
- the setting of economically justified price limits for procured goods and services. OAO Gazprom takes steps to control the growth of prices for procured materials, equipment, and construction

1 Presidential Directive dated 2 April 2011 No. Pr-846 On the Reduction of Goods (Works, Services) Procurement Costs per Unit of Output of State and State-Controlled Corporations by at Least 10% per Year during Three Years in Real Terms.

and assembly works, which account for the bulk of investment costs. In 2013, oil field equipment, check valves, and spare parts for gas compressor units were purchased at prices not exceeding the 2008 level;

- broad use of competitive procedures for the selection of suppliers and contractors. In 2013, a total of 22,173 contracts worth RUB 914.8 bn were concluded. The resulting savings (the difference between the sum of cost limits and the actual cost of contracts with procurement management costs also taken into account) amounted to RUB 43.1 bn.

In the recent years, the growth rates of the prices at which *Gazprom Group* companies purchased essential materials and equipment were at least 20% lower than the rates projected by the Ministry of Economic Development for industrial manufacturers.



To further optimise procurement costs, in 2014 *Gazprom Group* will continue the Action Plan for Controlling the Costs of Goods and Services of Infrastructure Companies while Maintaining their Financial Stability and Investment Attractiveness – a document approved by the Prime Minister of the Russian Federation. The plan provides for:

- maintaining the physical volume of the investment programme while reducing investment costs by 10% in 2014;
- enhancing the procurement policies of OAO Gazprom, its subsidiaries and dependent companies;
- reducing procurement prices by at least 10% compared with 2013 nominal prices.

GAZPROM IS ONE OF RUSSIA'S LARGEST EMPLOYERS. HAVING A HIGHLY SKILLED STAFF IS THE FOUNDATION OF THE GAZPROM GROUP'S EFFECTIVENESS. THE HIGH LEVEL OF PROFESSIONALISM AND RESPONSIBLE ATTITUDE OF ITS EMPLOYEES HELP THE COMPANY MAINTAIN A LEADING POSITION IN THE RUSSIAN AND INTERNATIONAL MARKETS AND ACHIEVE ITS STRATEGIC GOALS. GAZPROM PLACES A HIGH EMPHASIS ON ATTRACTING AND DEVELOPING A TALENTED STAFF AND WORKING WITH YOUNG EMPLOYEES.

4.1. PERSONNEL MANAGEMENT SYSTEM

Personnel management at the *Gazprom Group* is based on the corporate Policy of Human Resource Management at OAO Gazprom and its Subsidiaries. At the level of OAO Gazprom, a Deputy Chairman of the Management Board and the Personnel Management Department are responsible for HR management. The key objectives of the Personnel Management Department include:

- introduction and enhancement of standardised approaches towards all aspects of HR management in line with OAO Gazprom's overall development strategy;
- comprehensive methodological support of personnel management departments at subsidiary companies;
- best practice sharing.

The key priorities for the improvement of the *Gazprom Group's* personnel management system are defined by the Comprehensive Programme for the Implementation of the HR Management Policy of OAO Gazprom and Its Subsidiaries for 2011–2015. The overall management of the Programme implementation and the coordination of specific actions are provided by the Coordinating Council, which comprised of representatives of the respective business units of OAO Gazprom and the heads of personnel management departments of subsidiary companies.

In 2012–2013, the *Company's* key objectives in the field of personnel management included:

- improvement of the employee remuneration system;
- enhancement of the effectiveness of the *Gazprom Group* companies' organizational structures;
- introduction of headcount standards.

To enhance the effectiveness of the *Gazprom Group's* organizational structures, a number of corporate policies were drafted and implemented. Seventy-two assessments of headcount standards were conducted for the newly acquired subsidiaries. This allowed the recruitment needs of the *Gazprom Group's* subsidiaries to be more clearly defined.

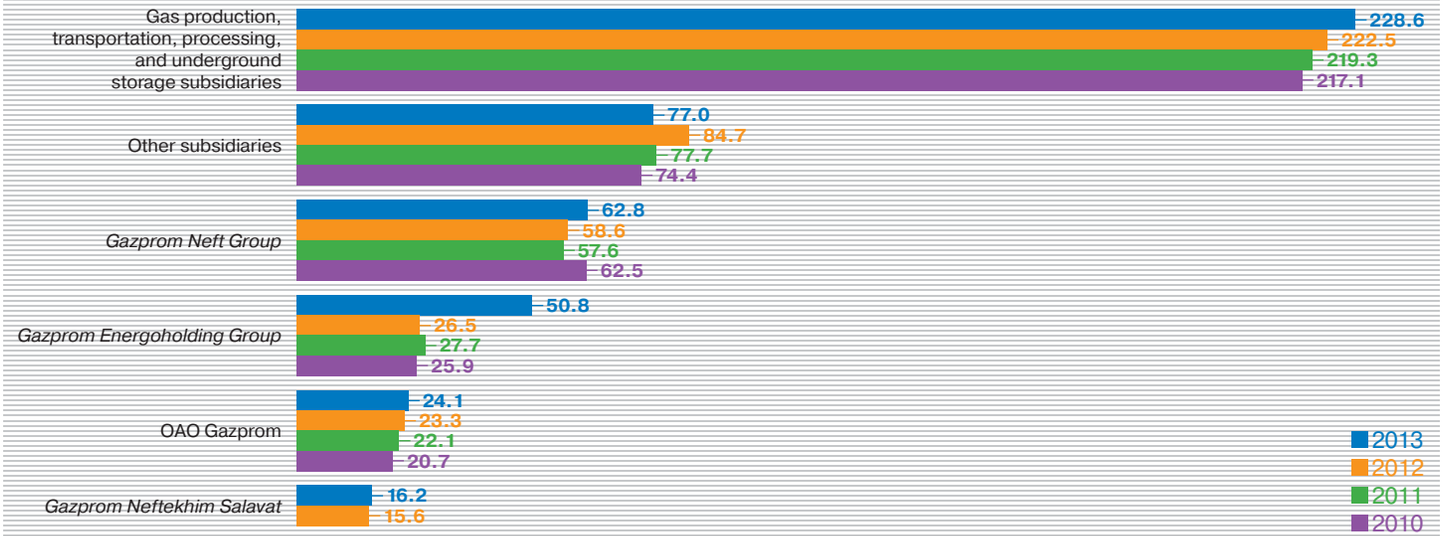
A unified approach towards labour performance standardisation at OAO Gazprom was introduced in 2013 in order to improve labour organisation practices and labour performance standards. The *Company's* main objective in this area is to enhance its financial and economic performance through the use of economically sound labour organisation methods, the introduction of up-to-date labour performance standards, the improvement of organisational structures, and the optimisation of the headcount and associated costs.

The *Company's* key objectives with regard to employee remuneration include the systematic unification of remuneration standards across the *Company*, maintaining favourable conditions for the attraction and retention of requisite skillsets, and building employee motivation for the achievement of corporate objectives.

4.2. HR PROFILE OF THE GAZPROM GROUP

As of 31 December 2013, the *Gazprom Group* companies employed a total of 459.5 thousand people (431.2 thousand as of 31 December 2012).

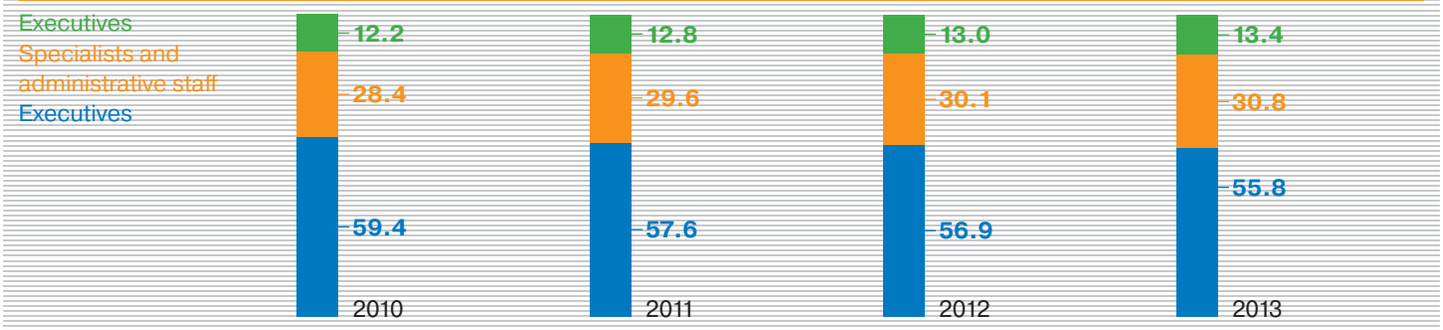
Headcount of the *Gazprom Group* by business segment and on the parent company level in 2010–2013, thousand



The growth of headcount in 2013 was a result of the acquisition of new assets by *Gazprom Energoholding*[1], and an increase in the staff size of *Gazprom Neft Group*.

No significant changes in the breakdown of the *Group* staff by employee category took place in the reporting period.

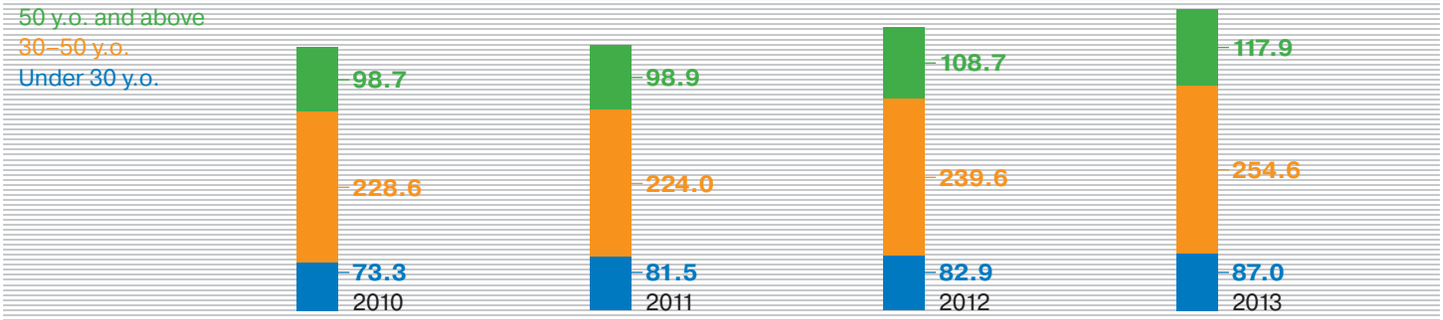
The *Gazprom Group* staff by employee category in 2010–2013, %



At the end of 2013, 55.3% of the *Group* staff were between 30 and 50 years of age.

1 In 2013, OOO Gazprom Energoholding acquired an 89.97% stake in OAO MOEK.

The *Gazprom Group* staff by age in 2010–2013, thousand



Group companies are characterised by stable and favourable labour conditions, which is demonstrated by low employee turnover. In 2013, the turnover at *Group* companies involved in gas production, transportation, processing, and storage was 2.5% (in 2012 – 2.4%).

Rotation system at *Gazprom Group*

Many *Group* companies use a staff rotation system for industrial operations in remote undeveloped areas or regions with a severe climate. This approach is used mainly in gas production, pipeline construction, and motor vehicle services.

At the end of 2013, 33 *Group* companies used staff rotation schemes, and 31.2 thousand employees participated in them. Of that number, 93.3% worked in the Extreme North or similar regions. Usually, workers account for the major segment of rotational staff – 22.3 thousand or 71,4% as of the end of 2013.

1 Without *Gazprom Neft Group* companies.

4.3. EMPLOYEE ATTRACTION, PROFESSIONAL DEVELOPMENT, AND MOTIVATION

One of the *Gazprom Group's* key HR management priorities is the attraction and retention of highly skilled specialists. To that end, the *Company* uses international best practices to improve its HR management processes, provides its employees with opportunities for professional development, maintains safe and comfortable working conditions, and provides decent remuneration and social benefit packages.

The *Gazprom Group* has remained high in employer attractiveness rankings over the years. In 2012 and 2013, the *Group* ranked first in the Business and Natural Sciences categories of the Russia's Ideal Employer[1] ranking.

To effectively reach potential candidates, the *Company* uses the Gazprom Vacancies web portal and the services of recruiting agencies.

The nature of the *Gazprom Group's* business requires its employees to continually develop such professional and personal qualities as responsibility, initiative, and open-mindedness innovation. To help their employees develop the necessary skills and qualities, *Group* companies implement employee training and development programmes, work with young specialists, support the adaptation of newly recruited employees, and invest substantial funds in the training and professional development of employees.

4.3.1. Attraction and Retention of Young Specialists

To attract young talent, the *Company* regularly engages with educational institutions of various levels and actively participates in the education and training of in-demand specialists. *Group* companies finance the university education of selected students, create and finance specialised departments at relevant universities in the regions where they operate, conduct recruiting events and provide work placements to students. In 2012 and 2013, *Group* companies financed university training programmes for 932 and 1,051 students, respectively.

As of the end of 2013, 11 industry-specific departments of three Russian universities were established at the *Group's* companies.

In the reporting period, *Group* companies provided work placements to 16,246 students and recruited over 3,900 graduates of higher and secondary professional education institutions.

Industry-specific departments of Russian universities established at the *Gazprom Group's* companies

University	Specialised department supported by a subsidiary
Gubkin Russian State University of Oil and Gas	– Economics of Energy Conservation – Gas Technologies and UGS – Study of Oil and Gas Reservoir Systems – Hydrocarbon Systems – Design of Gas Transportation Systems
Ukhta State Technical University	– Design and Operation of Trunk Oil and Gas Pipelines – Oil and Gas Field Development and Operation and Subsurface Hydromechanics – Geophysical Methods, Geo-Information Technology and Systems – Oil and Gas Geology – Management in the Fuel and Energy Complex
State University of Management	– Economics and Management in the Oil and Gas Industry

1 Universum "Ideal Employers in Russia 2012" and "Ideal Employers in Russia 2013" rankings.

To attract young talent the *Company* held Gazprom Days at seven Russian universities in 2013.

In seeking to build a coordinated and highly skilled team, *Gazprom* focuses on the development of young employees by engaging them in corporate processes and research projects. *Group* companies have a special two-year programme, that incudes internships in different departments, full-time study at the Gazprom Corporate Institute, and annual performance reviews. In 2012–2013, 291 people took part in the programme.

To engage young specialists in corporate life and research activities, the *Company* also supports Young Scientist and Specialist Councils, which are currently active in 36 *Group* companies. They monitor the observance of rights and interests of young scientists and specialsts and organise research seminars, scientific and practical conferences, and sporting sports events.

4.3.2. Professional Development

The complexity of industrial processes and the need for timely reponses to changes in the external business environment make employee development an imperative. *Gazprom*, therefore, continues to develop its Continuing Corporate Professional Training System (CCPTS) based on the following principles:

- alignment with OAO Gazprom's corporate objectives;
- continuing education and training of employees throughout their service with the *Company*;
- integrated approach towards all aspects of professional development;
- individual approach towards employee education and training;
- effective training.

The organisational base of the CCPTS comprises four non-state training institutions[1] and 23 training units of subsidiary companies[2] in the key segments of the *Group's* business.

The *Gazprom Group's* forms of corporate training allow it to meet key development demands for the professional development of its employees.

Types of corporate training at the *Gazprom Group*

Training type		
Mandatory	Targeted	Periodic
Objective		
To ensure compliance with the government and corporate regulations that define requirements for being allowed to work at hazardous industrial facilities	To meet the increasing requirements associated with the improvement of business processes, the commissioning of new industrial facilities, the introduction of new equipment and technology	To help employees maintain their professional qualifications and acquire additional skills and knowledge

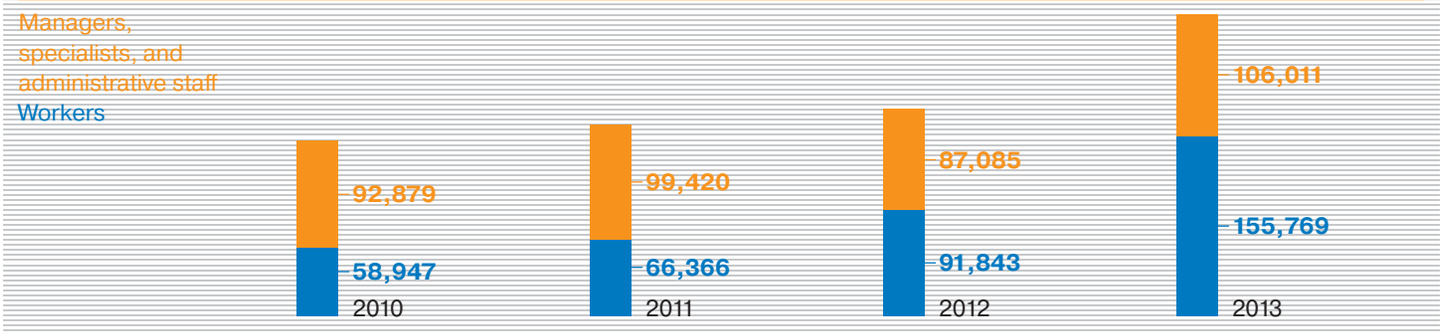
In 2012–2013, the *Company* continued providing all three types of corporate training, supported the development of scientists for corporate research centres, conducted professional competitions, and built a corporate candidate pool for executive positions.

1 The Gazprom Corporate Institute; the Gazprom Industry Research, Training, and Simulation Centre; the Novy Urengoy Gas Industry College; and the Volgograd Gas and Oil College.

2 The subsidiaries' training units collectively hold licenses for training in 235 worker specialties, including 128 specialties supervised by Rostekhnadzor.

Changes in the legislation[1] (the minimum required number of hours for a skills upgrading programme was reduced to 16), and the development of distance and on-site training methods helped substantially increase the number of employees receiving corporate training.

Number of *Group* employees who received corporate training under skills upgrading and professional training programmes in 2010–2013



In 2012, the average amount of training for workers was 95.9 hours per person; for managers, specialists, and administrative staff it was 34.8 hours per person. In 2013, these indicators were 116.5 and 42.4 hours per person, respectively.

The *Company* provides targeted corporate training in order to meet the emerging needs for skills associated with the continuing expansion of the *Group's* business and technology development. For example, in 2012, the first group of employees completed the professional training programme LNG Production Specialist at the Gubkin Russian State University of Oil and Gas. In 2013, the second group entered the programme.

OAO Gazprom's subsidiaries also provide targeted training. For example, in 2012–2013, *Gazprom Neft Group* implemented a number of targeted programmes, including Economic Aspects of Oil Field Exploration (delivered at NExT, a Schlumberger training company) and other programmes dealing with up-to-date oil production and refining technology.

Gazprom also supports the development of scientists for the *Group's* R&D centres. To that end, the Company has doctoral training centres at corporate research organisations, including OOO Gazprom VNIIGAZ, OAO Gazprom Promgaz, and OAO SevKavNIPIgaz. To support employees who are studying towards a doctoral degree in a relevant field, OAO Gazprom offers several scholarships available on a competitive basis. These include Chairman of the Management Committee's scholarship for those in a higher doctorate (Doctor of Sciences) programme, as well as three Orudzhev scholarships and one Kortunov scholarship for those in a doctorate (Candidate of Sciences) programme.

Building a corporate candidate pool for executive positions is one of *Gazprom's* priority objectives.

Building a corporate pool of candidates for executive positions is one of the *Company's* priority objectives. This helps provide *Group* companies with highly skilled managers and supports employee motivation for professional development. *Group* companies provide training and development programmes to employees on a regular and systematic basis. In 2012–2013, the following targeted two-year programmes were delivered to OAO Gazprom's candidates for executive positions:

- Gazprom MBA. Management of a Global Energy Company at the St. Petersburg State Economic University;
- Gazprom MBA. Human Resource Management at the Gazprom Corporate Institute;
- Gazprom MBA at the St. Petersburg International Management Institute.

1 Federal Law No. 273-FZ dated 29 December 2012 'On Education in the Russian Federation'; the order of the RF Ministry of Education and Science dated 1 July 2013 No. 499 'On the Approval of the Procedure of Organising and Conducting Activities under Additional Professional Education Programmes'.

Best practice sharing with leading energy companies

As a member of the European Business Congress' committee for Human Resources, Education, and Science, OAO Gazprom develops international cooperation and engages in best practice sharing with leading European energy companies participating in the committee.

Under cooperation agreements in the field of personnel development, in 2012–2013:

- over 900 *Group* employees took part in 88 joint programmes with foreign energy and other companies (E.ON, Wintershall Holding GmbH, Gasunie, GDF SUEZ, DNV etc.);
- 107 representatives of foreign companies (GDF SUEZ, E.ON, Wintershall Holding GmbH etc.) received work placements at the *Group's* industrial facilities or took part in familiarisation programmes at such facilities.

In May 2012, OAO Gazprom and PetroVietnam signed an agreement on cooperation in the field of employee training. In accordance with the agreement:

- 18 *Group* employees received internships at PetroVietnam's offshore facilities;
- 21 PetroVietnam employees received training in up-to-date gas production technology in Russia.

In accordance with the Concept of Language Training of Managers and Specialists of OAO Gazprom, language programs of various levels are delivered on a regular basis. In the reporting period, over 700 employees of the Company received corporate training in foreign languages.

Professional mastery competitions

One measure of the effectiveness of the corporate training of workers is the results of annual professional mastery competitions (Best in Profession at OAO Gazprom). In 2012–2013, the following competitions also took place:

- Best Compressor Operator at OAO Gazprom 2012;
- competition for best teaching aids and learning materials for the corporate training system of OAO Gazprom (2012–2013);
- the 13th and 14th Computer-Aided Design and IT Competitions of OAO Gazprom;
- Best Welder at OAO Gazprom 2013.

4.3.3. Employee Motivation System

Competitive remuneration and intangible motivation instruments play an important role in the attraction and retention of skilled staff. The *Company* has common corporate remuneration standards defined by the Model Regulation on the Remuneration of Employees of Gazprom Organisations. The document defines types of payments and their limits.

The *Gazprom Group's* remuneration systems include the following elements:

- base salaries and salary grades based on employee skills and competencies;
- regular performance-based bonuses;
- additional payments and premiums for special working conditions and amount of work;
- one-time bonuses for specific achievements (e.g. commissioning of a new industrial facility, introducing new equipment, saving energy resources, discovering new hydrocarbon deposits, etc.);
- annual performance-based bonuses.

Employees working in regions with special climatic conditions receive increased remuneration as required by the Russian legislation. Depending on particular region, regional coefficients (up to 1.8) and percentage premiums for work in regions of the Extreme North and equivalent areas (up to 80%) are applied to salaries.

To maintain a competitive position in the labour market, the *Company* regularly conducts a comparative analysis of the salaries offered by the *Gazprom Group* and other companies in the fuel and energy industry, as well as the salary levels in the regions where the *Company* operates. The results of a recent analysis based on labour market surveys by EY have shown that the salaries offered by the *Gazprom Group* are comparable with the market salary levels.

Over the reporting period, 59 reviews of average monthly salaries were conducted by *Gazprom* organisations, including newly commissioned facilities. Some of the reviews were conducted as part of the Company's Comprehensive Cost Optimisation Action Plan. Their results help establish justified salary levels, taking into account corporate remuneration standards and labour market conditions in the respective regions.

The growth of the *Company's* average monthly salaries in 2012–2013 was a result of the indexation of base salaries and salary grade rates by 6.0% effective 1 January 2012, and by 7.1% effective 1 January 2013.

In 2012, the *Group* introduced the standard corporate statistical reporting form No. 161-gaz "Human Resource Cost Indicators," which was integrated with the corporate HR management information system. The form helps collect and analyse data on human resource costs, including expenditures on remuneration for the employees of Group companies.

The senior executives of *Gazprom Group* companies receive performance-based annual bonuses. According to the corporate Regulation on Annual Bonuses of Executives of OAO Gazprom, such bonuses are paid to executives starting from the head of a directorate of OAO Gazprom and above, as well as CEOs, deputy CEOs, and chief accountants of subsidiaries in the core business segments.

The size of annual bonuses depends on:

- corporate KPIs reflecting OAO Gazprom's performance as a whole in key business areas;
- personal KPIs of executives of subsidiary companies, reflecting the performance of the respective subsidiary;
- personal targets set for each executive within his or her area of responsibility.

Failure to meet the KPIs or personal targets results in a reduction of the annual bonus.

In addition OAO Gazprom has a Management Equity Participation Programme, which targets key *Gazprom Group* executives. The Programme was designed to create additional incentives for key executives to work towards increasing the market capitalisation of OAO Gazprom. According to Programme rules, eligible executives may acquire shares using both their own funds and purpose loans. The Programme is available to OAO Gazprom executives from the heads of departments and above, and to heads of subsidiary companies in core business sectors. In 2013, 64 executives were eligible for participation in the Programme. They currently hold shares of OAO Gazprom.

In addition to financial incentives, the *Company* uses intangible motivation instruments. These include state decorations, decorations and awards of the Russian Ministry of Energy and 13 awards of other Russian ministries, as well as OAO Gazprom's corporate awards (the highest award of OAO Gazprom 'For Outstanding Merit', Honourable Employee of OAO Gazprom, Veteran of OAO Gazprom, Honorary Certificate of OAO Gazprom, Appreciation of OAO Gazprom, and Letter of Appreciation of OAO Gazprom).

4.4. SOCIAL PARTNERSHIP

4.4.1. Social Partnership System

The *Gazprom Group* adheres to social partnership principles that help balance the interests of the employer and the employees in order to effectively achieve the *Group's* objectives.

The *Group's* legal and regulatory framework of social and labour relations is comprised of the following:

- labour legislation of the countries where the companies operate;
- Sectoral Agreement for Oil and Gas Industry and Construction for 2011–2013;
- Sectoral Tariff Agreement for the Electric Power Industry of the Russian Federation for 2013–2015;
- General Collective Agreement of OAO Gazprom and Its Subsidiaries for 2010–2012, and since 2013 – General Collective Agreement of OAO Gazprom and Its Subsidiaries for 2013–2015;
- the collective agreements and corporate regulations of subsidiaries and dependent companies of OAO Gazprom.

The mutual obligations of the employer and the employees are laid out in the General Collective Agreement of OAO Gazprom, which is concluded for a three-year period. The key objectives of the General Collective Agreement include:

- enhancement and development of social partnership mechanisms based on the constructive dialogue of the parties to the agreement;
- support of employee motivation for the enhancement of their own performance and the achievement of OAO Gazprom's corporate objectives;
- development of standardised corporate approaches towards protecting employees' interests with regard to remuneration, employment, labour safety, benefits, guarantees, and compensation;
- creation of an effective mechanism for ensuring social stability at OAO Gazprom and its subsidiaries.

Many *Company* employees participated in the discussion of the draft General Collective Agreement for 2013–2015 through primary trade union organisations, which helped incorporate employee needs and preferences in the final document. At the end of the reporting period, the agreement covered 29 *Group* companies.

The interests of over 270 thousand employees – trade union members – are represented by the Inter-regional Trade Union Organisation of OAO Gazprom, a member of the Russian Oil, Gas and Construction Workers' Trade Union.

The effectiveness of the *Gazprom Group's* social partnership model is shown through the absence of employee/employer conflicts leading to strikes, the suspension of work, or labour disputes in the reporting period.

Employee feedback system

The *Gazprom Group* collects feedback from its employees in order to evaluate their satisfaction, enhance the system of corporate values, and improve the social benefits and healthcare services available to employees.

The Group uses feedback channels such as focus groups, sessions and workshops, meetings of executives at various levels with employees, and telephone hotlines. Employees also provide feedback by participating in surveys and electronic voting.

The *Company* conducts annual workshop meetings for Group company HR representatives. Participants of these events discuss relevant issues in the fields of personnel management and share best practices, thus helping enhance the respective business processes at the *Group* companies.

4.4.2. Social Policy

Gazprom's social policy covers the following key areas:

- social payments (social aid to various employee groups through the provision of allowances, benefits, and compensation);
- improvement of employee housing conditions through mortgage schemes;
- healthcare services for employees financed through voluntary medical insurance schemes, among other mechanisms;
- corporate pension system.

Social payments

The main types of social payments include reimbursement of health resort treatment and vacation costs, temporary disability allowances above the statutory limit, one-time retirement allowances, and other forms of financial aid. Additional benefits are available to young employees, working women and other persons with family responsibilities, and the employees of subsidiary companies based in the regions of the Extreme North and equivalent areas. *Group* companies are able to adapt their social benefit systems to the specifics of their business and regional conditions while taking into account the *Company's* objectives.

Housing programme

The *Gazprom Group* has a corporate programme for improving employee housing conditions through mortgage schemes. This type of benefit helps *Gazprom* maintain a competitive advantage in the labour market by attracting and retaining highly skilled employees.

In 2012–2013, the benefits available under corporate housing programs were used by 11.5 thousand *Gazprom* employees and veterans, doubling the number of employees receiving similar benefits in 2010–2011.

Healthcare services

Gazprom continuously implements a system of measures to improve the health of its employees and their family members and prevent diseases. When necessary, employees receive health resort treatment or convalescent care, which is financed through direct contracts with healthcare institutions or voluntary medical insurance programmes. Healthcare services are provided by health posts at industrial sites, healthcare institutions owned by *Gazprom* companies, and external healthcare organisations on the basis of voluntary medical insurance agreements.

Corporate pension system

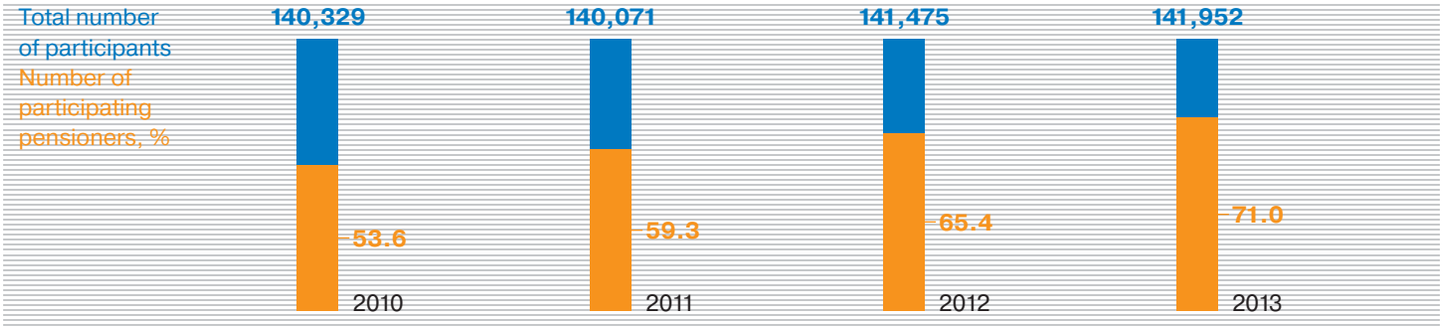
An important priority of the *Company's* social policy is providing non-state pension coverage to its employees. In accordance with the Long-Term Development Strategy of the Pension System in the Russian Federation, the corporate pension system of OAO Gazprom and its subsidiaries is a fundamental element of employee pension coverage. The system supports effective HR management at the *Company* and ensures the social security of employees after their retirement.

Gazprom Group employees participate in corporate pension plans on the basis of pension contracts with the Non-State Pension Fund Gazfond.

The corporate pension system of *Group* companies is based on the following principles:

- employees are included in Gazfond's pension plans upon reaching the statutory retirement age, provided they have 10 years of service with the *Group*;
- the size of corporate pension paid to an employee depends on the length of his or her service with the *Group*, awards received, and salary size (fixed part);
- unified approach towards determining eligibility for and the size of non-state pensions.

Number of *Group* employees and pensioners participating in Gazfond's non-state pension plans in 2010–2013



OCCUPATIONAL HEALTH & SAFETY

5.1.
Occupational Health and Safety Management

5.2.
Workplace Safety

5.3.
Coordination of Contractors and Suppliers

5.4.
Protecting Communities and the Environment

THE LIVES AND HEALTH OF EMPLOYEES ARE AN UNCONDITIONAL PRIORITY FOR THE GAZPROM GROUP COMPANIES. THE CONTINUOUS IMPROVEMENT OF THE OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM PROVIDES A HIGH LEVEL OF SAFETY AT THE GROUP'S INDUSTRIAL FACILITIES AND ENSURES THEIR SMOOTH AND RELIABLE OPERATION.

5.1. OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT

The *Gazprom Group's* main initiatives to ensure occupational health and safety (OHS) include the creation of a safe working environment for employees, the non-stop operation of industrial facilities, and emergency preparedness in the gas, oil, and electricity segments of the *Group's* business.

The Occupational Health and Safety Policy of OAO Gazprom (the Policy) is the fundamental corporate document defining the *Company's* priorities and approaches in this area. At present, the Policy applies to OAO Gazprom, its key gas exploration, production, processing, transportation, and underground storage subsidiaries, as well as the subsidiaries supporting the operation of the UGSS of Russia. The Policy is planned to be expanded to other subsidiaries of the *Company* in the future.

The full text of the Occupational Health and Safety Policy of OAO Gazprom is available on OAO Gazprom's official website: http://www.gazprom.com/f/posts/51/943743/2014-07-23-safety-policy.pdf.

The *Gazprom Group* has a Unified Occupational Health and Safety Management System (UOHSMS) in place, which consolidates OHS activities and responsibilities at all levels of the organisational hierarchy. The top executive responsible for OHS at the *Group* level is the Deputy Chairman of OAO Gazprom's Management Committee in charge of overseeing department operations.

The UOHSMS defines the general requirements with regard to OHS and regulates:

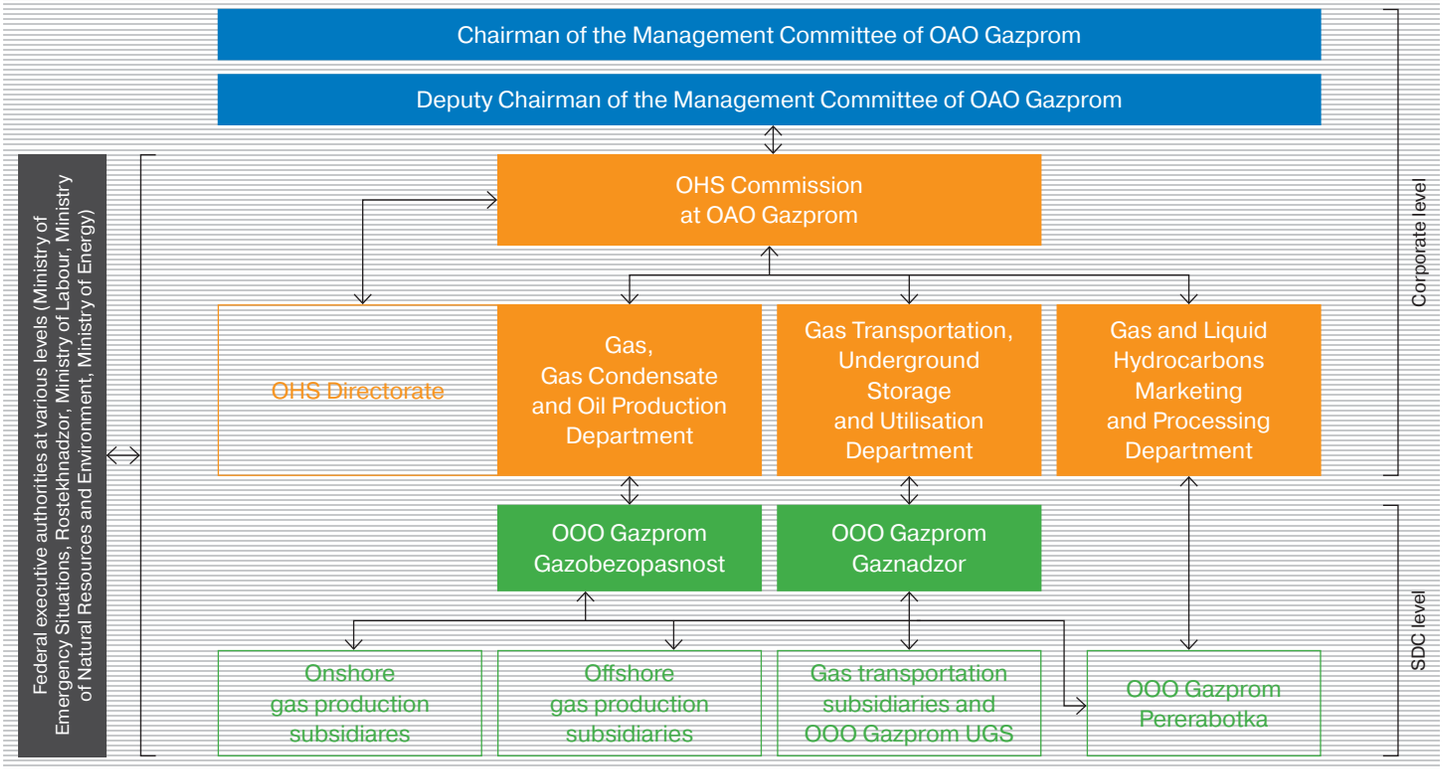
- the OHS management approach, standardised across all of OAO Gazprom's organisations and compliant with legislation, taking into account scientific and technical achievements and industry practices;
- the creation of safe and healthy workplace condition and the reduction of occupational accidents and diseases;
- the actions to ensure the reliability and safety of the operations of hazardous industrial facilities;
- the improvement of OAO Gazprom's organisational structure of OHS management in accordance with the applicable Russian legislation and the regulations issued by the relevant government agencies.

To coordinate the implementation of the Policy and the improvement of the UOHSMS, the *Gazprom Group* established the OHS Commission in 2013. The Commission's key responsibilities include:

- developing proposals for the implementation of state OHS policy at OAO Gazprom;
- analysing workplace safety, industrial safety, and the effectiveness of the UOHSMS;
- developing proposals to amend the Policy and improve the UOHSMS;
- assessing the OHS performance of OAO Gazprom's subsidiaries.

OAO Gazprom's OHS Directorate of the Gas, Gas Condensate, and Oil Production Department is the corporate unit responsible for the prevention of injuries, incidents, and accidents at the industrial facilities of OAO Gazprom's companies.

OHS management system at the *Gazprom Group*



Workplace safety oversight by employee representatives

The oversight of compliance with workplace safety requirements is a priority for all *Group* companies. In addition to the oversight provided by management, such entities as local trade union committees, commissions, and health and safety inspectors representing employees also monitor workplace safety.

Gazprom companies put a strong focus on supporting and developing the active engagement of health and safety inspectors in OHS oversight. Health and safety inspectors receive annual training in the theoretical and practical aspects of OHS, and are updated on the latest changes in relevant legislation and regulations.

In order to motivate health and safety inspectors, strengthen OHS oversight at the primary level, and ensure workplace safety at the *Group* companies, a corporate competition for the best health and safety inspector is conducted annually.

On 25 October 2013, the Occupational Health and Safety Directorate was created at the Gas, Gas Condensate and Oil Production Department of OAO Gazprom. The new unit works together with other units of OAO Gazprom to enhance the status of OHS.

The creation of the OHS Directorate at OAO Gazprom is an important systemic step towards significantly improving of the effectiveness of corporate regulation in the field of integrated safety and towards building a corporate system for the reliable management of the industrial, environmental, and professional risks associated with the *Gazprom Group's* operations. The new organisational unit will help respond to legislative changes in a timely manner and harmonise relations with the relevant regulatory authorities.

The main objectives of the Directorate include:

- developing and implementing OAO Gazprom's common policy with regard to OHS, as well as industrial and fire safety;
- ensuring the effective functioning and continual improvement of OAO Gazprom's Unified Occupational Health and Safety Management System;
- preventing accidents at hazardous industrial facilities, as well as fires, injuries, and occupational diseases at all of OAO Gazprom's facilities;

- supporting the implementation of corporate plans and programmes for creating healthy and safe working conditions, preventing accidents and fires at industrial facilities, and ensuring accident and fire preparedness.

At present, OAO Gazprom is taking steps to make its UOHSMS compliant with the international standard OHSAS 18001:2007. Implementing the standard's requirements will help minimise the risk of injuries, incidents, and accidents and reduce OHS expenditures. The following actions were taken in the reporting period to implement the plan:

- An assessment was conducted to analyse the conformance of the *Gazprom Group's* existing OHS Management System to the requirements established by standard OHSAS 18001:2007;
- Training was held for internal auditors selected from the employees of subsidiaries within the scope of the existing OHS Management System;
- Training was held for members of the *Gazprom Group's* temporary working group for the development, implementation, and certification of the OHS Management System;
- A programme was drafted for the internal audits of UOHSMS;
- A draft contract was prepared for a certification audit of the *Gazprom Group's* OHS Management System in accordance with OHSAS 18001:2007 and subsequent surveillance audits.

At an annual corporate OHS conference held on 24 April 2013, participants discussed current issues relating to the status and management of OHS at Gazprom's subsidiaries and organisations. Special attention was paid to the causes of occupational injuries and what approaches could be used to prevent them. The *Group's* plan of corrective and preventive actions in the field of occupational, industrial, and fire safety for 2013–2014 was approved based on the results of the conference.

Each core segment of the *Gazprom Group's* business has its own OHS management system in place, as they each have their own set of associated risks.

OAO Gazprom Neft has an integrated health, safety, and environmental management system in place and takes steps to continually improve the system. The corporate Industrial, Labour, and Environmental Safety and Civil Protection Policy lays out voluntary commitments in these areas, providing a basis for the identification of business processes necessary to support these commitments. In order to formalise these processes, OAO Gazprom Neft has developed and introduced corporate standards together with methodological documentation to support their implementation. The corporate standards in this field build on such recognised international standards as ISO 9001, ISO 14001, and OHSAS 18001.

More details about the OHS performance of the *Gazprom Neft Group* are available in *Gazprom Neft Group* Sustainable Development Report 2013: http://www.gazprom-neft.com/annual-reports/2013/GPN_SR_2013_eng_web.pdf.

At *Gazprom Energoholding*, OHS management is based on the applicable requirements of Russian laws and regulations. The CEOs of generating companies are ultimately responsible for OHS compliance, whereas coordination of the respective activities is provided by the chief engineers of those companies and their branches (individual power plants).

More details about the OHS performance of *Gazprom Energoholding* companies are available in the annual reports of generating companies on the website: http://energoholding.gazprom.ru.

5.2. WORKPLACE SAFETY

A continual decline in the rate of occupational injuries and diseases is one of the *Gazprom Group's* key commitments to its employees. The *Company* focuses on the implementation of integrated systems of measures to minimise the risks associated with industrial operations and workplace safety.

The *Company* measures its OHS performance using the following KPIs:

- number of occupational injuries;
- lost-time injury rate;
- fatality rate;
- occupational disease rate;
- lost day rate.

The *Group's* main initiatives to reduce occupational injuries and diseases are:

- the continual enhancement of employee awareness, knowledge, and competencies;
- employee engagement in OHS activities and the creation of an environment where each employee feels responsible for both their safety and the safety of co-workers;
- the prevention of adverse impacts of industrial activities on employees and population;
- OHS compliance oversight;
- requiring suppliers and contractors to be in compliance with OHS standards and OAO Gazprom's policies.

Training employees and raising awareness are especially important areas of OHS activities. The *Group's* managers and specialists receive OHS training at least once every three years in accordance with the requirements of Russian legislation. In the reporting period, under the corporate training programme for managers and specialists:

- 230 *Group* managers and specialists received training subsequent certification in industrial safety and OHS knowledge assessment;
- 197 employees passed the OHS knowledge assessment;
- 217 employees became certified in industrial safety by the *Group's* Central Examination Commission.

In order to ensure workplace safety, *Group* companies conduct annual workplace certification.

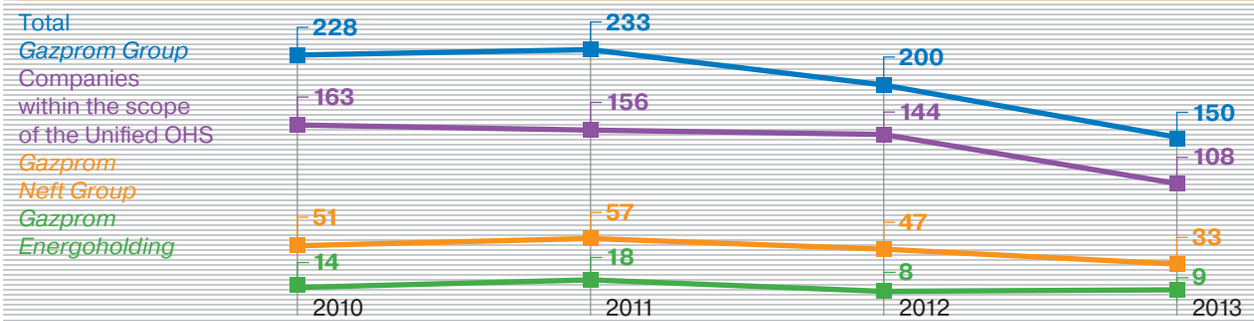
Gazprom pays special attention to the quality of personal protective equipment (PPE) supplied to the assets of the *Group* companies and performs tests on the new PPE types and materials used for its manufacturing.

Integrated prevention activities together with the introduction of corporate OHS standards and best practices allowed substantially reduce the number of occupational injuries.

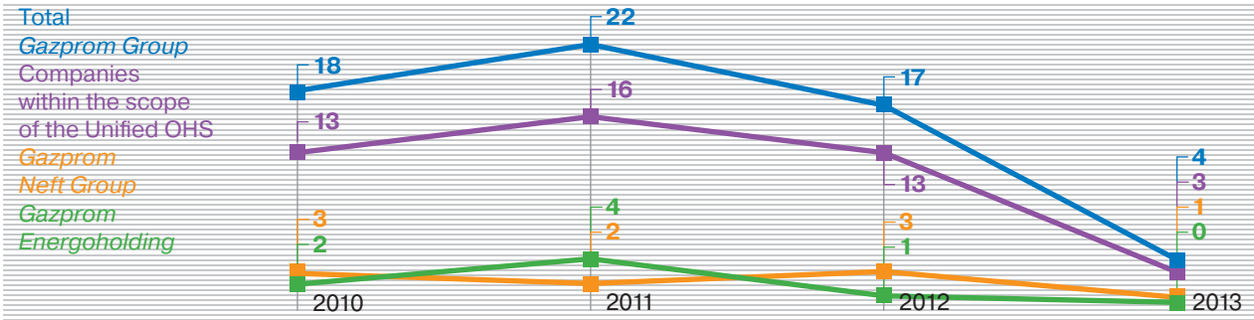
Between 2010 and 2013, the number of occupational injuries at the *Gazprom Group* decreased 1.5 times, the number of fatalities decreased 4.5 times.

Over the same period, the injury rate (the number of occupational injuries per 1,000 employees) at the companies covered by the UOHSMS decreased from 0.54 to 0.36 (1.5 times), whereas the fatality rate decreased 4 times – from 0.04 to 0.01.

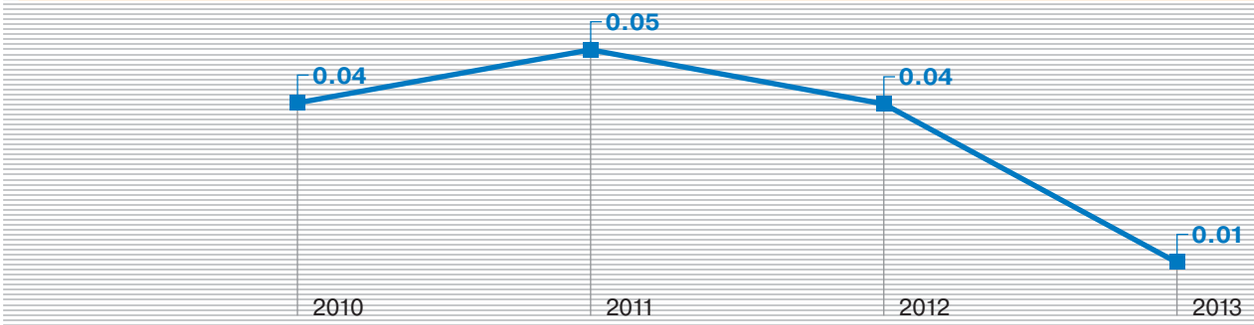
The number of occupational injuries at the *Gazprom Group* in 2010–2013



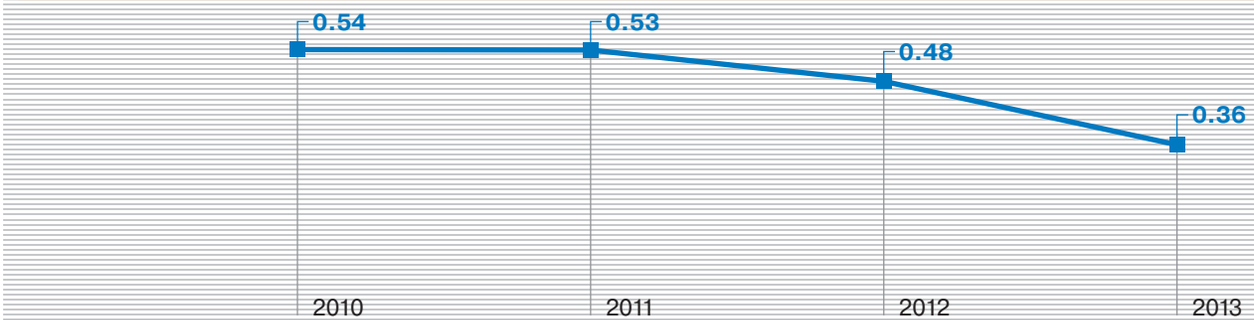
The number of occupational fatalities at the *Gazprom Group* in 2010–2013



Fatality rate at companies within the scope of the UOHSMS in 2010–2013



Lost-time injury rate at companies within the scope of the UOHSMS in 2010–2013



Failure to comply with personal safety rules, labour and operational discipline, or traffic regulations was the most frequent cause of occupational injuries in the reporting period. To prevent similar incidents in the future, the *Company* analyses the root causes of injures, plans appropriate preventive measures, and implements actions to raise awareness.

5.3. COORDINATION OF CONTRACTORS AND SUPPLIERS

In seeking to reduce the number and rate of injuries, *Gazprom* actively cooperates with contractor and supplier companies, providing information and consultations on OHS management.

In the reporting period, *Gazprom* developed and introduced more strict OHS compliance requirements for suppliers and contractors working on the premises of *Group* companies.

Representatives of contractor organisations are kept informed about UOHSMS requirements, identified hazards and risks, and changes potentially affecting operational safety. This information is communicated to them during initial briefings, at the contracting stage, during the process of work authorisation (issuing work permits and authorisation certificates), and OHS orientations.

The procedures of authorising contractors' employees to be on the premises of *Group* companies and work on those premises are defined by authorisation and operational safety regulations approved by the senior executives of the respective SDCs.

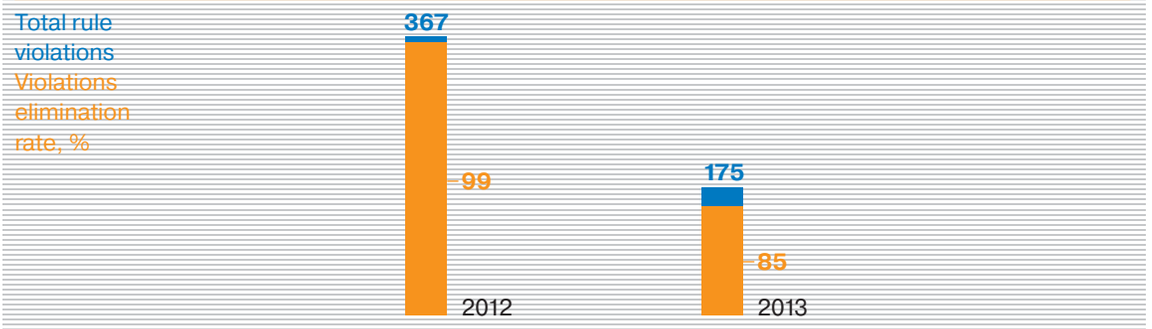
5.4. PROTECTING COMMUNITIES AND THE ENVIRONMENT

As part of its safety management activities, *Gazprom* continuously takes action to protect the vital interests of individuals and society from potential accidents at hazardous industrial facilities and their consequences. The corporate accident and incident prevention system encompasses all stages of the lifecycle of hazardous facilities, from design and construction to decommissioning.

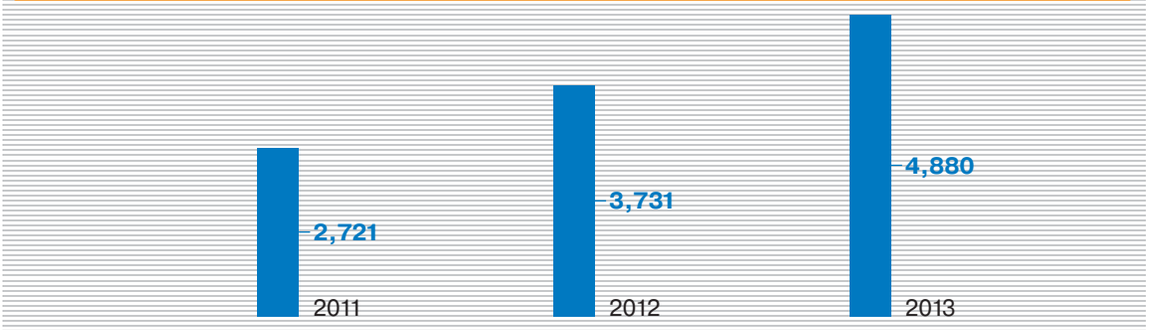
The core component of *Gazprom's* industrial safety management system is operational safety control, which includes a system of measures to ensure the safe operation of hazardous industrial facilities, prevent accidents at these facilities, and maintain constant accident and incident preparedness.

The OHS management activities of OAO Gazprom and its subsidiaries have resulted in a significant reduction in the number of industrial accidents and incidents.

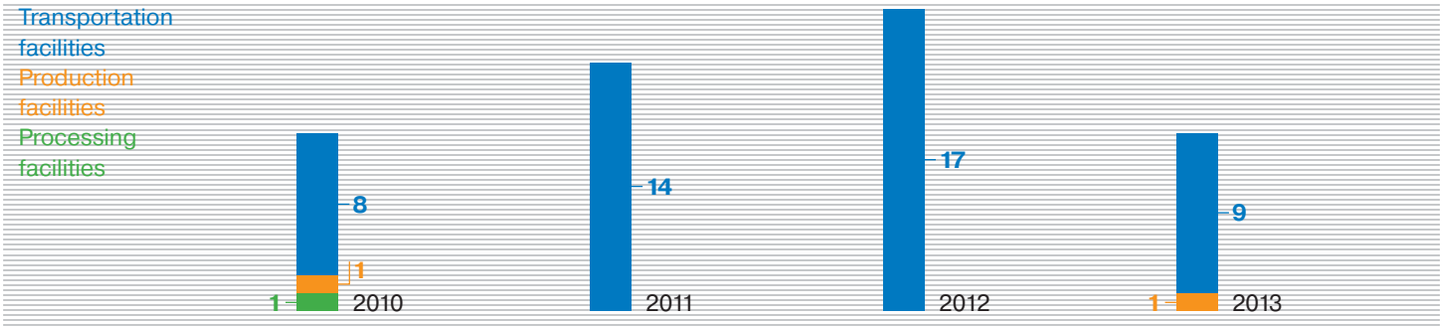
Number of rule violations identified during inspections



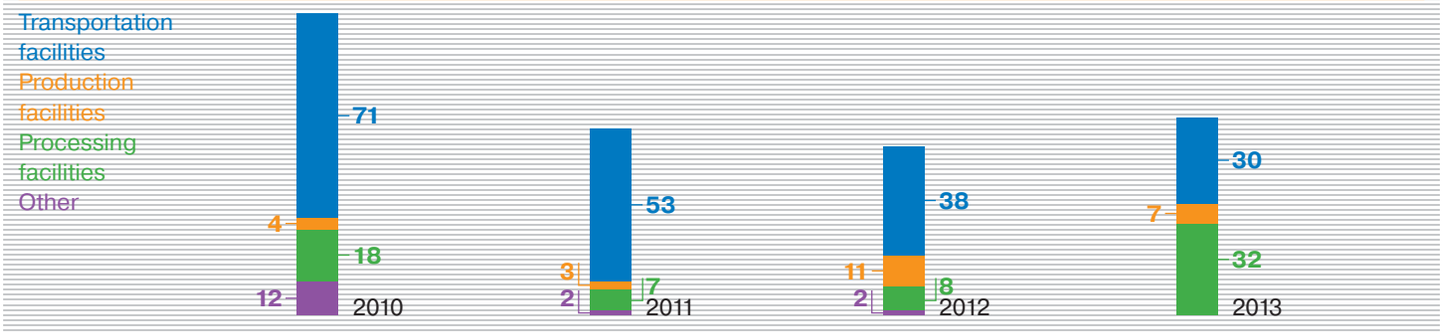
Expenditures on industrial safety, 2011–2013, million RUB



Number of accidents at companies within the scope of the UOHSMS in 2010–2013[1]



Number of emergencies at companies within the scope of the UOHSMS in 2010–2013



In 2012–2013, the review of the corporate standard STO Gazprom 'Rules of Operation of Gas Trunklines was another step towards improving the industrial safety management system. This review also covered recent changes to Russian legislation[2].

The key risks associated with shelf drilling, oil and gas production and transportation include oil spills, the contamination of seawater with drilling mud and cuttings, cratering, perforation of productive formations with a high hydrogen sulphide content in dissolved gas (up to 4%), and the loss of containment in underwater pipelines. To prevent those risks from happening and minimise the adverse consequences of potential accidents and incidents, *Group* companies have developed inflow and spill prevention, containment, and elimination methods for shelf facilities, including the Prirazlomnaya ice-resistant platform. The evaluation and continuous monitoring of safety-related issues are carried out at all stages of shelf projects, including well planning, construction and operation.

1 Data on the number of accidents and emergencies (compared to the OAO Gazprom Annual Report 2013) was adjusted subsequent to the negotiation with OOO Gazprom Gaznadzor.

2 Russian Government Resolution dated 26 August 2013 No. 730 'On Approval of the Regulation on the Development of Accident Response and Elimination Plans for Hazardous Industrial Facilities', and Order of Rostekhnadzor dated 6 November 2013 No. 520 'On Approval of Federal Industrial Safety Standards and Rules "Safety Rules for Hazardous Facilities of Trunk Pipelines"'.

Evaluation and safety issues control procedures during shelf projects

Planning	Construction	Operation
Project review and negotiation of the ‘Blowout and gas safety’ section for all-purpose well construction for floating drilling rigs and platforms	Negotiation and control of works with an increased risk level	Enhancement of regulatory guidance documentation on blowout and gas safety Monitoring of the automated control and efficiency of safety systems Equipment maintenance of main and auxiliary of emergency stock warehouse
Employee training		
24/7 operational and preventive monitoring and support of the drilling, completion, and workover processes		

A RESPONSIBLE APPROACH TOWARDS CONSERVING NATURE'S RICHES IS AN ESSENTIAL PREREQUISITE FOR RUSSIA'S SUSTAINABLE DEVELOPMENT. THE GAZPROM GROUP'S RATIONAL USE OF ENERGY RESOURCES HAS BEEN ONE OF ITS KEY PRIORITIES OVER THE LAST 20 YEARS. CORPORATE ENERGY CONSERVATION AND ENERGY EFFICIENCY PROGRAMMES HELP REDUCE OPERATING COSTS AND DEVELOP A RESPONSIBLE APPROACH TOWARDS THE USE OF NATURAL RESOURCES.

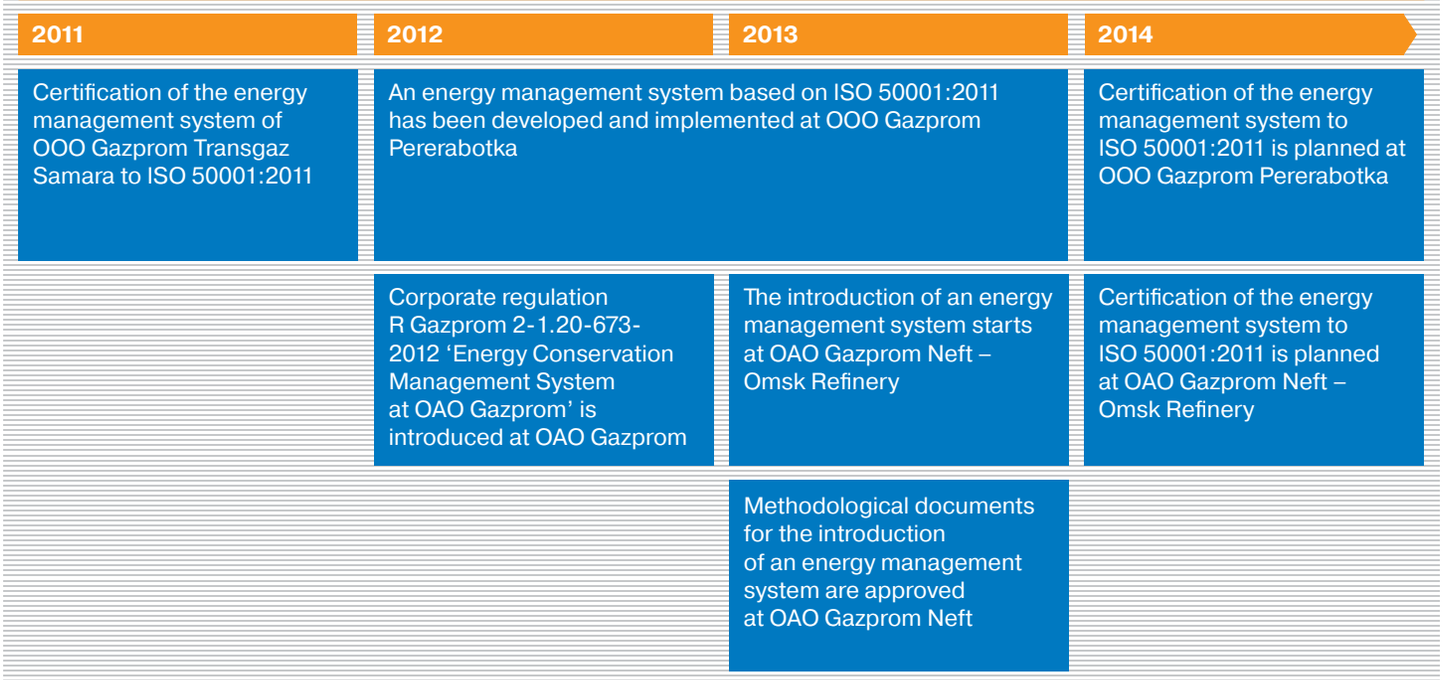
6.1. ENERGY CONSERVATION AND ENERGY EFFICIENCY

The *Gazprom Group* is one of the largest consumers of fuel and energy resources in Russia. The production processes that account for the largest energy consumption include oil and gas transportation, electricity generation, as well as gas, condensate, and oil production.

Gazprom's principles and priorities with regard to efficient use of energy resources are determined by the Russian legislation and the Group's policies and regulations in the field of energy conservation and energy efficiency.

The *Gazprom Group* introduces energy management systems to enhance the quality and effectiveness of their programmes for the conservation and efficient use of energy resources.

Introduction of energy management systems by *Gazprom Group* companies in 2011–2014



Specific energy conservation and energy efficiency programmes and initiatives of *Gazprom Group* companies depend on the nature of their industrial and business processes; therefore the approaches differ among the key segments of the *Group's* business.

Gas business

OAO Gazprom has a Coordinating Committee for Environmental Protection and Energy Efficiency, which provides general coordination of corporate activities with regard to energy efficiency and rational use of energy resources.

More details on the activities of the Coordinating Committee for Environmental Protection and Energy Efficiency are available in Section 7 'Environmental Performance' of this Report.

OAO Gazprom has the Energy Conservation and Energy Efficiency Improvement Concept for 2011–2020, applicable to the Company and its subsidiaries. The key objectives of the document include:

- maximum possible realisation of energy conservation potential in areas of the *Company's* business, using state support of OAO Gazprom's activities for energy conservation and enhancement of energy conservation management;
- improvement of energy efficiency of the *Company's* subsidiaries through the introduction of innovative technology and equipment;
- reduction of environmental impact of operations.

According to the Concept, the total technically feasible energy conservation potential in 2011–2020 is 28.2 million tce (tonnes of coal equivalent), including 22.5 bcm of natural gas (some 26.0 million tce).

Achievement of objectives of the OAO Gazprom's Energy Conservation and Energy Efficiency Improvement Concept for 2011–2020

Area	Objective	Target for 2020	Actual results in 2011–2013
Own energy resource consumption for process needs	Reduction of specific energy resource consumption for process needs	Saving 28.2 million tce	Saving 7.3 million tce
Own natural gas consumption for process needs	Reduction of specific natural gas consumption for process needs	Reduction by 11.4%	Reduction by 7.96%
Greenhouse gas emissions	Reduction of GHG emissions	48.6 million tonnes CO_2-eq	11.2 million tonnes CO_2-eq

In addition to the Concept, *Gazprom* has medium-term energy conservation and energy efficiency improvement programmes. At the end of 2013, OAO Gazprom adopted the Energy Conservation and Energy Efficiency Improvement Programme for 2014–2016. It is expected that its implementation will result in the saving of 5,261.4 mcm of natural gas, 566.4 million kWh of electricity, and 358.5 thousand Gcal of heat over 2014–2016.

4,561.0 thousand tce – actual savings of energy resources through the implementation of the OAO Gazprom's Energy Conservation and Energy Efficiency Improvement Programme.

Actual energy resource savings through the implementation of the OAO Gazprom's Energy Conservation and Energy Efficiency Improvement Programme, thousand tce[1]

Activity	Natural gas		Electricity		Heat	
	2012	2013	2012	2013	2012	2013
Gas transmission over trunk pipelines	210.8	274.7	1.7	2.1	6.8	3.3
Gas, condensate, and oil production	1,843.9	1,896.0	68.4	88.3	9.4	8.3
Underground gas storage	12.6	18.1	2.2	0.7	0.0	0.0
Gas, condensate, and oil processing	9.1	18.1	7.2	7.3	19.6	20.4
Gas distribution	8.9	11.4	8.4	2.7	0.2	0.4
Total	**2,085.3**	**2,218.3**	**87.9**	**101.1**	**36.0**	**32.4**

Oil business

At the *Gazprom Neft Group*, energy conservation and energy efficiency improvement activities are distributed between the two main segments of its business – the Exploration and Production segment and the Logistics, Refining, and Marketing segment. OAO Gazprom Neft has adopted an Energy Policy; furthermore, each of the two segments has an energy conservation programme of its own.

358.7 thousand tce – actual savings of energy resources through the implementation of the energy conservation programmes at the *Gazprom Neft Group* in 2012–2013.

Energy resource savings through the implementation of the energy conservation programmes at the *Gazprom Neft Group*, thousand tce[1]

Business segment	Fuel		Electricity		Heat	
	2012	2013	2012	2013	2012	2013
Exploration and production	–	–	55.5	49.3	–	–
Logistics, refining, and marketing	53.7	50.5	13.5	13.2	80.6	42.4
Total	**53.7**	**50.5**	**69.0**	**62.5**	**80.6**	**42.4**

Electricity business

At *Gazprom Energoholding*, energy conservation and efficiency improvement activities are managed at the level of individual power companies.

In the reporting period, OAO TGK-1 was implementing the Energy Conservation and Energy Efficiency Improvement Programme for 2012-2014, OAO OGK-2 – the Energy Conservation Programme for 2011–2013, OAO Mosenergo – the Energy Conservation and Energy Efficiency Improvement Programme for 2010–2015.

1,726.2 thousand tce – actual savings of energy resources through the implementation of the energy conservation programmes at *Gazprom Energoholding* companies in 2012–2013.

Energy resource savings through the implementation of the energy conservation programmes at *Gazprom Energoholding* companies, thousand tce

Company	Fuel		Electricity		Heat	
	2012	2013	2012	2013	2012	2013
OAO Mosenergo	540.2	641.2	92.5	92.6	3.3	1.6
OAO OGK-2	3.4	105.8	0.6	1.0	–	2.7
OAO TGK-1	212.6	25.5	2.2	1.0	–	–

1 The following unit conversion coefficients were used:
natural gas: 1 tcm = 1.154 tce;
electricity: 1 thousand kWh = 0.3445 tce;
heat: 1 Gcal = 0.1486 tce.

6.2. THE GROUP'S ENERGY CONSERVATION AND ENERGY EFFICIENCY INITIATIVES

In 2012–2013, the *Gazprom Group* made active efforts to introduce innovative resource and energy conservation solutions into industrial processes of its companies.

Gas business

In the reporting period, OAO Gazprom and its subsidiaries implemented the following actions:

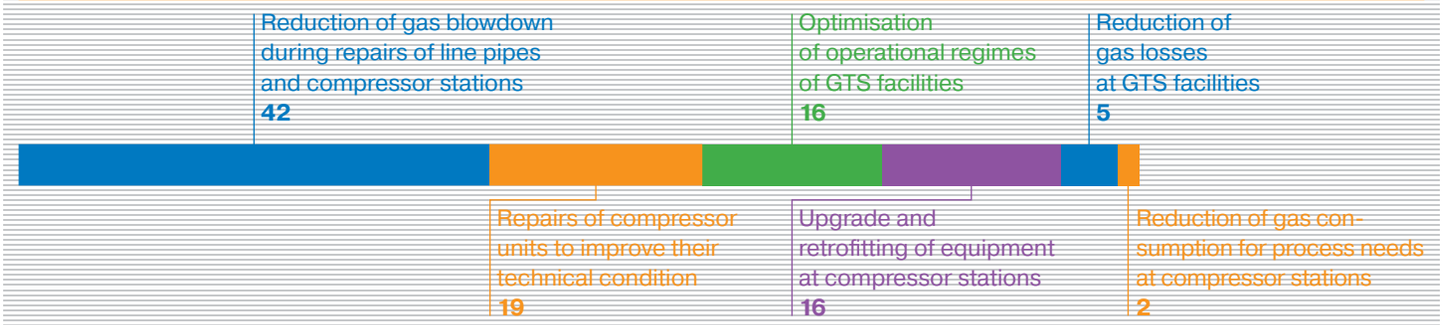
- introduction of new well testing and workover techniques;
- use of more efficient gas compressor units;
- use of new designs for gas treatment units, combined gas recovery techniques, and coil tubing solutions;
- use of equipment and methods for pipeline servicing and repair without gas losses;
- introduction of power generation units with autonomous energy sources for remote customers;
- installation of waste heat exchangers at most gas compressor stations in order to recover heat from exhaust gases of compressor units;
- use of software systems for the simulation and optimisation of operational regimes;
- upgrade of the LNG carrier fleet – transition to vessels with larger capacity, lower evaporation rate, and internal combustion engines instead of steam turbines.

The *Company* sees the largest potential for enhancing resource and energy efficiency in the improvement of efficiency of gas transmission via trunklines. The key actions towards realising that potential include:

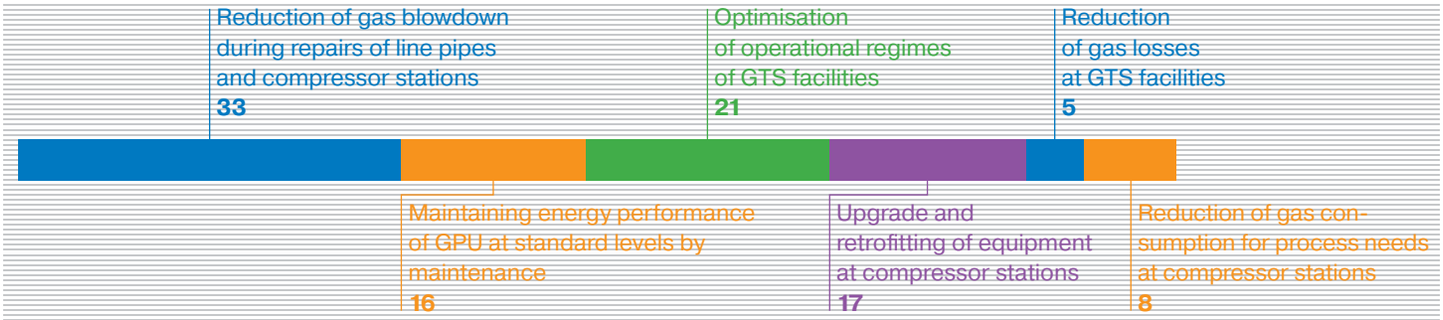
- reduction of gas consumption for process needs at compressor stations and line pipes of gas trunklines;
- repairs of compressor units to improve their technical conditions;
- upgrade and retrofitting of equipment at compressor stations, line pipes, and gas distribution stations;
- reduction of gas losses at compressor stations, line pipes, and gas distribution stations;
- electricity saving measures.

In 2012, the largest savings of natural gas at OAO Gazprom and its subsidiaries resulted from the reduction of gas blowdown during repairs of line pipes of gas trunklines and compressor stations.

Key activities for the saving of natural gas at OAO Gazprom and its subsidiaries in 2012, %



Key activities for the saving of natural gas at OAO Gazprom and its subsidiaries in 2013, %



Oil business

In accordance with corporate energy conservation programmes, in the reporting period *Gazprom Neft* implemented the following resource and energy conservation initiatives:

- optimisation of operational regimes of electric submersible pumps and improvement of energy efficiency of submersible equipment;
- introduction of efficient brushless DC motors;
- optimisation of power supply schemes;
- upgrade and replacement of process heaters;
- recovery of waste heat of process heaters and process flows and its use to increase steam production;
- upgrade of compressors through the introduction of stepwise and anti-surge control systems.

The largest economic contrubution to energy conservation at the *Gazprom Neft Group* was provided by modernization of waste heat boilers in 2012, and upgrade and replacement of process heaters in 2013.

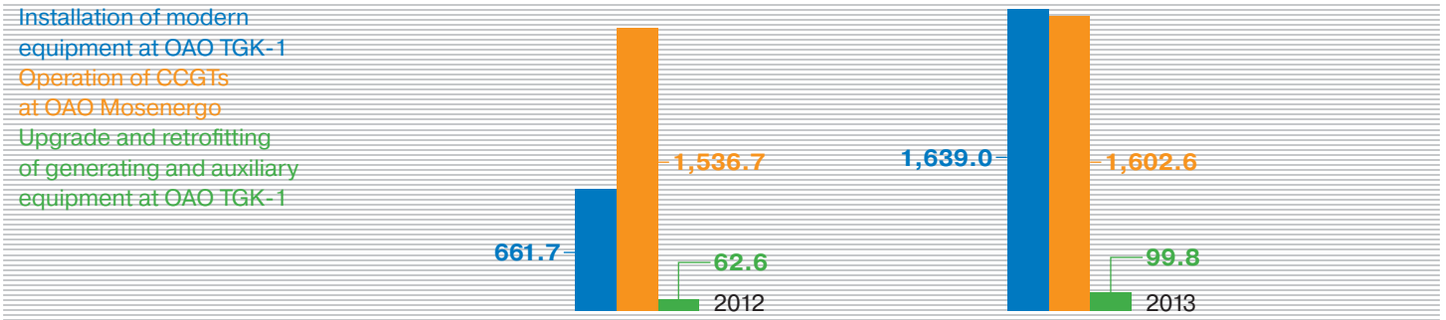
Electricity business

In accordance with approved energy conservation programmes of OAO Mosenergo, OAO OGK-2, and OAO TGK-1, the following key resource and energy conservation measures were implemented in the reporting period:

- installation of new modern equipment at Pervomayskaya CHPP, Pravoberezhnaya CHPP, Lesogorskaya HPP, and Svetogorskaya HPP (OAO TGK-1);
- upgrade and retrofitting of existing generating and auxiliary equipment, and completion of the repair programme (OAO TGK-1);
- mandatory energy audits of energy facilities (OAO TGK-1);
- strategic activities for the installation and operation of combined-cycle gas turbines (CCGTs) (OAO Mosenergo);
- measures for the development of cogeneration (OAO Mosenergo);
- maintenance engineering measures (OAO Mosenergo);
- energy audits of all branches (OAO Mosenergo).

In 2012–2013, the largest economic benefits from energy conservation at *Gazprom Energoholding* resulted from the installation of CCGTs at OAO Mosenergo and new equipment at OAO TGK-1.

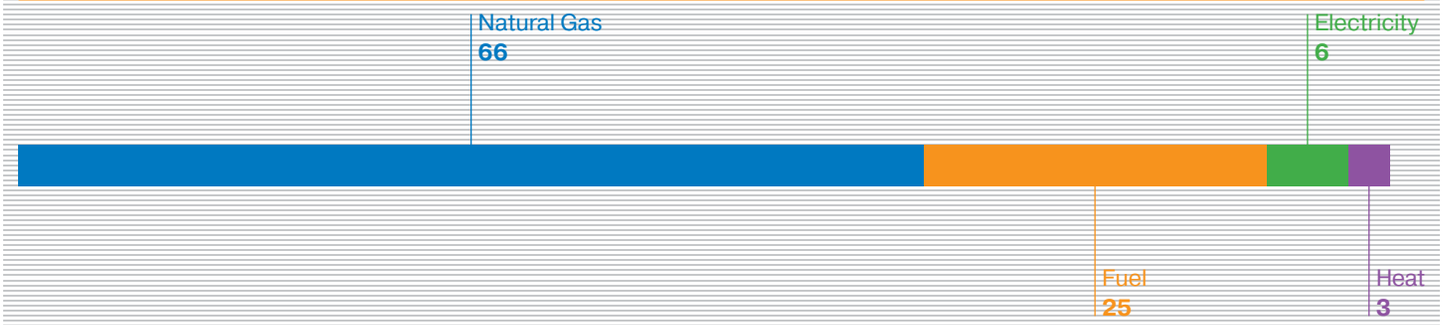
Key energy conservation programmes and measures at *Gazprom Energoholding*, RUB million



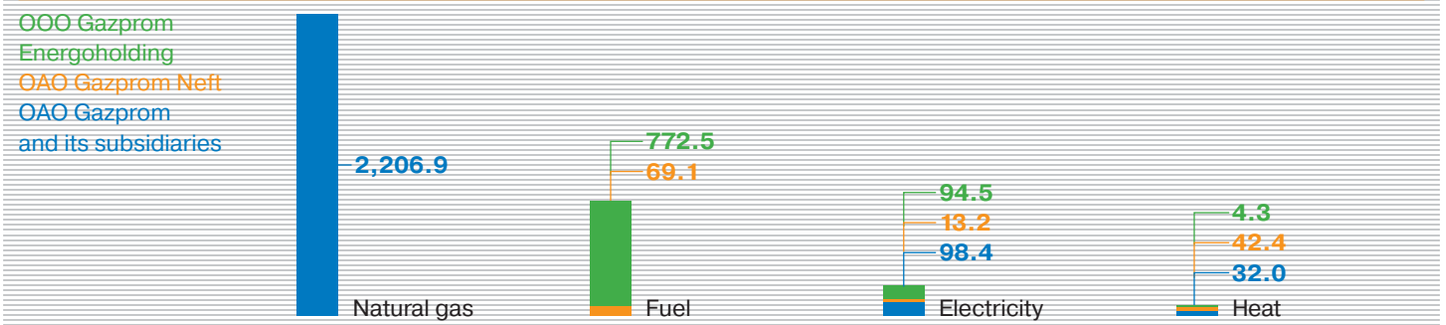
Overall, programmes and measures for resource and energy conservation and energy efficiency improvement in all segments of the *Gazprom Group's* business resulted in substantial savings of energy resources.

In 2013, natural gas savings at OAO Gazprom and its subsidiaries accounted for more than a half of total savings of key energy resources across the *Gazprom Group*.

Energy resource savings at the *Gazprom Group* in 2013, %



Energy resource savings at the *Gazprom Group* in 2013, thousand tce



6.3. ENERGY INTENSITY OF THE GROUP'S OPERATIONS

The main indicator of achieving corporate objectives for increasing resource and energy efficiency of operations is the reduction of energy intensity of industrial processes of *Gazprom Group* companies.

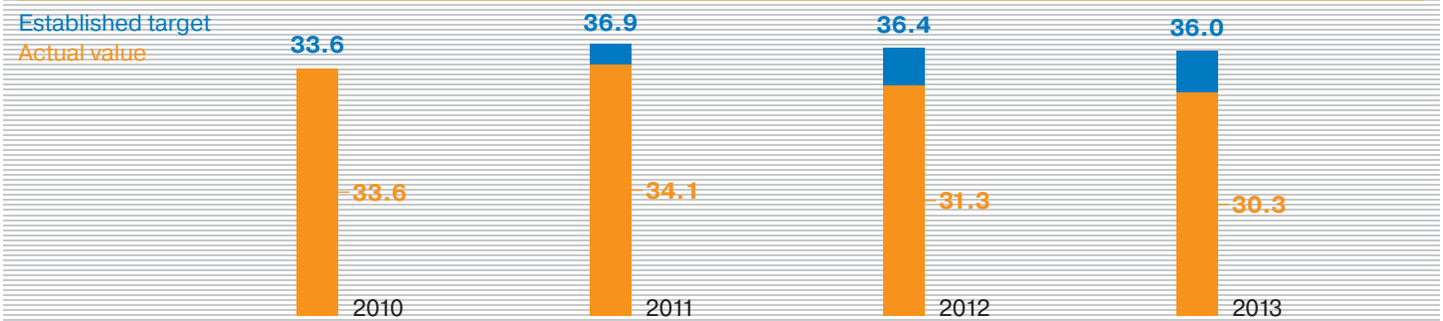
Gas business

In the reporting period, the key energy efficiency targets set for *Gazprom* and its subsidiaries included:

- reduction of specific energy resource consumption in gas transportation, underground storage, and distribution by at least 1.2% compared to the previous year;
- stabilisation of specific energy resource consumption in gas, condensate, and oil production and in gas and liquid hydrocarbon processing.

Between 2010 and 2013, OAO Gazprom reduced specific energy resource consumption for process needs in gas transmission via trunklines by 9.8%.

Specific energy resource consumption for process needs in gas transmission via trunklines at OAO Gazprom, kg c.e./mcm•km[1]



Information on the achievement of established energy efficiency targets is stored in the corporate information system for key energy indicators and shared with the Russian Ministry of Energy and the Federal Tariff Service for the purpose of monitoring.

The Federal Tariff Service establishes specific energy resource consumption targets for gas transmission via trunklines and continually monitors compliance with them. In 2010–2013, the *Company* was able to meet those targets due to the implementation of actions envisioned by OAO Gazprom's Energy Conservation and Energy Efficiency Improvement Programme for 2011–2013.

Oil business

Energy saving policy is one of the strategic priorities of *Gazprom Neft*. The *Gazprom Group* implements numerous initiatives at its companies to increase energy efficiency and scale down energy use.

A key indicator of energy efficiency in upstream companies is the specific electricity consumption for mechanical lifting of liquids.

Economic benefits from energy saving measures of upstream oil companies in 2013 amounted to RUB 585 million.

Specific electricity consumption for mechanical lifting of liquids

Companies	Specific electricity consumption for mechanical lifting of liquids, kWh/t		Electricity savings through the Energy saving programme, kWh
	2012	2013	
Gazpromneft-Noyabrskneftegaz	15.6	15.4	57
Gazpromneft-Muravlenko branch	20.0	20.0	72
Gazpromneft-Khantos	24.3	24.1	8
Gazprom Neft	18.7	18.6	143

In 2013, energy saving measures of downstream oil companies allowed to save 3,403.1 TJ of heat, electricity and fuel, thus reducing energy costs by more than RUB 615.9 million.

Electricity business

For *Gazprom Energoholding*, the two key indicators of energy intensity of its processes are:

- specific electricity consumption for process needs by power plant type;
- fuel heat utilisation rate by power plant type.

The increase in specific electricity consumption for process needs in the reporting period was a result of a decrease in the overall power generation. The increase in the fuel heat utilisation rate was a result of improved efficiency of power plant equipment.

Between 2010 and 2013, the fuel heat utilisation rate at gas/oil TPPs increased by 2 percentage points, at pulverised-coal TPPs – by 0.3 percentage points.

Energy intensity indicators for pulverised-coal and gas/oil TPPs in 2010–2013, %

Indicator	2010	2011	2012	2013
Specific energy consumption for process needs:				
pulverised-coal TPPs	9.1	10.0	10.1	11.0
gas/oil TPPs	6.8	6.7	6.8	6.9
TPPs (gas/oil and pulverised-coal)	6.5	6.8	6.8	6.8
HPPs	0.7	0.7	0.7	0.8
Fuel heat utilisation rate:				
gas/oil TPPs	60.4	60.1	60.9	62.4
TPPs (gas/oil and pulverised-coal)	44.2	43.8	45.2	45.4
pulverised-coal TPPs	38.5	38.7	37.6	38.8
HPPs		n/a		

6.4. RENEWABLE ENERGY USE

In the recent years, the use of renewable energy sources (RES) for the generation of sustainable or "green" electricity has expanded all over the world. The key advantages of RES include limited consumption of non-renewable natural resources and, in some cases, lower total generation costs compared to traditional sources. On the other hand, for many RES types, power generation to a significant extent depends on such external factors as wind speed, insolation level, river velocity etc. As a result, electricity output and cost for a given installation may vary widely.

The *Gazprom Group* supports the use of RES for power generation where is economically and technically feasible, for example in remote or technically isolated areas. The development of green generation should not result in a growth of electricity tariffs for end customers or hamper the development of traditional generation, especially gas-based. Today *Group* companies view European countries and isolated energy systems in Russia as the most promising markets for the development of RES-based generation.

In 2012–2013, two companies accounted for the bulk of the RES-based generation at the *Group* – OAO TGK-1, a subsidiary of OOO Gazprom Energoholding, and NIS, a Serbian subsidiary of OAO Gazprom Neft.

OAO TGK-1 owns 14 small hydropower plants HPPs with a total installed capacity of 202.4 MW based in Karelia Republic and Murmansk Region[1]. The company's small HPPs are part of several hydropower cascades including the Suna cascade (which comprises a group of small HPPs with a total capacity of 13.1 MW and two larger plants), the Teriberka cascade, the Niva cascade, the Kem cascade, the Vyg cascade, and the Paz cascade. Small HPPs of OAO TGK-1 make significant contribution to the development of green generation in the Northwestern Federal District of Russia.

In 2013, hydropower plants of OAO TGK-1 produced 11,990 million kWh of electricity.

At the end of 2012, NIS signed an agreement with Energowind on the construction of the Plandiste wind farm in Serbia. The construction started in August 2013 and is expected to take 12 months. Plandiste, the first wind farm in Serbia, will have 34 turbines with a total installed capacity of 102 MW and an estimated output of 212 million kWh per annum.

Another renewable energy project implemented by NIS is the production of biodiesel. In 2013, the company started producing Eurodiesel B-7, a fuel blend containing biodiesel, at its refinery in Pancevo (Serbia). By doing so, the company met the requirements of the EU legislation regarding mandatory biofuel content in fuel exported to the EU. In November 2013, NIS produced 500 tonnes of Eurodiesel B-7 for exporting to Bulgaria. Further development of Eurodiesel B-7 manufacturing in Serbia will require a EUR 5 million investment.

1 According to GOST R 51238-98, hydropower plants with an installed capacity of 30 MWh or lower are deemed small HPPs in Russia.

ENVIRONMENTAL PROTECTION ACTIVITIES ARE AN ESSENTIAL PART OF THE OF GAZPROM GROUP'S DEVELOPMENT STRATEGY. IN LINE WITH SUSTAINABLE DEVELOPMENT PRINCIPLES, THE COMPANY SYSTEMATICALLY IMPLEMENTS INTEGRATED PROGRAMMES, ACTIONS, AND INITIATIVES AIMED AT MAINTAINING DYNAMIC ECONOMIC GROWTH, WHILE USING NATURAL RESOURCES IN THE MOST EFFICIENT MANNER AND PRESERVING THE FAVOURABLE ENVIRONMENT FOR FUTURE GENERATIONS.

7.1. ENVIRONMENTAL MANAGEMENT

7.1.1. OAO Gazprom's Environmental Policy and Integrated Environmental Programme

Environmental activities of OAO Gazprom and its subsidiaries are based on the Environmental Policy of OAO Gazprom, which defines the following long-term strategic environmental objectives:

- minimising specific adverse environmental impacts of operations (per unit of marketable products);
- enhancing the efficiency of the use of non-renewable natural resources and energy sources;
- engaging all Company employees in activities for the reduction of environmental risks, improvement of the environmental management system, and enhancement of environmental performance.

The full text of the Environmental Policy of OAO Gazprom is available on the official website of OAO Gazprom: http://www.gazprom.com/nature/ecology/.

To support the fulfilment of commitments laid out in the Environmental Policy, an Integrated Environmental Programme of OAO Gazprom for 2011–2015 was adopted. The Programme includes priority actions and investment projects of subsidiaries aimed at ensuring environmental safety of operations and efficient use of energy resources.

Key actions of the Integrated Environmental Programme of OAO Gazprom

- introduction of a technique for the heating of gas production well string after a long downtime or suspension period;
- upgrade of combustion chambers of gas compressors;
- enhancement of gas trunkline maintenance and repair techniques in order to minimise gas blowdown;
- conversion of vehicles to gas motor fuel.

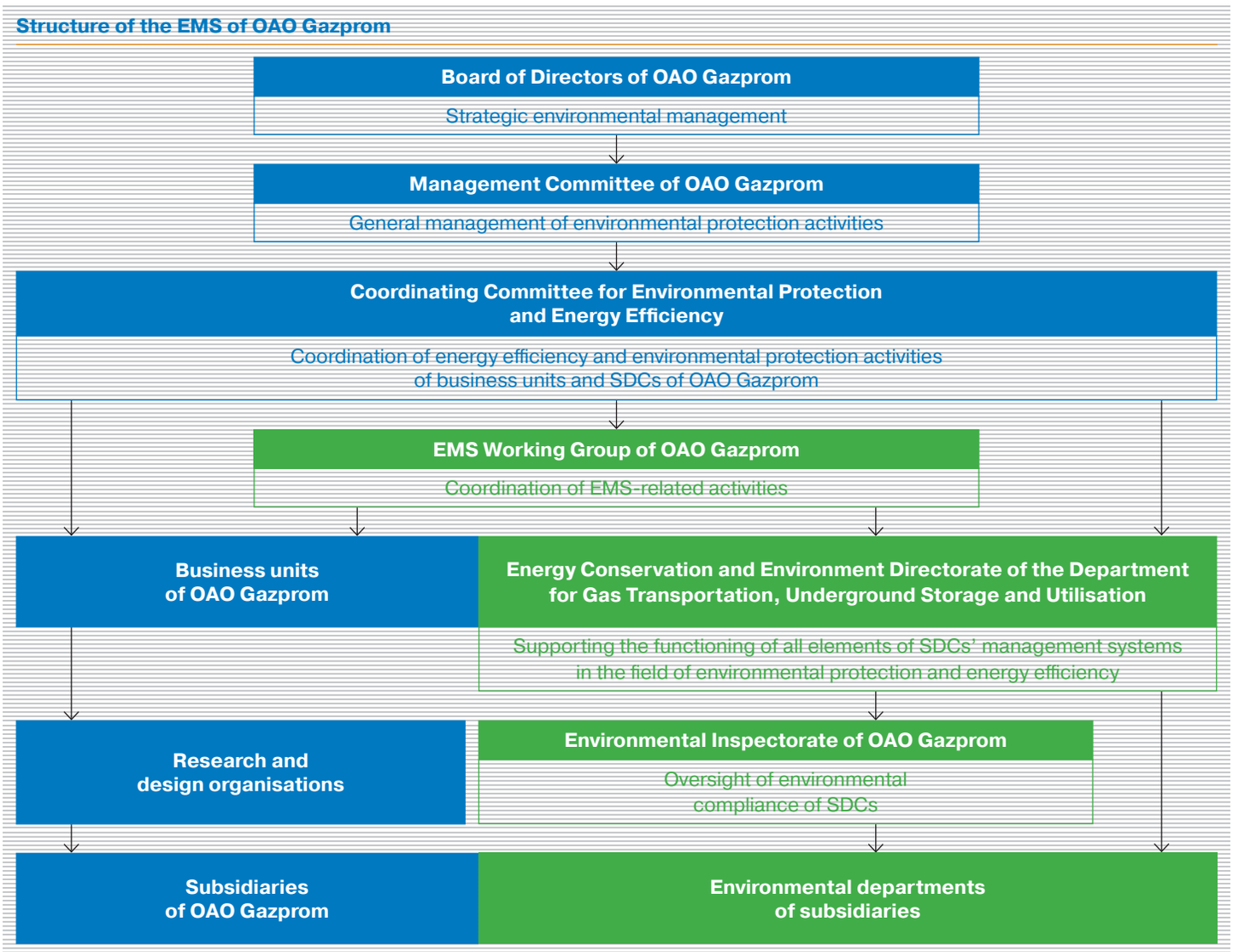
The implementation of the Integrated Environmental Programme of OAO Gazprom will be continued in 2014–2015. It is expected that overall economic benefits from its implementation will amount to RUB 44.6 bn.

7.1.2. OAO Gazprom's Environmental Management System

The principles of the Environmental Policy are implemented through the Environmental Management System (EMS) of OAO Gazprom, which is intended to support the systematic implementation of environmental actions and initiatives across the *Group*. The EMS is a vertically integrated system encompassing all levels of the organisational hierarchy from corporate headquarters of OAO Gazprom to branches and industrial facilities of its subsidiaries.

Coordinated actions of management bodies involved in the functioning of OAO Gazprom's EMS support the achievement of the *Company's* environmental objectives.

Structure of the EMS of OAO Gazprom



As of 31 December 2013, the scope of OAO Gazprom's EMS included OAO Gazprom's headquarters and 29 wholly owned subsidiaries involved in gas and condensate exploration, production, transportation, storage, and processing. *Gazprom* plans to expand the scope of the system to include other subsidiaries involved in the *Company's* core business and subsidiaries supporting the functioning of the gas supply system.

In 2011, OAO Gazprom's EMS was certified to the international standard ISO 14001:2004 by Det Norske Veritas, an independent certification body. Surveillance audits conducted in 2012 and 2013 confirmed the conformance of the system to the standard.

Certification of environmental management systems of *Gazprom Group* companies to ISO 14001:2004

As of the end of 2013, virtually all *Gazprom Group* companies whose activities involved significant environmental impacts either had their EMS's certified to ISO 14001:2004 or declared their conformance to the standard.

In 2013, OAO Gazprom Neft was certified to ISO 14001:2004 by a certification body recognised through international accreditation by RvA and membership in the international certification network IQNet. OAO Gazprom Neft – Omsk Refinery and OAO Gazprom Neft – Moscow Refinery, subsidiaries of OAO Gazprom Neft, successfully passed surveillance audits, which confirmed that their integrated management systems met relevant international standards, including ISO 14001:2004.

Subsidiaries of *Gazprom Energoholding* that had their EMS's certified to ISO 14001:2004 included OAO TGK-1 and OAO Mosenergo.

OAO Gazprom Neftekhim Salavat, Sakhalin Energy Investment Company Ltd., OAO Severnefte-gazprom and other *Gazprom Group* companies have environmental management systems certified to ISO 14001:2004.

The effectiveness of environmental management systems of OAO Gazprom and its subsidiaries is reviewed on a regular basis, using information on the following topics:

- achievement of corporate environmental targets;
- violations of environmental legislation identified by state authorities, fines imposed by them, as well as the elimination of these violations and their causes;
- the number of non-conformances identified in the process of corporate environmental oversight and environmental audits, their recurrence, and elimination of their causes;
- stakeholder engagement with regard to environmental issues.

As of the end of 2013, OAO Gazprom was able to meet all corporate environmental targets except for the one for the reduction of the waste disposal fraction.

Achievement of OAO Gazprom's corporate environmental targets

No	Target	Performance in 2013 compared to 2008	Organisations included in the EMS scope
1.	Reduction of methane emissions	↓ 11%	All gas and condensate production, transportation, storage, and processing subsidiaries
2.	Reduction of per-unit emissions of nitrogen oxides (target deadline is 2018)	Specific emissions has not grown	All gas transportation subsidiaries
3.	Reduction of polluted and insufficiently treated wastewater discharges to surface water bodies	↓ 21%	All subsidiaries
4.	Reduction of the fraction of waste disposed of at landfills	↑ 3%	All subsidiaries
5.	Reduction of payments for environmental impacts exceeding established levels as an integral indicator of adverse environmental impact	↓ 56%	All subsidiaries
6.	Reduction of specific gas consumption	↓ 15%	All gas transportation subsidiaries
7.	Introduction of EMS's conforming to the standard ISO 14001:2004	EMS's have been introduced at OAO Gazprom's headquarters and 29 subsidiaries	All subsidiaries

Based on the evaluation of the performance of OAO Gazprom's subsidiaries in achieving environmental targets and the analysis of significant environmental aspects in 2014–2016, the EMS Working Group updated corporate environmental targets. The year 2011 was selected as a base year for measuring performance with regard to the updated targets. The updated 2014–2016 environmental targets for entities within the scope of OAO Gazprom's EMS were formally approved.

Corporate environmental targets for 2014–2016

Scope	Targets for 2014–2016
Gas transportation subsidiaries	– Reduction of methane emissions (in the course of maintenance and repair works); – Reduction of per-unit emissions of nitrogen oxides; – Reduction of specific energy resource consumption for process needs (at comparable commodity transportation volumes).
Subsidiaries causing adverse environmental impacts	– Reduction of polluted and insufficiently treated wastewater discharges to surface water bodies; – Reduction of waste disposal fraction; – Reduction of payments for environmental impacts exceeding established levels as an integral indicator of adverse environmental impact.

Regular assessment of the effectiveness of OAO Gazprom's EMS provides a picture of the environmental performance of OAO Gazprom and its subsidiaries. Continuous monitoring helps minimise risks of adverse environmental impacts and associated financial and non-financial sanctions.

7.1.3. Environmental Expenditures

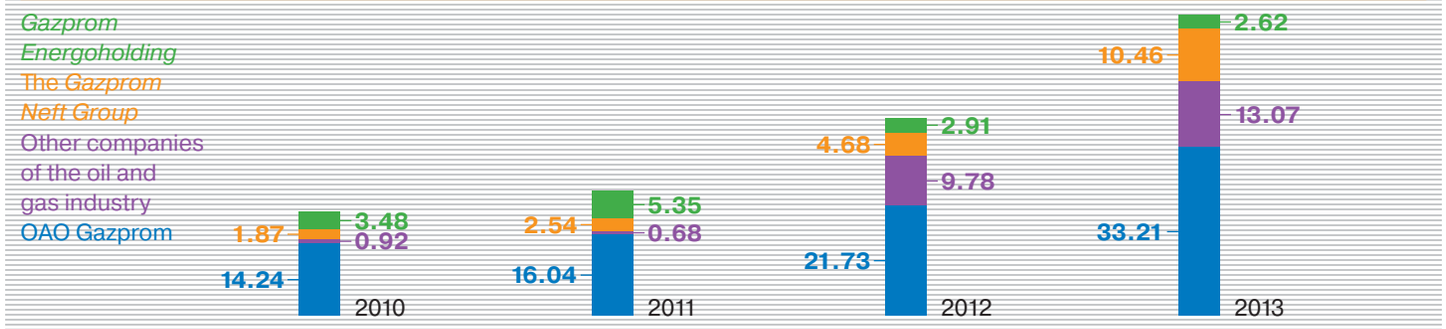
Gazprom Group companies spend substantial funds to finance their environmental activities. There are the following categories of environmental expenditures:

- current environmental expenditures, including:
  - current (operating) environmental expenditures;
  - expenditures on environmental services[1];
  - expenditures on overhaul of fixed production assets used for environmental purposes;
- capital investments aimed at environmental protection and efficient use of natural resources;
- payments for adverse environmental impacts.

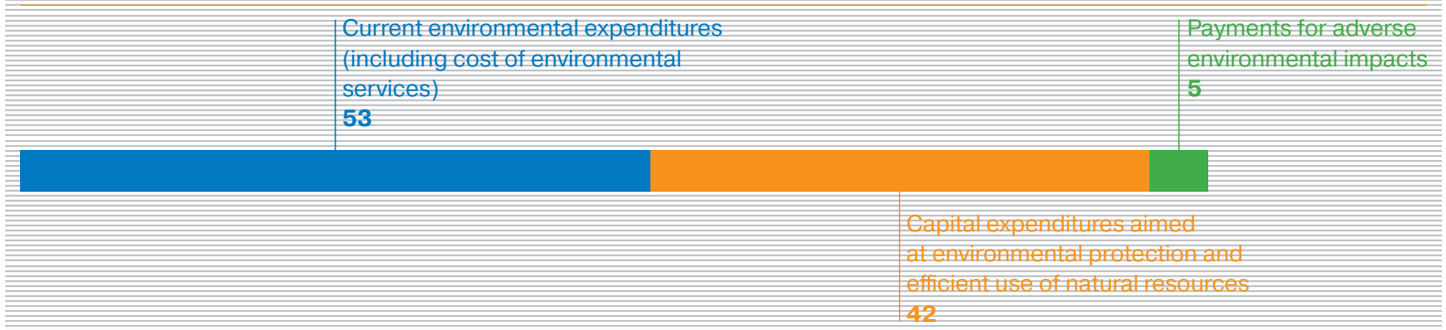
Total environmental expenditures of the *Gazprom Group* increased 59% in 2012 compared to 2011, and 52% in 2013 compared to 2012.

Between 2010 and 2013, total environmental expenditures of the *Gazprom Group* increased three times[2].

Total environmental expenditures of the *Gazprom Group* by business segment in 2010–2013, RUB bn



Total environmental expenditures of the *Gazprom Group* by spending category in 2010–2013, %

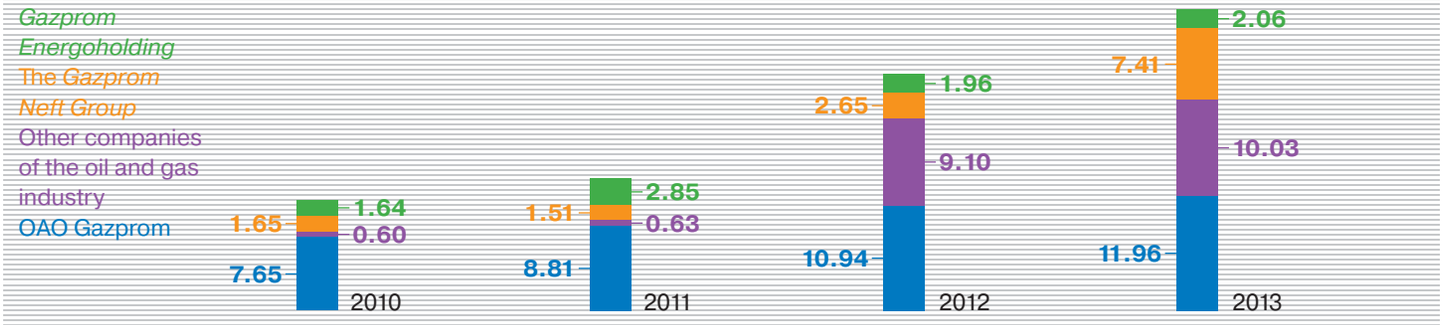


Current environmental expenditures of *Gazprom Group* companies increased 78.6% in 2012 compared to 2011, and 27.6% in 2013 compared to 2012.

1 Until 2012, expenditures on environmental services were included in current (operating) environmental expenditures according to the Order of the Federal Agency for State Statistics dated 17 September 2010 No. 319.

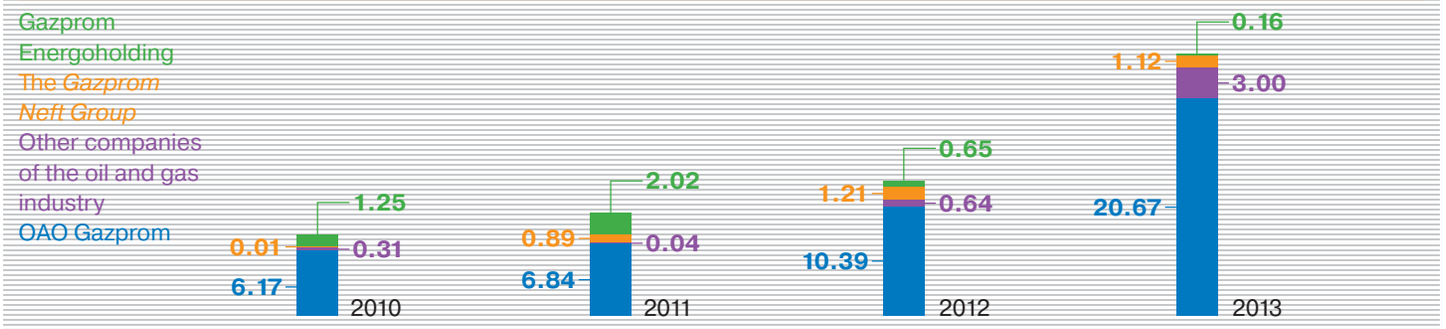
2 Total environmental expenditures include current (operating) environmental expenditures, expenditures on overhaul of fixed production assets used for environmental purposes, capital investments aimed at environmental protection and efficient use of natural resources, and payments for adverse environmental impacts.

Current environmental expenditures of the *Gazprom Group* in 2010–2013, RUB bn



Capital environmental expenditures of *Gazprom Group* companies increased 31.7% in 2012 compared to 2011, and 93.6% in 2013 compared to 2012.

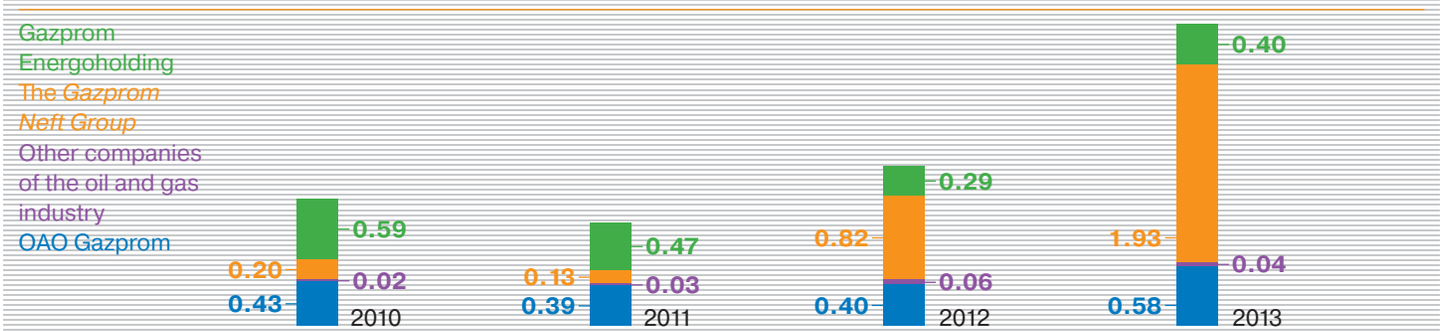
The *Gazprom Group's* capital expenditures aimed at environmental protection and efficient resource use in 2010–2013, RUB bn



The growth of capital environmental expenditures in the reporting period was primarily a result of the implementation of major investment projects by OAO Gazprom. For example, almost two-fold increase in environmental investments of OAO Gazprom in 2013 was associated with capital environmental expenditures totalling RUB 13.8 bn under the projects included in the Programme for the Construction of Olympic Venues and Development of Sochi as a Mountain Resort.

The *Gazprom Group's* payments for environmental impacts to budgets at all levels increased 53.7% in 2012 compared to 2011, and 88.9% in 2013 compared to 2012.

The *Gazprom Group's* payments for adverse environmental impacts in 2010–2013, RUB bn



The growth of payments for adverse environmental impacts resulted from an increase in the *Gazprom Neft Group's* payments for pollutant emissions due to higher payment rates (application of multipliers to standard rates). The application of multipliers to emission payment rates for the *Gazprom Neft Group* was

a result of the latter's failure to comply with the requirement of the Russian Government to ensure a 95% utilisation rate of associated petroleum gas (APG) produced in the process of oil production[1]. As a result of the respective government resolution[2] entering into force on 1 January 2013, in 2013 the *Gazprom Neft Group's* payments for adverse environmental impacts increased 2.2 times despite a decrease in the total volume of its emissions.

To increase the APG utilisation rate at OAO Gazprom Neft, an action programme for 2014–2016 has been approved. The programme includes a portfolio of projects to achieve the target 95% utilisation rate at all key production assets of the *Gazprom Neft Group*.

State environmental oversight of the *Gazprom Group* companies

Environmental compliance of the *Gazprom Group* is subject to state environmental oversight.

In the reporting period, 454 state environmental inspections of *Gazprom* operations were conducted, including 256 inspections in 2012 and 198 inspections in 2013. Sixty percent of the violations identified by state inspectors did not pose a threat to the environment and resulted in the issuing of remediation notices without imposing fines or other sanctions.

In 2012–2013, the total amount of fines paid by the *Gazprom Group* companies for failure to comply with environmental legislation was RUB 13.8 million, including RUB 6.0 million in 2012, and RUB 7.8 million in 2013. In 2013, OAO Gazprom paid environmental fines totalling RUB 3.9 million (50% of the *Group* total), the *Gazprom Neft Group* – RUB 1.8 million (23.1%), Sakhalin Energy Investment Company Ltd. – RUB 0.8 million (10.3%), the Vostokgazprom Group – RUB 0.5 million (6.4%), Gazprom Energoholding – RUB 0.5 million (6.4%), other companies – RUB 0.3 million (3.8%).

1 Resolution of the Russian Government dated 8 January 2009 No. 7 'On Measures to Promote the Reduction of Air Pollution with APG Flaring Products'.

2 According to the Resolution of the Russian Government dated 8 November 2012 No. 1148 'On Calculating Payments for Pollutant Emissions Resulting from Flaring and/or Venting of Associated Petroleum Gas', companies are allowed to flare up to 5% of the total volume of produced APG. Any amount flared above this threshold is considered an adverse environmental impact above established limits, and a multiplier of 12 is applied to emission payment rates for this amount.

YEAR OF THE ENVIRONMENT AT OAO GAZPROM

The year of 2013 was declared the Year of the Environment at OAO Gazprom; its events were coordinated with the Year of Environmental Protection in the Russian Federation.

Activities associated with the Year of the Environment were focused on the following three key priorities:

- reduction of adverse environmental impacts of operations – 2,769 actions;
- maintaining favourable environment in the regions where the *Group* operates – 2,285 actions;
- environmental education and awareness raising – 3,159 actions.

Overall, 8,213 planned and additional environmental actions were carried out within the framework of the Year of the Environment at OAO Gazprom with over 70 thousand employees of OAO Gazprom's headquarters and subsidiaries, 50 Group companies and contractor organisations participating in them. Furthermore, over 90 thousand school pupils, students, and local community members also took parts in the actions.

Actions carried out by *Gazprom* made a significant contribution to the overall outcomes of the Year of Environmental Protection in the Russian Federation.

The Year of the Environment at OAO Gazprom also involved over 620 environmental monitoring actions, some 600 information dissemination actions, and 545 educational actions for children and the youth.

Building upon the results of the Year of the Environment, the *Company's* management decided to declare the year 2014 the Year of Environmental Awareness at OAO Gazprom.

Actions throught the Year of the Environment at the *Gazprom Group* companies

AREA: Reduction of adverse environmental impacts of operations

548 air protection actions	Prevention of the emission of 47.9 thousand tonnes of pollutants
220 water protection actions	Reduction of wastewater discharge across the *Group* by 503.1 mcm
474 waste management actions	Reduction of waste disposal at landfills by 170 thousand tonnes
310 actions for environmental rehabilitation and remediation of legacy environmental damage	Reclamation of 1,800.6 ha of lands, elimination of 55 legacy contaminated sites, release of 18.7 million fry of valuable fish species to water bodies
438 energy conservation actions	Saving of 2,312.37 thousand tce of energy resources
Actions for the conversion of vehicles to gas fuel and development of the network of gas fuelling stations	Growth of the NGV fleet by 1,044 vehicles

AREA: Environmental education and awareness raising

Participation in 176 environmental forums and conferences, organisation of 473 exhibitions and presentations	Over 6 thousand participants
446 excursions, press tours, and environmental hikes	Over 7 thousand participants
756 events to promote environmental awareness of employees	Participation of over 20 thousand employees of *Group* companies and contractor organisations
354 environmental competitions for children and adults organised	Over 17,500 participants

AREA: Maintaining favourable environment in the regions where the *Group* operates

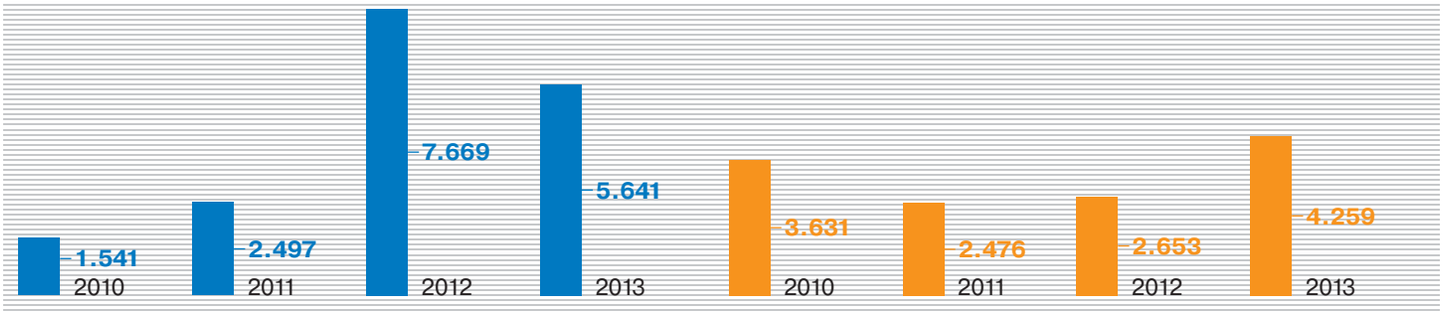
307 water body rehabilitation actions	The condition of 187 water bodies and riparian/coastal zones was improved
1,845 landscaping and greening actions	Landscaping and greening projects covered some 4,106 ha in cities and other communities; over 284 thousand trees and shrubs and 6 thousand flower beds were planted; support was provided to 39 protected areas

7.1.4. Stakeholder Engagement on Environmental Issues

Gazprom Group companies actively engage with stakeholders on environmental issues in order to provide complete and objective information on the *Group's* environmental performance. The target groups of such activities include employees, environmental NGOs, local communities, representatives of minority indigenous peoples and other stakeholder groups.

In 2010–2013, over 30 thousand employees of the *Gazprom Group* received environmental training.

Number of employees who received environmental training in 2010–2013



Group employees annually receive environmental training in order to enhance their competence and awareness of the *Group's* environmental activities.

Activities targeting local community members and environmental activists include events to discuss the *Group's* significant projects in environmentally sensitive areas and disclose relevant information about such projects.

The *Gazprom Group* also maintains a two-way dialogue with various environmental organisations on the key issues of interest to them.

Stakeholder engagement activities on environmental issues

Location	The *Gazprom Group's* project	Activities	Responsible *Group* company
		2012	
Krasnodar Territory	Preparation of Environmental Impact Assessment (EIA) materials for projects under the Programme for the Construction of Olympic Venues and Development of Sochi as a Mountain Resort	– Eleven public hearing. – Functioning of public visitor's centre.	OOO Gazprom Sotsinvest

Yamalo-Nenets AA (Yamalsky Municipal District)	Construction of four exploration wells planned for 2013 as part of the exploration programme for license areas	– Public hearing to discuss the siting of mud pits. – Disclosure of information on activities related to the siting of mud pots.	OOO Gazprom Geologorazvedka
Sakhalin Region (Nogliki District)	Construction of an exploration well (No. 3.4) at the Yuzhno-Kirinskoye field in the Sea of Okhotsk in 2013	– Public hearing to discuss well construction. – Disclosure of information on planned actions to minimise environmental risks.	OOO Gazprom Geologorazvedka
Yamalo-Nenets AA, Khanty-Mansi AA, Tyumen Region	Project “Processing of Drilling Mud into a Soil Material”	– Public hearings. – Disclosure of information on a new technique of drilling mud decontamination.	OAO Gazprom Neft
	2013		
Nenets AA (Naryan-Mar District)	Drilling of an exploration well at the Dolginskoye offshore field in the Sea of Pechora in 2014	– Public hearing to discuss the project. – Approval of an oil spill prevention and response plan. – Approval of EIA materials. – Approval of an environmental sensitivity map for the affected area.	OOO Gazprom-neft-Sakhalin
Krasnoyarsk Territory (Evenkiysky Municipal District, Vanavara)	Construction of a prospecting and appraisal well in the Teterskaya area and drilling waste disposal in a mud pit	– Public hearing to discuss the disposal of drilling waste in a mud pit. – Disclosure of information on planned actions to minimise environmental risks.	OOO Gazprom Geologorazvedka
Yamalo-Nenets AA (Yamalsky Municipal District, Yar-Sale)	Construction of two exploration wells at the Kruzenshternskoye field	– Public hearing. – Disclosure of information on planned actions to minimise environmental risks.	OOO Gazprom Geologorazvedka
Krasnoyarsk Territory (Boguchansky Municipal District, Boguchany)	Construction of prospecting and appraisal wells in the Abakansky and Troitsky areas	– Public hearing to discuss the disposal of drilling waste in a mud pit. – Disclosure of information on planned actions to minimise environmental risks.	OOO Gazprom Geologorazvedka
Sakhalin Region (Okha District and Nogliki District)	Programme of geological exploration works in Nogliki and Okhna districts of Sakhalin Region	– Public hearings. – Disclosure of materials of the exploration programme. – Disclosure of information on planned actions to minimise environmental impacts.	OOO Gazprom Geologorazvedka
Sakhalin Region (Okha District)	3D seismic survey at the Ayashsky offshore license area in the Sea of Okhotsk	– Public hearing. – Disclosure of information on planned actions to minimise the impact on marine life.	OOO Gazprom Geologorazvedka

Since 1995, OAO Gazprom has been a founder of Vernadsky Non-Governmental Environmental Foundation, whose objectives include:

- development of philosophical foundations of the society's responsible attitude towards the environment;
- promotion of sustainable development principles;
- support of the development and promotion of Vladimir Vernadsky's scientific heritage;
- environmental support of national projects;
- enhancement of the effectiveness of environmental protection activities in the Russian Federation;
- consolidation of the Russian society's efforts for addressing environmental issues;
- development of international cooperation in the field of socio-economic development, environmental protection, energy efficiency, rational natural resource use, innovation, and education.

7.2. ENVIRONMENTAL IMPACT OF THE GROUP'S OPERATIONS

7.2.1. Air Emissions

In 2010–2013, total pollutant emissions to the air across the *Gazprom Group* decreased 4.6%.

In 2010–2013, the key trends and developments with regard to the *Gazprom Group's* air emissions included:

- reduction of pollutant emissions by the gas companies as a result of energy conservation and technology upgrade initiatives;
- increase in the emissions of the *Gazprom Neft Group* resulting from an expanded output and the inclusion of the *Gazprom Neftekhim Salavat Group* in the reporting boundary;
- reduction of pollutant emissions of *Gazprom Energoholding*.

Pollutant air emissions in 2010–2013, thousand tonnes

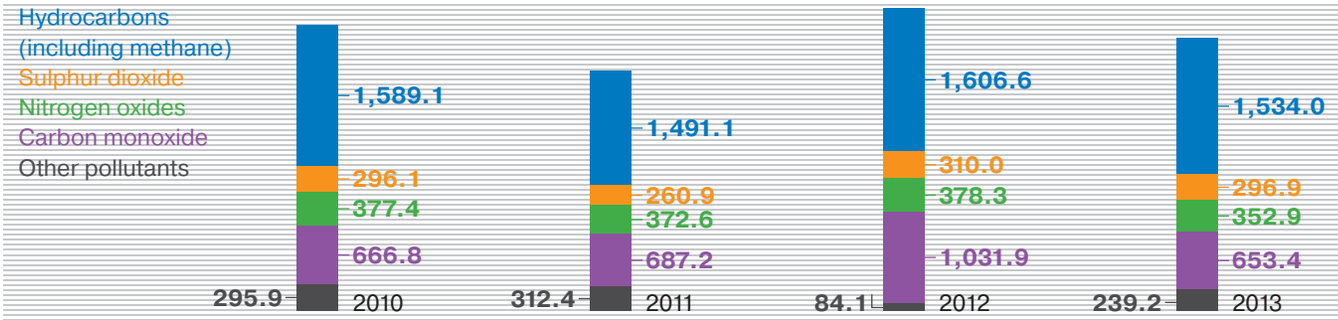
	2010[1]	2011	2012	2013
The *Gazprom Group*	**3,225.3**	**3,124.2**	**3,410.8**	**3,076.4**
incl. oil & gas industry:	2,636.3	2,638.1	2,908.0	2,625.9
gas industry	2,344.7	2,190.6	2,160.6	2,187.2
incl. OAO Gazprom:	2,310.4	2,162.1	2,131.1	2,151.8
production	202.9	144.2	146.4	145.3
transportation	1,857.5	1,770.4	1,736.9	1,791.3
UGS	45.0	41.2	39.2	28.4
processing	201.1	202.0	203.9	179.6
other (supporting) activities	3.9	4.3	4.7	7.2
The *Gazprom Neft Group*	291.6	447.5	723.9	408.3
The *Gazprom Neftekhim Salavat Group*	–	–	23.5	30.4
The *Gazprom Energoholding*	589.0	486.1	502.8	450.5

In 2012, total pollutant emissions of the *Group* increased 9.2% compared to 2011; however, in 2013 total emissions decreased 9.8% compared to 2012.

In 2012–2013, as in earlier years, hydrocarbons (including methane) accounted for about a half of the total amount of pollutant emissions.

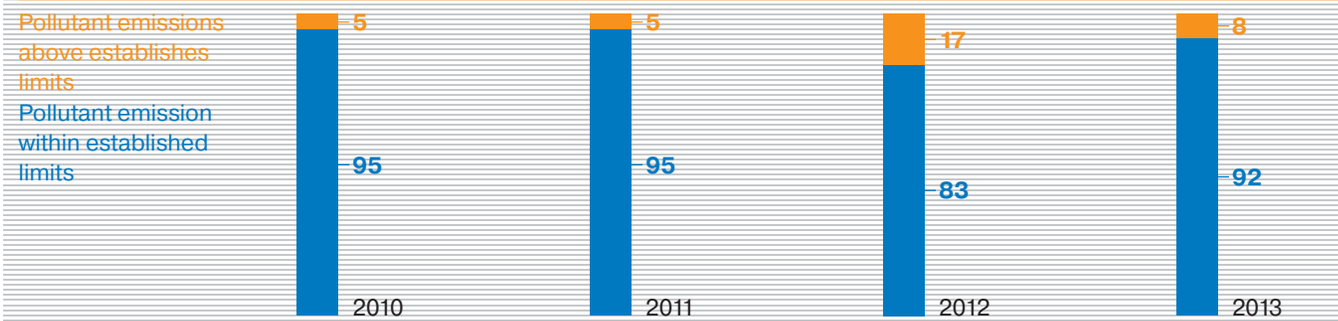
1 Including ZAO Gazprom Neft Orenburg.

Emissions of the *Gazprom Group* by pollutant in 2010–2013, thousand tonnes



In 2012–2013, the reported share of emissions above established limits in the total emissions of the *Gazprom Group* increased. This was a result of a re-classification of certain emissions of the *Gazprom Neft Group* due to its failure to comply with the Russian Government's resolution establishing a mandatory associated petroleum gas utilisation target – 95% of the produced volume.

Emissions of the *Gazprom Group* in 2010–2013, %



However, total pollutant emissions of the *Gazprom Neft Group* in 2013 decreased over 28% compared to 2012 as a result of upgrading flaring systems, commissioning vacuum compressor stations, and redirecting APG flows to other facilities.

7.2.2. Water Use and Protection of Water Resources

In 2010–2013, water use by the *Gazprom Group* was characterised by the following facts:

- most water used by the *Group* was withdrawn from natural sources;
- almost all withdrawn water was used for the *Group's* own needs;
- almost all water discharged by the *Group* was discharged to surface water bodies;
- standard-quality water and water treated to standard quality accounted for the bulk of the *Group's* water discharge;
- companies of *Gazprom Energoholding* accounted for the *Group's* almost entire wastewater discharge to surface water bodies.

In 2010–2013, water withdrawal by the *Gazprom Group* decreased 18%, water discharge – 22.1%.

Water use by the *Gazprom Group* in 2010–2013, mcm

	2010	2011	2012	2013
Water withdrawal, total	6,259.0	5,793.0	5,462.5	5,130.2
incl. from natural sources	6,015.7	5,572.4	5,213.0	4,890.6
Water used for own needs, total	6,109.7	5,643.2	5,319.6	5,051.6
incl. for process needs	5,982.1	5,550.8	5,209.3	4,919.5
Water discharge, total	5,701.0	5,300.7	4,931.2	4,440.9
incl. to surface water bodies	5,364.1	5,257.7	4,893.0	4,389.9
incl. standard-quality water and water treated to standard quality	5,321.4	5,096.2	4,691.6	4,227.9

In 2012, total water withdrawal by the *Group* decreased 5.7% compared to 2011, in 2013 – 6.1% compared to 2012. In 2012, water discharge to surface water bodies by the *Group* decreased 6.9% compared to 2011, in 2013 – 10.3% compared to 2012.

Between 2012 and 2013, a reduction in *Gazprom Energoholding's* water discharge by 520 mcm resulted in a decrease in the overall water discharge by the *Gazprom Group*.

Water discharge to surface water bodies by the *Gazprom Group* in 2010–2013, mcm

	2010[1]	2011	2012	2013
The *Gazprom Group*, total	**5,364.1**	**5,257.7**	**4,893.0**	**4,389.9**
Oil & gas industry	37.8	36.6	65.2	82.1
Gas industry	37.7	36.6	36.6	34.0
The *Gazprom Neft Group*	0.1	0.1	0.1	0.1
The *Gazprom Neftekhim Salavat Group*	–	–	28.5	48.0
The *Gazprom Energoholding*	5,326.3	5,221.1	4,827.8	4,307.8

7.2.3. Waste Management

In 2010–2013, waste management at the *Gazprom Group* was characterised by the following facts:

- decrease in total waste generation;
- decrease in the amount of waste disposed of at the *Group's* own disposal sites or temporary storage sites;
- decrease in the amount of waste re-used, processed, or decontaminated in the *Group's* own processes;
- proportional increase in the amount of waste sent to external organisations for re-use, decontamination, storage, or disposal.

1 Including ZAO Gazprom Neft Orenburg.

Between 2010 and 2013, total waste generation by the *Gazprom Group* decreased 16.2%.

Waste management at the *Gazprom Group* in 2010–2013, thousand tonnes

	2010	2011	2012	2013
Waste generation	**5,600.3**	**4,973.9**	**5,226.5**	**4,693.7**
Waste re-use, processing, or decontamination in the *Group's* own processes	761.1	571.7	420.3	296.5
Waste disposal at the *Group's* own disposal sites or temporary storage sites	4,007.1	3,771.2	3,869.4	3,359.9
Waste sent to external organisation for re-use, decontamination, storage of disposal	832.1	631.0	936.8	1,037.3

In 2012, waste generation at the *Gazprom Group* companies increased 5% compared to 2011; however, in 2013 waste generation decreased 10.2% compared to 2012. A decrease in waste generation in 2013 was a result of a reduction in electricity output at *Gazprom Energoholding*. At the same time, the expansion of the drilling programme led to an increased waste generation at the *Gazprom Neft Group* and Sakhalin Energy Investment Company Ltd.

In 2012–2013, a reduction in waste generation at *Gazprom Energoholding* and the *Gazprom Neftekhim Salavat Group* by 630 thousand tonnes led to decrease in waste generation at the *Gazprom Group*.

Waste generation in 2010–2013, thousand tonnes

	2010[1]	2011	2012	2013
The *Gazprom Group, total*	**5,600.2**	**4,973.9**	**5,226.5**	**4,693.7**
Oil & gas industry	1,142.9	1,182.4	1,439.6	1,280.1
Gas industry	503.2	518.4	515.2	524.9
The *Gazprom Neft Group*	639.7	664.0	443.6	530.9
The *Gazprom Neftekhim Salavat Group*	–	–	480.8	224.3
The *Gazprom Energoholding*	4,457.3	3,791.5	3,786.9	3,413.6

7.2.4. Spills and Land Reclamation

In 2010–2013, the management of disturbed and contaminated lands at the *Gazprom Group* was characterised by the following facts:

- insignificant share of contaminated land in the total area of land disturbed as a result of the *Group's* operations as of the end of each year;
- annual implementation of large-scale land reclamation programmes.

Gazprom Group companies systematically implement measures to prevent accidents at their industrial facilities and associated spills of various liquids (oil well fluid, oil, high-salinity water, petroleum products, liquid waste, chemicals).

1 Including ZAO Gazprom Neft Orenburg.

The key accident prevention measures include:

- regular pipeline inspections, including the monitoring of pipe corrosion rate;
- repair and preventive maintenance works at the *Group's* facilities, including the protection of pipelines with corrosion inhibitors;
- periodic helicopter surveys of trunk pipelines using laser detectors, among other equipment;
- procurement of equipment and materials for hydrocarbon spill containment and elimination.

In the reporting period, no significant oil and petroleum product spills with a volume over 10 tonnes took place at the *Gazprom Group's* facilities.

If the *Gazprom Group's* operations lead to land disturbance or contamination, all necessary reclamation and clean-up measures are taken. Reclamation works are carried out based on appropriate project documentation and taking into account such factors as condition of the site, environmental conditions etc. The *Gazprom Group* carries out continuous monitoring of the reclamation process and subsequent evaluation of its effectiveness, using bioindicator techniques, among others.

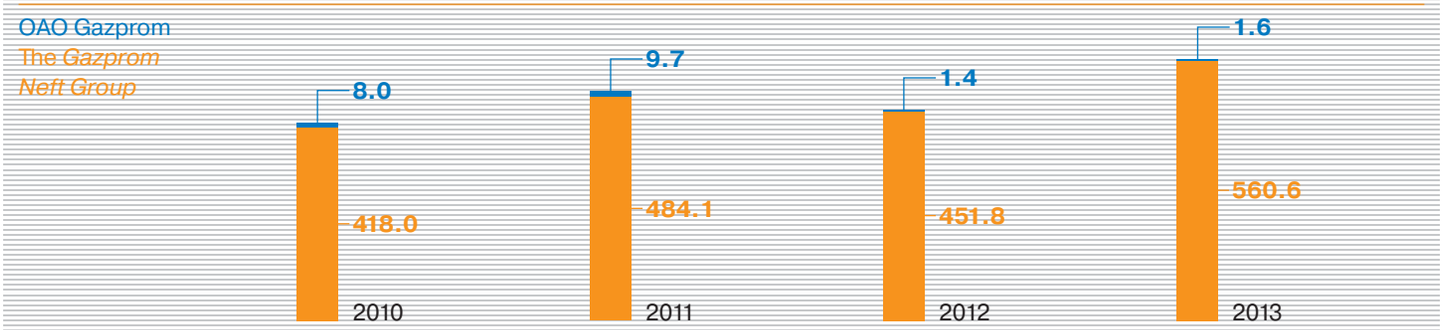
Between 2010 and 2013, the total area of disturbed land at the year's end at the *Gazprom Group* decreased 1.6%, whereas the total area of contaminated land at the year's end increased by 32%.

Area of contaminated and disturbed land and land reclamation in 2010–2013, ha

	2010	2011	2012	2013
Disturbed land at the end of the year, ha	74,319.3	78,836.1	73,533.5	73,164.2
incl. contaminated	426.0	493.8	453.2	562.2
Newly disturbed over the year, ha	10,048.4	11,853.1	14,402.2	13,065.5
incl. contaminated	426.5	493.8	237.5	1022.9
Reclaimed over the year, ha	9,753.7	11,549.2	9,717.2	13,977.0
incl. contaminated	–	–	278.3	842.60

In 2012, the total area of land reclaimed over the year by the *Gazprom Group* decreased 15.9% compared to 2011, in 2013 – increased 43.8% compared to 2012.

Disturbed lands by company in 2010–2013, ha



To improve the effectiveness of environmental activities, integrated solutions for land reclamation to be used by the *Gazprom Group* have been developed.

7.3. CLIMATE CHANGE

The *Gazprom Group* recognises the possibility of significant impacts of climate change on its business. To adapt to climate change, *Group* companies implement integrated actions for preventing or mitigating potential adverse effects. These actions include, among others:

- identification of potential risks posed by climate change;
- minimisation of adverse effects of climate change;
- inventory and reduction of GHG emissions from *Group* companies;
- reduction (phasing out) of APG flaring.

The *Company* has carried out a systematic identification of potential risks posed by climate change and their impacts on the *Group's* business.

The key climate change risks relevant to *Gazprom* include risks associated with temperature change, as well as physical, economic, and social risks.

Key climate change risks to the *Gazprom Group*

Risk category	Key climate change risks to the *Gazprom Group*
Economic risks	For the gas segment of the *Group's* business: – risks of reduced demand for gas due to higher outdoor temperatures during the heating season and associated decline in sales; – risks of financial losses due to suspension of business activities or increased accident rate; – risks of increased expenditures on construction and maintenance and repair works. For the insurance segment of the *Group's* business: – risks of a decrease in solvency and liquidity of the companies of the *Group's* insurance segment. For the banking segment of the *Group's* business: – loan default risks; – risks of the volatility of carbon allowance prices; – risks of scarcity of carbon allowances; – risks of investment in new underdeveloped technology; – risks associated with incorrect internal risk assessment systems.
Risks associated with temperature change	– Changes in the temperature of the most sensitive permafrost soils. – Increase in the frequency and magnitude of adverse hydrometeorological phenomena, including an increase in the frequency of spring and summer floods. – Shortening of the period when the use of temporary winter roads is possible. – Risks of increased gas consumption for own process needs in case of a decrease in the outdoor temperature.
Physical risks	– Risks of damage to buildings and structures. – Risks of an increase in the frequency of pipeline defects. – Risks of deformation of engineering networks (water supply and sewer systems).
Social risks	– Risks of increased adverse impacts on human health resulting from extreme and adverse weather phenomena and spread of infectious diseases. – Risks of damage to private property of *Gazprom Group* employees.
Reputational risks	– Failure to fulfil the *Gazprom Group's* environmental commitments.

Gazprom Group companies implement a system of measures to minimise adverse impacts of climate change on their operations. Such measures include:

- assessment of potential effects of climate change in the areas where industrial facilities of the *Group* are based;
- regular monitoring of the condition of the equipment used in the areas susceptible to climate change, and assessment of predictability of industrial processes in such areas;
- use of heavy duty pipes for pipeline construction in the areas susceptible to climate change;
- construction of enclosed compressor shops in the areas with unfavourable climatic conditions;
- construction of backup power supply stations for gas production facilities based in permafrost areas;

- design of gas production stations with weather and climatic conditions taken into account;
- construction of underground pipelines in Arctic regions;
- deeper laying of pipes at pipeline landfall sites in order to protect offshore pipeline sections;
- introduction of integrated insurance schemes covering environmental risks and liabilities associated with the *Group's* operations[1].

Another aspect of the *Gazprom Group's* climate change activities is a system of measures for GHG emission inventory and reduction. These measures include:

- annual instrumental measurements to evaluate methane emissions at representative sites and analytical studies of GHG emissions of the *Gazprom Group*;
- implementation of technology upgrade and retrofitting programmes, energy conservation programmes and environmental activities aimed at direct and indirect reduction of GHG emissions;

More details on such activities are available in Section 6 – Resource Efficiency of this Report.

- preparation of corporate reports on greenhouse gas emissions of OAO Gazprom – GHG emission inventories;
- development of software systems to support GHG emission inventories (one such system has been developed by OOO Gazprom VNIIGAZ for OOO Gazprom Dobycha Yamburg);
- preparation and presentation of both detailed and aggregated GHG emission information;
- preparation of Gazprom's inputs to the Fourth, Fifth, and Sixth National Communications on Climate Change (2006, 2009, 2013).

In 2012–2013, a reduction of greenhouse gas emissions was achieved in all key segments of the *Gazprom Group's* business.

In the reporting period, OAO Gazprom and OOO Gazprom Energoholding reduced their GHG emissions. The reduction of GHG emissions of OAO Gazprom was a result of measures aimed at reducing natural gas consumption for gas transportation.

Greenhouse gas emissions, thousand tonnes of CO_2-eq.

	2012	2013
OAO Gazprom, incl.[2]:	**123,839.7**	**122,174.1**
CO_2 emissions from combustion	81,954.7	81,550.9
OAO Gazrpom Neft, incl.[3]:	**1,523.0**	**402.3**
CO_2 emissions from combustion	1,522.9	402.3
OAO Gazprom Energoholding, incl.:	**107,520.5**	**102,992.1**
OAO TGK-1	12,875.1	13,575.2
OAO OGK-2	53,114.9	48,874.8
OAO Mosenergo	41,530.5	40,542.1

1 In 2013, OAO Gazprom signed a comprehensive liability insurance agreement covering the liability for damage inflicted on the environment, as well as life, health, and property of third parties as a result of onshore and offshore exploration and drilling operations, hydrocarbon production, transportation, storage, and processing, operation of hazardous facilities, construction, and other associated activities. Thus, the agreement covers all activities involving environmental risks; it applies to OAO Gazprom and 30 subsidiaries, including OOO Gazflot, OOO Gazprom Geologorazvedka, OOO Gazprom Dobycha Shelf, and OOO Gazprom Neft Shelf, among others.

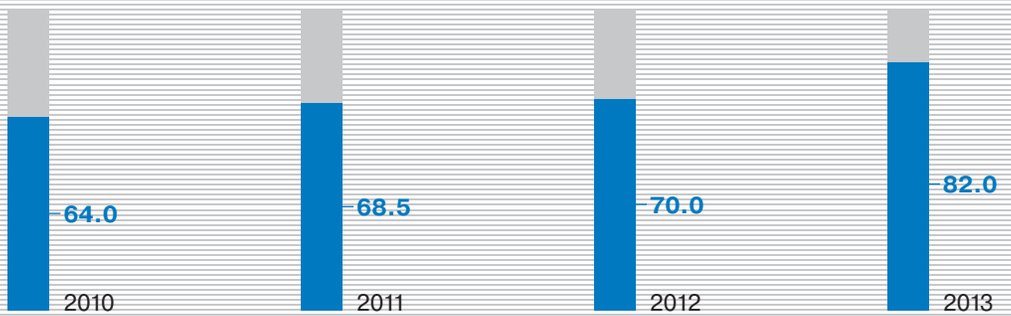
2 Reported GHG emission data for OAO Gazprom Neft include only emissions of Gazpromneft-Muravlenko, a branch of OAO Gazpromneft-Noyabrskneftegaz, and OOO Gazpromneft-Razvitiye.

To reduce their GHG emissions, *Gazprom Group* companies implement programmes to phase out APG flaring. The ultimate objectives of these programme is to achieve a 95% utilisation rate of the APG produced at the *Group's* facilities.

APG utilisation rate at the *Gazprom Group*

	APG production, mcm	Utilisation rate, %
Gazprom Group companies	783.68	99.5
OOO Gazprom Dobycha Krasnodar	73.38	95.0
OOO Gazprom Dobycha Orenburg	26.69	100.0
OOO Gazprom Dobycha Urengoy	683.61	99.5
Vostok Gazprom Group	643.68	81.0
The *Gazprom Neft Group*	6,779.18	79.5
Sakhalin Energy Investment Company Ltd.	1,189.67	97.0

APG utilisation rate at the *Gazprom Group* in 2010–2013, %



In the reporting period, the following measures to increase the APG utilisation rate were implemented:

- project for APG utilisation at the Urengoy oil and gas condensate field, involving the construction of APG-powered compressor stations with a capacity of 48 MW able to consume up to 1.5 bcm of APG per year;
- project for the construction of vacuum compressor stations at the Vyngapurovskoye and Vyngayakhinskoye fields of OAO Gazprom-Noyabrskneftegaz and its branch Gazpromneft-Muravlenko;
- project for the construction of an APG-fired gas turbine power plant at the Shinginskoye field.

International cooperation on climate change

Gazprom Group companies support international projects for climate change adaptation and GHG emission reduction:

- participation of OAO Gazprom in the Carbon Disclosure Project (CDP) – an international initiative for investors to disclose the information about greenhouse gas emissions and risks associated with climate change.

OAO Gazprom annually submits CDP questionnaires. In 2013, OAO Gazprom added data on indirect GHG emissions to its questionnaire.

- participation in international projects for GHG emission reduction.

OOO Gazprom Dobycha Urengoy implemented an international project for the utilisation of associated petroleum gas at Urengoy oil and gas condensate field. On 20 January 2012, the Ministry of Economic Development included the project in the list of projects implemented in accordance with Article 6 of the Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCC). According to a verification report, the project implementation resulted in an emission reduction of 6,306.2 thousand tonnes of CO_2-eq. between 2009 and 2012.

In 2012, the UNFCCC Secretariat registered a project of OAO Mosenergo for GHG emission reduction through the installation of efficient CCGTs at CHPPs operated by the company. According to an international audit determination, the project implementation resulted in an emission reduction of 8,334.6 thousand tonnes of CO_2-eq. between 2008 and 2012.

In 2012, OAO TGK-1 signed an agreement with Fortum Power and Heat Oy (Finland) and OAO Sberbank of Russia on transactions involving emission reduction units (ERUs) resulting from the Pervomayskaya CHPP-14 upgrade project and the Yuzhnaya CHPP-24 expansion project. A total of 613,381 ERUs was issued as a result of the two projects.

Gazprom Marketing and Trading offered linked multiproduct contracts “gas – power – carbon units”, helping improve the competitive position of Russian gas in European markets.

7.4. PROTECTING VULNERABLE ECOSYSTEMS

In line with the Environmental Policy of OAO Gazprom and the precautionary principle, *Gazprom* implements actions to reduce adverse impacts of its operations on the natural environment. One focus of these actions is the conservation of rare and threatened plant and animal species, unique natural areas and complexes. As part of environmental impact assessment of development projects, Group companies:

- identify vulnerable ecosystems;
- select solutions and actions to prevent possible damage to those ecosystems;
- plan self-monitoring activities;
- plan compensation activities aimed at biodiversity conservation.

In 2012–2013, *Gazprom Group* companies implemented a number of major actions for the protection and conservation of vulnerable ecosystems.

Key projects for the protection and conservation of vulnerable ecosystems

Project	Project activities and results	Participants
Integrated environmental and engineering expeditions Yamal-2012 and Yamal-2013 intended to evaluate the level of environmental impacts caused by production operations and test environmental remediation techniques in the Yamal Peninsula	– Studies of the state of the environment in the areas being developed, including the Kruzenshternskoye condensate field and Bovanenkovskoye oil and gas condensate field, making it possible to complement data collected in the previous years and analyse trends in the state of the environment.	– OOO Gazprom VNIIGAZ – State Hydrological Institute (St. Petersburg) – OAO SibNATs of the Yekaterinburg branch of the Plant and Animal Ecology Institute of the Ural Division of RAS
A system of measures for the conservation of environmental assets and environmental protection	– Programme for the replanting of rare plant species and resettlement of rare animal species from construction sites. – monitoring of components of the environment.	– OOO Gazprom Sotsinvest – Caucasian State Nature Biosphere Reserve – Sochi National Park
Biodiversity conservation actions associated with a project for the expansion of the UGSS to supply gas to the South Stream pipeline	– System of measures for the conservation and protection of reptilian, amphibian, and bird populations. – financing the resettlement of the spur-thighed tortoise from the construction area.	– OOO Gazprom Sotsinvest
Compensation of the damage to the aquatic environment and biological resources caused by the construction of a subsea production complex and an onshore supporting complex as part of the investment project for the development of the Kirinskoye condensate field	– Artificial reproduction of fish stocks (25.245 million fish); – contracts for the rearing and subsequent release of chum salmon (at least 27.289 million fish).	– OOO Gazprom Dobycha Shelf

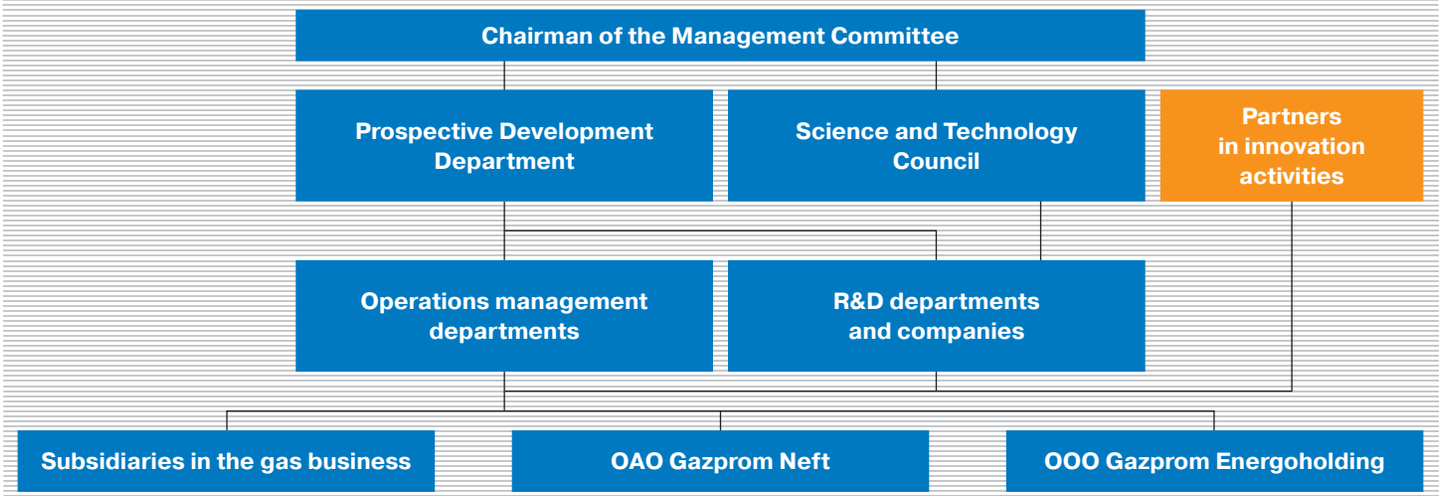
Innovation Activities

INNOVATIVE DEVELOPMENT IS A PREREQUISITE FOR STRENGTHENING THE GAZPROM GROUP'S POSITION IN THE GLOBAL ENERGY BUSINESS

8.1. INNOVATION MANAGEMENT

Research and development activities at OAO Gazprom are managed by the Prospective Development Department. The department is immediately subordinate to Chairman of the Management Committee of OAO Gazprom, who also chairs the Science and Technology Council of OAO Gazprom.

Organisational structure of innovation (R&D) management



At OAO Gazprom, the introduction of innovative solutions usually takes place in the context of investment projects for the construction or upgrade of industrial facilities for natural gas and liquid hydrocarbon production, transportation, and processing. Design solutions in this area are strictly regulated by federal laws and regulations, as well as internal corporate documents.

Priority objectives and areas of activities in the field of innovation development are defined by the Innovative Development Programme of OAO Gazprom through 2020, which was approved by the Board of Directors in 2011.

The Innovative Development Programme encompasses the gas, oil, and electricity businesses of the *Group*. To help select focus areas for the programme, a Forecast of Scientific and Technical Development of OAO Gazprom through 2020 was prepared, and technology development priorities most promising in terms of expected economic returns were identified.

The key innovation management activities at the *Gazprom Group* include enhancing the organisational and methodological foundation of innovation, the intellectual property management system, relevant information resources, and the system of OAO Gazprom's corporate standards.

The *Gazprom Neft Group* has the Innovative Development Programme through 2020, a document further detailing the respective programme of OAO Gazprom in the context of the oil business.

In the second half of 2013, OAO Gazprom Neft created a dedicated Strategy and Innovation Department tasked with providing centralised management of innovation activities at the company. The approach of the Strategy and Innovation Department towards strategic planning of innovation activities is based on international best practices in the field of innovation management. Subsidiaries of the *Gazprom Neft Group* also developed innovation management systems of their own. For example, in line with a corporate initiative for the creation of a regional competency centre for accumulating and providing expertise in key technology areas at each company, in the second half of 2013 ZAO Gazprom Neft Orenburg launched a regional competency centre for carbonate reservoirs. At present, there are five such centres within the Exploration and Production Division of the *Gazprom Neft Group*.

Innovation priorities for the electricity segment, in addition to the framework Innovative Development Programme of OAO Gazprom through 2020, are defined by the Concept of Technology Development Policy of OOO Gazprom Energoholding.

Gazprom Energoholding practices a different approach towards innovation management (implementation of R&D programmes and application of their results) – each subsidiary company manages inno-

vation activities on its own in the process of achieving its business objectives. The respective R&D programmes are also financed by individual subsidiaries.

The *Gazprom Group* continually works towards the improvement of innovation management business processes, seeking to realise the available scientific and technology potential to the maximum extent possible and to adapt to the changing business environment. In 2012–2013, the key areas for the improvement included:

- corporate R&D management system;
- corporate science and technology complex;
- organisational structure of innovation management.

8.2. R&D PRIORITIES

The *Gazprom Group's* key priorities and objectives are defined and laid out systematically in the Innovative Development Programme of OAO Gazprom through 2020. The development of the gas industry requires a system of scientific and technology solutions which would provide for profitable development of new hydrocarbon resources, while ensuring appropriate reliability of operations, as well as environmental and industrial safety. The need for such solutions is particularly pressing in the context of the development of hydrocarbon resources in the Yamal Peninsula and offshore projects implemented in extreme environmental conditions of the Arctic.

The key areas of R&D activities in the gas business include:

- in the field of hydrocarbon prospecting and exploration, including unconventional resources – introduction of new prospecting and exploration techniques including integrated seismic surveys, remote sensing, and formation study using NMR (nuclear magnetic resonance);
- in the field of the development of hydrocarbon resources on the continental shelf and in permafrost areas – development of new methods for the development of multilayer gas reservoirs, construction of wells with active and passive heat insulation, and offshore hydrocarbon production using both subsea and above-surface production complexes;
- in the field of hydrocarbon production at existing fields – development of techniques for well operation at low formation pressures, laser techniques and equipment for killing gas and oil blowouts, and land reclamation;
- in the field of enhancing the efficiency of gas transportation and storage – development of techniques of high-pressure, liquefied, and multiphase gas transportation, techniques for compressed and hydrate gas storage, techniques of using expanders at compressor and gas distribution stations, and equipment for the monitoring and repair of gas trunklines;
- in the field of marketing and distribution – development of technology solutions for multi-fuel gas filling stations (including hydrogen-containing gas fuel among others), and gas supply using mini LNG plants;
- in the fields of gas processing and gas chemical industry – development of energy efficient techniques for helium extraction, storage, and transportation, LNG production, production of synthetic liquid fuels from natural gas, extraction of the ethane-butane fraction from produced gas.

More details about objectives and priorities of innovative development at the *Gazprom Group* and its companies are available in OAO Gazprom Annual Reports 2012 and 2013, and on the official website of OAO Gazprom: http://www.gazprom.com/about/strategy/innovation/.

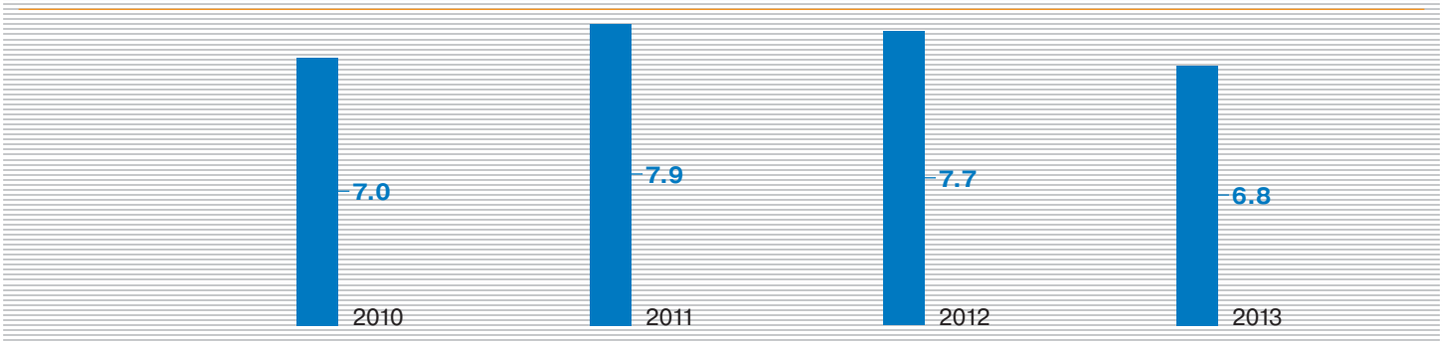
8.3. RESULTS OF INNOVATION IN 2012–2013

The Innovative Development Programme of OAO Gazprom through 2020 defines performance targets to be met in order for the *Group* to achieve the level of international best practices with regard to technology development. The *Company* has demonstrated good progress towards these targets. In particular, in 2013, operating expenditures in corporate projects decreased 1.3% as a result of the application of innovative solutions. Innovation also helped save energy resources: their specific consumption for process needs decreased 2.5%. Specific GHG emissions (in terms of CO_2-equivalent) decreased 4.3%.

Expected economic benefits from the development and application of priority innovative solution will amount to some RUB 450 bn. The biggest contribution to this result will be made by the improvement of methods of gas delivery to end customers, development of new hydrocarbon resources (particularly on the continental shelf and in permafrost regions), and the manufacturing of high value-added products.

The *Gazprom Group* continues investing substantial funds in R&D activities. In 2013, the *Company* spent some RUB 6.8 billion for this purpose, retaining its position as an R&D investment leader among Russian companies.

R&D investments of OAO Gazprom in 2010–2013, RUB bn



In its R&D activities, *Gazprom* partners with over 100 external institutions and research centres. In 2013, the Company used R&D services of 118 contractors. For each outcome of R&D activities, an optimal form of legal protection is chosen (e.g. patent application or classifying), taking into account the prospects for industrial application.

Use of patents in the *Gazprom Group's* operations and economic benefits from their use in 2010–2013

	2010	2011	2012	2013
Number of patents of OAO Gazprom's SDCs used in industrial operations	174	213	328	350
incl. patents whose use results in economic benefits	92	99	126	109
Economic benefits from the use of patents, RUB million	862.6	924.0	1,135.8	1,826.7

More details on the results of innovation activities are available in the Innovative Activity section of OAO Gazprom Annual Report 2013.

8.4. PROSPECTIVE INNOVATIVE SOLUTIONS AND PROJECTS

The *Group's* innovative development programmes involve the implementation of major hi-tech projects. One example is the introduction of an innovative technique for staged development of multilayer reservoirs in Yamal fields, which makes efficient use of reservoir pressure and helps minimise the number of production wells. The technique has been introduced at the Bovanenkovskoye field, where it helps reduce the area of disturbed lands requiring subsequent reclamation.

To ensure the efficient use of produced gas containing helium, innovative helium extraction methods are being developed. The development of a two-stage membrane unit for the extraction of helium from high-pressure natural gas is close to completion. The method, which is intended for the Yakutia and Irkutsk gas production centres, will help improve the effectiveness of gas extraction and reduce the costs of processing helium-containing gas from the Chayandinskoye field.

The Group continues R&D works to design techniques and equipment for the development of hydrocarbon deposits in permafrost regions and on the continental shelf.

OAO Gazprom pays particular attention to the safety of its staff, including those performing the most complicated accident response work. To provide effective well blowout response, a remotely controlled mobile laser unit has been designed. The unit is able to perform the severing of wellhead equipment, metal structures, and other objects without the need for emergency staff to enter the hazardous zone. The use of the mobile unit helped reduce the timing of blowout response, improve the safety of emergency staff, and substantially reduce hydrocarbon losses and pollutant emissions resulting from a blowout.

To enhance the reliability and safety of gas transportation, Group companies develop and introduce new-generation in-line inspection tools based of the electromagnetic acoustic method, as well as new methods and materials for corrosion prevention.

To reduce the consumption of fuel gas at compressor stations and pollutant emission, a pilot unit for the production of methane-hydrogen mixture from natural gas is being designed. Longer-term plans include the creation of a new type of gas turbine with high energy and environmental performance based on the combination of exhaust heat regeneration and low-temperature steam methane reforming – a process piloted at the unit the production of methane-hydrogen mixture.

In the oil segment of the Group's business, in 2013 five SDCs of the *Gazprom Neft Group* (10 oil fields) introduced multi-stage assemblies for hydraulic fracturing in horizontal wellbores in order to develop low-permeability reservoirs. The use, on average, of five to seven fracturing stages at a horizontal well section 500–1,000 m long (400–700 m long in 2012) helped increase reservoir coverage without drilling additional costly wells. A total of 139 wells with multi-stage fracturing assemblies were launched (compared to 29 in 2012). The technology success rate was 93.1%; the increase in the average daily production rate – 46.4 tonnes. As of 1 January 2014, additional oil production due to the use of the method totalled 1.6 million. It is planned to further increase the number of stages in sections over 1,000 m long.

In 2013, the use of an advanced type of bottom hole assembly – rotary steerable systems – for drilling helped reduce capital expenses 0.6%, while producing an extra 0.6 million tonnes of hydrocarbon resources. Over the period between 2013 and 2016, total additional production will amount to 2.1 million tonnes.

Another important development of the year 2013 was the drilling of multi-lateral wells. At the Umseyskoye field operated by Gazpromneft-Muravlenko branch, the first well in Russia with four horizontal laterals was drilled.

Such innovative techniques as multi-stage fracturing in horizontal wells, the drilling of horizontal side-tracks, use of rotary steerable systems and hydrocarbon-based drilling fluids accounted for 4.5% of *Gazprom Neft's* total production in 2013.

Over the last few years, the company has developed a series of catalysts for refining processes. Among others, they include catalysts for catalytic cracking produced at the catalyst plant of the Omsk Refinery. In 2013, the Omsk Refinery was granted three patents for catalytic cracking catalysts:

- microspherical catalyst for the cracking of oil fractions;
- microspherical catalyst for the reduction of sulphur content in cracking gasoline;
- microspherical catalyst for increasing octane number of vacuum gas oil cracking gasoline.

More details about prospective and current priorities of innovation activities of the *Gazprom Neft Group* are available in OAO Gazprom Neft Annual Report 2013: http://ar2013.gazprom-neft.com/upload/GPN_AR_2013_eng_web.pdf.

In the electricity segment, the most prospective high-tech projects include:

- upgrade of CCGT-160 turbines, installed as part of CCGT-450 units at the CHPP-27 of OAO Mosenergo and at the Pravoberezhnaya and Yuzhnaya CHPPs of TGK-1;
- upgrade of T-250/300-240 turbines – unique systems used only at *Gazprom Energoholding* (OAO Mosenergo). After reaching their end of life, by 2018, the units may be replaced with new turbines with higher efficiency and capacity;
- introduction of heat pumps and their operation in combination with thermal power plants in major cities;
- development of an air-cooled condenser – a unique project for Russia. Currently efforts are made to improve the technology, enhance the effectiveness, and reduce the noise level of the condenser, which is supposed to be used with steam turbines. The project is intended to reduce the cost of construction of new generation units and is going to be the optimal solution in a situation when the construction of cooling towers is unfeasible due to insufficient space or water scarcity;
- development and installation of power and heat generation units that use waste heat of compressor stations of the UGSS (a pilot project at CS-18 Myshkin);
- introduction of generator-loaded expanders using gas pressure differential at gas pressure regulation station of power plants;
- introduction of higher-capacity CCGT units to replace existing 300, 500, and 800 MW units;
- development of engineering complexes comprising a modular CCGT unit with a capacity of 100–200 MW and a heat pump, and achieving the efficiency of 95–98% (with low-potential heat sources taken into account).

8.4.1. Cooperation with Innovative Development Organisations

The approach of OAO Gazprom and the *Gazprom Group* towards procurement of innovation and high-tech products is fully in line with the state policy of the improvement of the investment climate and the transition of the economy to an innovation-based socially-oriented development model, which implies, among other priorities, support and development of innovative companies, including small and medium businesses.

In its innovation activities, the *Gazprom Group* relies on the "open innovation" model, which implies active partnership with external innovation developers, including:

- corporate and external research institutions;
- universities involved in joint research and training programmes;
- various Russian companies in related sectors;
- international energy companies, cooperation with whom involves making coordinated decisions on the key issues of innovation and new technology development;
- small and medium businesses involved in innovation development.

The *Gazprom Group* pays serious attention to the development and application of Russian innovative solutions and equipment. In 2012–2013, the *Group* in partnership with OAO ROSNANO continued to actively engage with Russian small and medium enterprises involved in innovation development. In line with the Programme for Promoting Demand for Innovative Products, Including Nanotechnology-Based, pilot projects for the application of energy efficient and energy conservation solutions are implemented at OAO Gazprom's industrial facilities. *Group* companies continue introducing new materials and techniques for creating corrosion-resistant metal, ceramic, metal-ceramic, and polymer coatings in the process of manufacturing or repairing process equipment.

Some examples of joint projects with research institutions include the development of a process for solid-acid tar alkylation and hydroconversion using nano-sized catalysts jointly with Topchiev Institute for Petrochemical Synthesis of RAS, and the development of catalysts for catalytic cracking jointly with the Institute of Hydrocarbon Processing Problems of the Siberian Branch of RAS.

The *Gazprom Group* implements joint research projects with the Bashkirsky, Yugorsky, and Tyumen State Universities, Gubkin Russian State University of Oil and Gas, and other Russian universities.

8.4.2. International R&D Cooperation

The year 2012 marked the 20th anniversary of *Gazprom's* R&D cooperation with E.ON (formerly Ruhrgas AG) and Wintershall, a wholly owned subsidiary of the German BASF.

In 2012–2013, the *Group* implemented joint R&D programmes and projects with another 11 major foreign companies of the energy sector. One such project was focused on the improvement of an ejector unit at the Bernburg UGS facility in Germany, built and launched earlier by Gazprom in partnership with Verbundnetz Gas. *Gazprom* and the Dutch company N.V. Nederlandse Gasunie developed an information and analytical system supporting effective collaboration of European dispatch centres in the conditions of market gas trading. The system was approved by the UNECE Gas Centre.

In the Asia-Pacific, the *Group* actively develops R&D cooperation with KOGAS (South Korea), Petro-Vietnam, China National Petroleum Corporation (CNPC), the Agency for Natural Resources and Energy of Japan' Ministry of Economy, Trade and Industry. The cooperation encompasses the entire chain of hydrocarbon production, transportation, and processing from the well to the customer. The most significant areas of mutual interest include:

- industrial safety of oil and gas facilities, including onshore and offshore installations above the Arctic circle;
- environmental protection, energy conservation, and energy efficiency;
- up-to-date methods and means of dispatch control;
- harmonisation of international standards and national standards and rules of partner countries applicable to the oil and gas industry;
- gas transportation and underground storage.

Salym Petroleum Development, a joint venture of OAO Gazprom and Shell, implements a pilot project for the application of the alkaline-surfactant-polymer (ASP) flooding process for enhancing oil recovery at the Zapadno-Salymskoye field. The project completion is planned for 2016. At the current stage, the objective is the selection of alternative surfactants produced in Russia, which will be followed by a pilot ASP injection.

In the refining segment, Gazprom Neft introduces processes and techniques developed by such companies as Axens, UOP, ExxonMobil, Shell etc.

AS ONE OF RUSSIA'S LARGEST ENERGY COMPANIES, THE GAZPROM GROUP SUPPORTS THE CRITICAL INFRASTRUCTURE ELEMENTS OF THE NATIONAL ECONOMY. THE COMPANY MAKES A SUBSTANTIAL CONTRIBUTION TO THE COUNTRY'S ECONOMIC DEVELOPMENT AS A MAJOR EMPLOYER AND TAXPAYER. THE GROUP ACTIVELY PARTICIPATES IN SOCIAL DEVELOPMENT, AS IT INTRODUCES ADVANCED MANAGEMENT STANDARDS AND HELPS TO INCREASE THE QUALITY OF LIFE IN REGIONS WHERE ITS OPERATIONS ARE BASED, GENERATIONS OF ITS EMPLOYEES LIVE, AND ITS INDUSTRIAL AND SOCIAL PROJECTS ARE IMPLEMENTED.

9.1. GENERAL CONTRIBUTION TO ECONOMIC AND SOCIAL DEVELOPMENT

Activities of OAO Gazprom have strategic importance to the development of the Russian economy and affect interests of a large number of people. The added value generated by *Group* companies comprised a significant fraction of the Russian Federation's GDP: between 4.5% and 5.0% in 2010–2013.

The *Gazprom Group's* contribution to the consolidated budget of the RF

The *Gazprom Group* provide over 7% of the Russian Federation's consolidated revenues.

The *Gazprom Group* accounts for 19% of federal oil and gas revenues.

In 2013, the *Gazprom Group's* tax payments to the budgets at all levels amounted to RUB 1,820.6 billion, and in 2012 it amounted to RUB 1,951.2 billion. Some 40% of the Group's tax payments went to regional and municipal budgets.

The *Gazprom Group* is Russia's largest payer of corporate income tax, mineral extraction tax, and corporate property tax. The share of the Group's companies in these total tax revenues amounts to 9.6%, 19.5%, and 11.8%, respectively.

At present, the *Group* companies operate in the majority of Russian regions, making substantial contribution to their socio-economic development. The main objective of OAO Gazprom's regional policy is the development of systematic strategic partnership with regions of operations, with the *Group's* long-term sustainability priorities taken into account.

Group companies annually increase their payments to regional budgets, meet their commitments on compensation payments to regions in a timely manner, and expand their charity and sponsorship programmes. Traditionally, the *Gazprom Group* has actively participated in projects focused on providing employment opportunities, development of regional infrastructure, supporting culture and sports, providing assistance to low-income families, veterans, persons with disabilities, and other vulnerable social groups. *Group* companies also implement programmes to support minority indigenous peoples of the North, Siberia, and the Russian Far East, and help them preserve their cultural heritage.

9.1.1. Direct Economic Value

In the reporting period, the *Gazprom Group* demonstrated stable operational and financial performance, which confirmed its high financial sustainability and ability to implement major investment projects, develop R&D potential, and contribute to regional socio-economic development.

Implementing a long-term development strategy helped the *Gazprom Group* increase sales in all segments of its business despite unfavourable trends in the market environment. In 2012, total sales increased 3% compared to 2011, totalling RUB 4,766,495 million, whereas in 2013 they increased 10% compared to 2012, totalling RUB 5,249,965 million[1]. The growth of revenues was mainly a result of an increase in prices for natural gas, as well as oil and gas processing products. Taking into account trading gains, financial income, and the income of associated companies and joint ventures, the total direct economic value generated by the *Group* grew 12% over 2012–2013.

Sustainable revenues make it possible for the *Gazprom Group* to allocate substantial funds to meet the demands of its stakeholders. At the same time, the Company pays special attention to improving the efficiency of its business processes and cost optimisation, which helps it achieve substantial savings despite the expansion of its business and the acquisition of new assets. Total amount of funds distributed among the *Group's* stakeholders (including shareholders, government and municipal authorities, employees, suppliers, and local communities) has continued to grow. In the reporting period, it increased 17% compared with 2010–2011 (with the consolidation of the assets of OAO Gazprom Neftekhim Salavat and OAO MOEK taken into account).

1 IFRS Consolidated Financial Statements of OAO Gazprom and Its Subsidiaries for the Year Ended 31 December 2013.

Economic indicators of the Russian Federation in 2010–2013, RUB bn

Indicator	Russian Federation			
	2010	2011	2012	2013
GDP (current prices)	46,308.5	55,967.2	62,218.4	66,755.3
Oil and gas revenues of the federal budget	3,830.7	5,641.8	6,453.2	6,534.0
Capital investment (investment in fixed capital), actual prices	9,152.1	11,035.7	12,586.1	13,255.5
Revenues of the RF consolidated budget and state extrabudgetary funds, incl.:	16,031.9	20,855.4	23,435.1	24,442.7
revenues from foreign trade	3,227.7	4,664.7	4,962.7	5,011.0
mineral extraction tax	1,406.3	2,042.5	2,459.4	2,575.8
corporate income tax	1,774.6	2,270.5	2,355.7	2,071.9
corporate property tax	422.2	467.7	536.6	615.5

The *Gazprom Group's* contribution to economic indicators of the Russian Federation in 2010–2013, RUB bn

Indicator	The *Gazprom Group*, according to IFRS consolidated financial statements							
	2010		2011		2012		2013	
	Abs.	%	Abs.	%	Abs.	%	Abs.	%
Total value added	2,100.4	4.5	2,770.8	5.0	2,780.1	4.5	3,254.0	4.9
Customs duties and mineral extraction tax	647.2	16.9	933.7	16.6	1,130.8	17.5	1,248.2	19.1
Capital investment (investment in fixed capital), actual prices	1,042.6	11.4	1,553.1	14.1	1,349.1	10.7	1,397.2	10.5
Payments to Russian budgets at all levels (taxes and other similar payments), incl.:	1,234.3	7.7	1,683.1	8.1	1,951.2	8.3	1,820.6	7.4
customs duties	474.7	14.7	675.8	14.5	684.2	13.8	744.9	14.9
mineral extraction tax	172.5	12.3	257.9	12.6	446.6	18.2	503.2	19.5
corporate income tax	260.2	14.7	326.3	14.4	286.2	12.1	199.5	9.6
corporate property tax	42.5	10.1	45.8	9.8	54.5	10.2	72.8	11.8

In 2013, the share of the *Group's* direct economic value not distributed among stakeholders was 32% (RUB 1,722,909 million). In 2012, this indicator was 27% (RUB 1,353,389 million). The amount of retained economic value demonstrates the *Company's* ability to generate value for its stakeholders and contribute to the socio-economic development of the country by running its primary business, as well as demonstrates the *Company's* financial stability and the growth of its investment capabilities.

Generated and distributed direct economic value according to IFRS in 2010–2013, RUB million

Indicator (according to IFRS financial statements)	2010	2011	2012	2013
Generated direct economic value				
Sales	3,597,054	4,637,090	4,766,495	5,249,965
Net trading gain	6,256	2,791	2,821	5,850
Financial income (interest income)	20,692	18,918	26,626	33,398
Share of net income (loss) of associated companies and joint ventures	76,520	99,049	145,192	56,670
(Losses) gains on disposal of available-for-sale financial assets	3,292	1,379	546	-3,212
Total generated direct economic value	**3,703,814**	**4,759,227**	**4,941,680**	**5,342,671**
Distributed direct economic value				
Operating expenses (without reversal of impairment and other provisions, depreciation, and translation differences), incl.:	2,178,208	2,673,383	3,062,010	3,226,939
staff cost, incl.:	354,501	374,731	409,807	497,852
expenses associated with post-employment benefit obligations	64,990	35,471	25,844	57,815
taxes other than corporate profit tax	291,712	418,134	625,313	706,667
other operating expenses	1,531,995	1,880,518	2,026,890	2,022,420
Financial expenses (interest expenses)	38,714	31,998	37,022	42,768
Current corporate income tax expenses	249,387	279,216	280,070	201,872
Dividends paid to shareholders	56,117	98,210	209,189	148,183
Total distributed direct economic value	**2,522,426**	**3,082,807**	**3,588,291**	**3,619,762**
Retained direct economic value	**1,181,388**	**1,676,420**	**1,353,389**	**1,722,909**

9.1.2. Cooperation with Other Businesses

Cooperation with major businesses

Gazprom Group companies annually purchase goods and services worth hundreds of billions of roubles. A strategic objective with regard to providing the *Gazprom Group's* operations with necessary materials and equipment is expanding the share of Russian manufacturers in the *Group's* procurement. The effectiveness of the *Group's* efforts towards this objective is demonstrated by a steady decline in the share of imported goods in the corporate procurement. In 2012–2013, the share of imported goods and materials in the total procurement of OOO Gazprom Komplektatsiya, the *Gazprom Group's* dedicated entity responsible for supplying its companies with materials and equipment, did not exceed 5%, whereas in 2010 the share of imports was 9.5%, in 2007 – over 12%.

To promote import substitution, OOO Gazprom Komplektatsiya has compiled a regularly updated list of currently imported goods recommended for domestic companies to produce. After an update in 2013, the list comprises 388 high-tech products.

The list of goods recommended for Russian manufacturers to produce is available on the OAO Gazprom's official website: http://www.gazprom.ru/tenders/import/.

One of the priorities of the *Gazprom Group's* import substitution programme is supporting the consolidation of domestic manufacturers of key products demanded by the Group. OAO Gazprom supported and immediately participated in the creation of a number of Russian industry associations, including the Pipe Manufacturers Associations, the Association of Gas Compressor Equipment Manufacturers, and the Association "New Technologies of the Gas Industry". At present, members of the latter association include 58 major Russian industrial enterprises and several universities.

Contribution to the development of small and medium businesses

Gazprom Group supports access of small and medium business to the procurement of its companies and takes action to improve that access. To that end, the *Group* optimises its procurement procedures for such businesses and builds a transparent procurement system.

In 2013, OAO Gazprom collaborated with executive authorities and other organisations in drafting secondary legislation intended to support the implementation of the governmental roadmap for expanding access of small and medium businesses to the procurement of infrastructure monopolies and state-controlled companies (approved by the Russian Government's Order dated 29 May 2013 No. 867-p.). The implementation of the roadmap will help eliminate administrative, financial, and information barriers for small and medium businesses by 2018, helping them substantially increase their share in the procurement of infrastructure monopolies and state-controlled companies.

9.2. PARTNERSHIPS WITH RUSSIAN REGIONS

The Regional Policy Commission of OAO Gazprom, created to enhance the effectiveness of *Gazprom's* activities in Russian regions, continued its work in the reporting period. In 2012–2013, eight meetings of the Regional Policy Commission were held to discuss the following agenda items, among others:

- actions to ensure reliable and effective functioning of regional gas distribution network and results of programmes for the expansion of such networks;
- measures to ensure timely payments for gas supplied to customers;
- introduction and use of tax benefits in Russian regions;
- regulation of legal relations concerning registration (re-registration) of land plots used for the *Gazprom Group's* operations;
- compliance with the legislation concerning minimum allowed distance from UGSS facilities, and elimination of violations;
- work of the deputies with gas industry background in OAO Gazprom's interests in the legislative assemblies of municipalities of the Republic of Bashkortostan.

The Commission's work plan for 2014 provides for continuing development of cooperation with the regions and is focused on further discussion of aspects of land use and registration, and engagement of OAO Gazprom's subsidiaries with regional and municipal authorities in the context of the Group's strategic projects.

Cooperation agreements with regional authorities remain *Gazprom's* key instrument in building relations with Russian regions. Such agreements help identify mutually beneficial forms of cooperation between the *Gazprom Group* and regional and municipal authorities.

In 2013, OAO Gazprom extended five regional cooperation agreements. Furthermore, a cooperation agreement for an unlimited period with Rostov Region and an agreement for 2014–2018 with Khanty-Mansi Autonomous Area were signed. OAO Gazprom also signed agreements with governments of St. Petersburg and Yamalo-Nenets Autonomous Area, and as well as an additional agreement with the government of Khanty-Mansi Autonomous Area concerning co-financing of the construction of social infrastructure facilities.

As of the end of 2013, OAO Gazprom had cooperation agreements with 81 out of 83 Russian regions[1].

In addition to framework cooperation agreements, the *Company* continued signing agreements on joint activities for the improvement of regional customers' access to gas and the promotion of natural gas as a motor fuel. In 2013, the total number of agreements on the improvement of access to gas reached 67, on the promotion of gas as a motor fuel – 17.

Individual *Group* companies also actively enter partnership agreements with authorities in the regions where they operate. In 2013, *Group* companies signed 38 socio-economic cooperation agreements with regional and municipal authorities in Yamalo-Nenets Autonomous Area, Khanty-Mansi Autonomous Area – Yugra, Nenets Autonomous Area, as well as Kemerovo, Leningrad, Omsk, Orenburg, Tomsk, and Tyumen Regions.

1 Except for Magadan Region and Chukotka Autonomous Area.

9.3. ENERGY SUPPLY TO REGIONAL CUSTOMERS

The *Gazprom Group* believes that the effective functioning of regional social-economic systems that ensure social security and favourable living environment for regions' residents can only be based on the advance development of energy infrastructure.

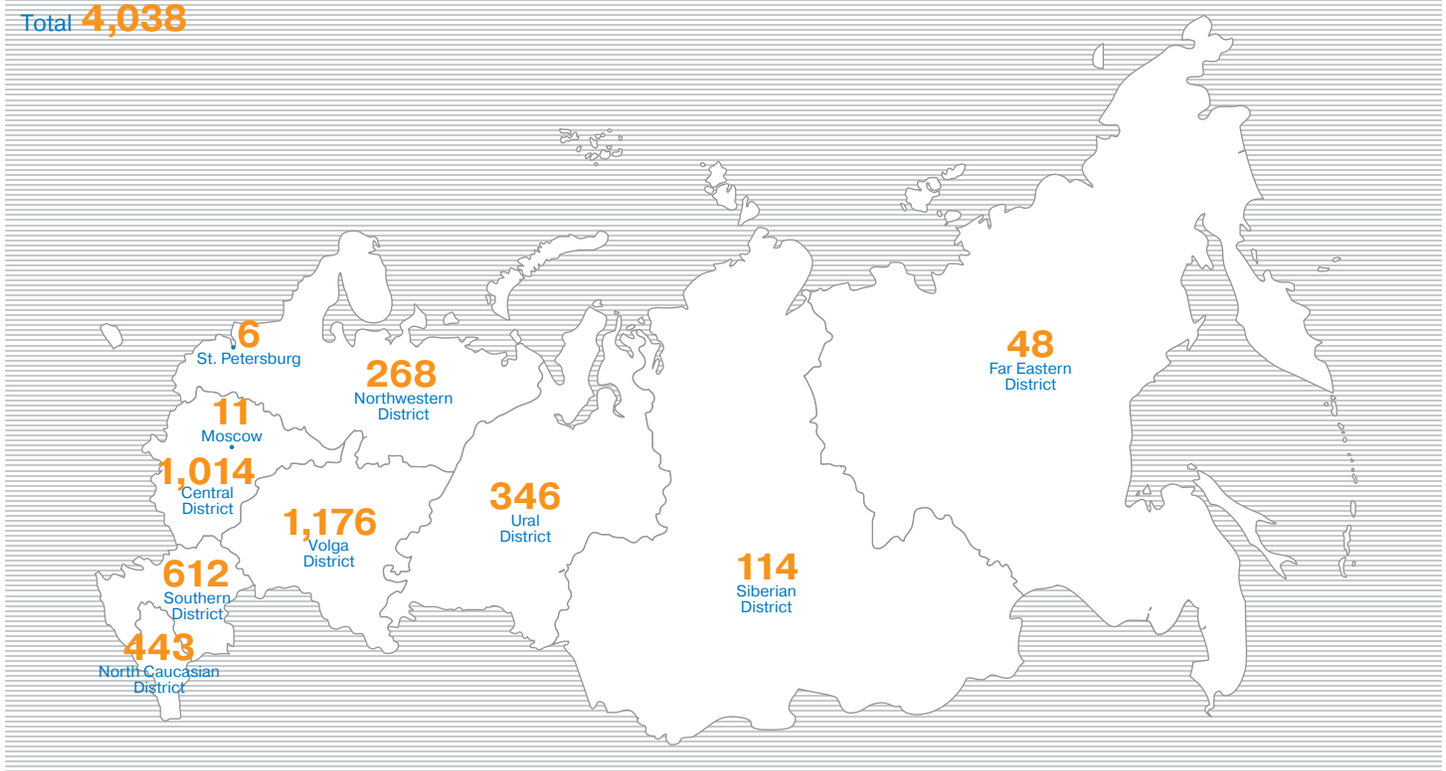
Being a global energy company, the *Group* focuses not only on the development of its traditional regional activities – gas distribution and improving access to gas supply, but also on such segments as electricity, heat, petrol and gas fuel supply.

9.3.1. Gas Distribution

The *Gazprom Group* is a recognised leader in the Russian gas distribution market. OAO Gazprom sees its main objective in this area in ensuring safe, reliable, and accident-free gas supply to customers. The key development priority in this area is centralising the management of gas distribution companies (GDC) through their consolidation. It is expected that transition to a target model with one GDC for each federal district will help improve the effectiveness of gas distribution.

The *Gazprom Group's* subsidiaries responsible for gas distribution include OAO Gazprom Gazoraspredeleniye and OOO Gazprom Transgaz Kazan. *Gazprom* systematically works towards consolidating its gas distribution assets with the ultimate goal of ensuring the reliability and safety of gas distribution systems.

Number of the *Gazprom Group's* gas distribution stations in Russia



Consolidation of gas distribution assets

In 2013, pursuant to the Russian Government's Order dated 13 November 2010 No. 2016-r, OAO Gazprom acquired shares of 72 gas industry companies from the state represented by OAO Rosneftegaz. As a result of the deal worth RUB 25.9 bn, the *Gazprom Group* entered gas distribution markets in eight Russian regions, including Amur Region, Jewish Autonomous Region, the Republic of Buryatia, Murmansk Region, Krasnoyarsk Territory, Tyva Republic, Zabaikalsky Territory, and Khakassia Republic.

At present, subsidiary and dependent GDCs of the *Gazprom Group* control over 70% of the Russian gas distribution market.

An increase in the number of the *Group's* gas distribution stations (GDS's) in Russia and the CIS was a result of the construction of new stations and inclusion of gas distribution systems of Belarus and Armenia in the *Gazprom Group*. In 2014–2015, it is planned to commission some 49 GDS's under regional programmes for improving access to gas supply and OAO Gazprom's Investment Programme.

9.3.2. Improvement of Access to Gas Supply

The *Gazprom Group's* participation in expanding the gas infrastructure in Russian regions is one of the largest and most socially significant areas of its activities in the domestic market. The Group's programmes for the joint expansion of regional gas infrastructure with the respective regional governments have continued to be approved since 2001. The *Company* is responsible for the construction of inter-community pipelines, i.e. bringing gas to a given town or village, whereas regional authorities are responsible for the construction of distribution networks within those communities and making sure individual customers are able to receive the gas.

As a result of the programme, between 2005 and 2013 the average rate of access to gas across the entire Russian Federation increased from 53.3% to 65.3%. In cities and towns, it increased from 60.0% to 70.9%, and in rural areas from 34.8% to 54.0%.

Gas distribution and improvement of access to gas supply in Russia in 2010–2013

Indicator	Over the year ending 31 December			
	2010	2011	2012	2013
Length of above-ground gas pipelines serviced by subsidiaries and affiliated gas distribution companies of *Gazprom*, thousand km	632.7	668.6	689.5	716.1
Natural gas transmission via GTS serviced by subsidiaries and affiliated gas distribution companies of *Gazprom*, bcm	225.0	226.2	253.4	248.7
Customers served by subsidiaries and affiliated gas distribution companies of *Gazprom*:				
households, million units	23.9	25.7	26.0	26.7
industrial customers, thousand units	19.7	22.3	21.8	22.6
boiler facilities, thousand units	41.4	44.1	44.3	44.5
municipal utilities, thousand units	218.2	230.0	241.9	255.1
Gazprom's expenditures on programmes for improving access to gas supply, RUB bn	25.6	29.1	33.8	33.9

Programmes for improving access to gas supply in Russian regions are implemented in accordance with regional General Schemes of Gas Supply and Improvement of Access to Gas and the respective implementation timelines. The timelines, which list planned actions of the Company and regional authorities with due dates, are intended to synchronise actions of the parties involved and make sure that local customers are able to receive gas immediately after the completion of the respective inter-community pipelines. In 2013, only in eleven Russian regions authorities fully met their obligations in accordance with the respective timelines. Therefore in 2014 OAO Gazprom had to reduce its expenditures on regional programmes for improving access to gas supply 18.6%, so that the planned amount was RUB 27.6 bn. Several regions were excluded from *Gazprom's* programme of improving access to gas.

In accordance with the respective programmes for regions of the Far Eastern Federal District, the Company continues work for improving access to gas supply in Primorsky, Khabarovsk, Kamchatka Territories, and Sakhalin Region.

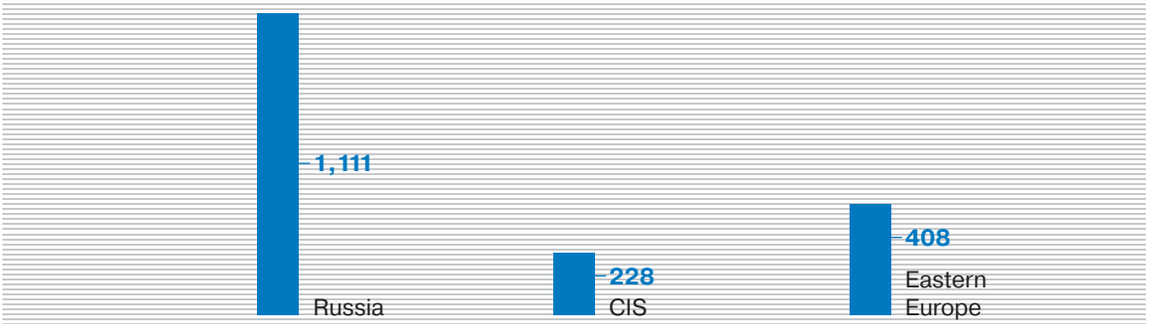
The *Gazprom Group's* actions of for improving access to gas supply in regions of the Far Eastern Federal District

Region	Key actions and plan
Primorsky Territory	– The development of design and estimate documentation for 11 gas supply facilities continues.
Khabarovsk Territory	– Design works for 9 gas supply facilities have started. For 2014, investments for the construction of 8 gas supply facilities and the beginning of construction and assembly works for 3 more facilities in Khabarovsk Territory are planned. – In 2014, design and survey works and construction and assembly works for one NGV-fuelling compressor station in Khabarovsk are planned.
Sakhalin Region	– Design and estimate documentation for 7 facilities is being prepared. Funds are allocated for the construction of 4 gas supply facilities and the beginning of construction and assembly works for 4 more facilities.
Kamchatka Territory	– For 2014, funds are allocated for the construction of 4 gas supply facilities in Kamchatka Territory. The development of design and estimate documentation for 7 gas supply facilities is planned. – In 2014, design and survey works and construction and assembly works for one NGV-fuelling compressor station in Petropavlovsk-Kamchatsky are planned.

9.3.3. Motor Fuel Supply by Gazprom Neft Companies

Having one of the largest filling station chains in Russia (1,111 stations at the end of 2013), the *Gazprom Neft Group* meets 21% of demand for light petroleum products in 26 Russian regions. In 2013, fuel sales totalled 8.4 million tonnes, or 13% more that in 2012.

Number *Gazprom Neft's* filling stations in 2013



The high quality of *Gazprom Neft's* products and services has been acknowledged by a number of awards.

Six products manufactured by Gazpromneft – Omsk Refinery were named among Russia's 100 Best Products. Laureate diplomas of the competition were awarded to the Super Euro-98 automotive gasoline and the BND 90/130 viscous construction bitumen. Honorary certificates in the category Industrial and Technology Products were given to unleaded motor gasoline Regular-92, highly purified petroleum benzene, low-viscosity marine fuel (DMA grade), and Class 3 summer diesel fuel. Winners of the awards can use the 100 Best Russian Goods logo on their products for two years.

In 2012, the All-Russian Quality Organisation confirmed the highest quality of products of the Moscow Refinery (motor gasoline AI-92 Eco and AI-95 Eco, C and E grade diesel fuel, TS-1 jet fuel, BND 90/130 and BND 60/90 road bitumen, and propane/butane commercial gas mixture for domestic consumption).

Slavneft-YANOS won the Best Work in Quality Assurance annual award of the Yaroslavl Region. Since 1 July 2012, all motor gasoline and diesel fuel produced by the Yaroslavl Refinery conforms to the environmental standard Euro-5.

In 2012, *Gazprom Neft's* filling station chain received the 3rd Annual Consumer Rights and Service Quality Award in the category Retail Services. Award winners were determined by the popular vote Consumer Choice 2012.

Gazprom Neft's refuelling complex at the Sheremetyevo airport was assigned the highest quality status by IATA.

An important component of customer relations is the system for responding to customer dissatisfaction with the quality of products or services. The company has in place a claims settlement mechanism based on the corporate-wide Guidelines for Handling Non-Conformances in Sales at Filling Stations.

Gazprom Neft actively supports the development of commodity exchange sales of petroleum products in Russia, viewing it as a mechanism to ensure fair and transparent pricing and sales of petroleum products. In 2013, the company sold over 2.29 million tonnes of petroleum products through exchange trading, which accounted for 10.2% of its total output of petroleum products (compared to 7.5% in 2012). The *Company* continually improves its business processes associated with the advancement of trading technology and tools.

While actively expanding its retail distribution network and developing new distribution channels, the company seeks to build relationships of trust and mutual benefit with its customers, keeps them informed of the features of its products, and strictly complies with the advertising legislation. In 2012–2013, the company successfully continued its federal loyalty programme for individuals, We Are Going the Same Way, launched in 2010. The loyalty programme offers a system of deferred discounts: after buying products or services at *Gazprom Neft's* filling stations, participants are entitled to discounts, which are recorded as bonuses on their cards. The cardholders can use the bonuses they accumulate to pay for other goods and services. At present, the programme is active in all Russian regions where *Gazprom Neft* has filling stations and in the CIS (the Republic of Belarus). Over 4.3 million customers joined the programme since its launch.

OAO Gazprom Neft continues expanding its filling station network and other high-margin distribution channels for its petroleum products. In the aircraft refuelling business, ZAO Gazpromneft-Aero (a wholly owned subsidiary of OAO Gazprom Neft) has the largest sales network in the Russian market, which includes 37 aircraft refuelling complexes. The company provides its services at 44 Russian airports. In 2013, its sales of aircraft fuel in Russia totalled 2.4 million tonnes.

In 2014, it is planned to substantially expand investments in the construction of aircraft refuelling complexes at Russian airports and military airbases. Another priority is expanding the refuelling business at Siberian airports that service trans-Siberian air routes between Europe in Asia. In the long-term perspective it is planned to leverage such advantages as a broad sales network and high service standards to become a leader in the Russian aircraft fuel supply market.

More details about the *Gazprom Neft Group's* approach towards regional sales of petroleum products are available in OAO Gazprom Neft Report 2013 and on the company's website: http://ir.gazprom-neft.com/fileadmin/user_upload/documents/annual_reports/GPN_AR_2013_eng_web.pdf/.

9.3.4. Gas Motor Fuel Supply

The development of the domestic CNG market in a new major project of the *Gazprom Group*.

Advantages of natural gas as a motor fuel

Compressed natural gas (CNG) has significant advantages over diesel fuel. Over the last five years, economic benefits from replacing diesel fuel with CNG for customers in the Russian market grew 70%. In 2009, specific savings from fuel conversion amounted to RUB 9.3 per litre, whereas in 2013 they reached RUB 15.7 per litre.

Vehicles account for 90% of air pollution in major cities. The conversion of vehicles to an environmentally friendly motor fuel – natural gas – helps reduce emissions of soot, highly toxic aromatic hydrocarbons, carbon monoxide, unsaturated hydrocarbons, and nitrogen oxides.

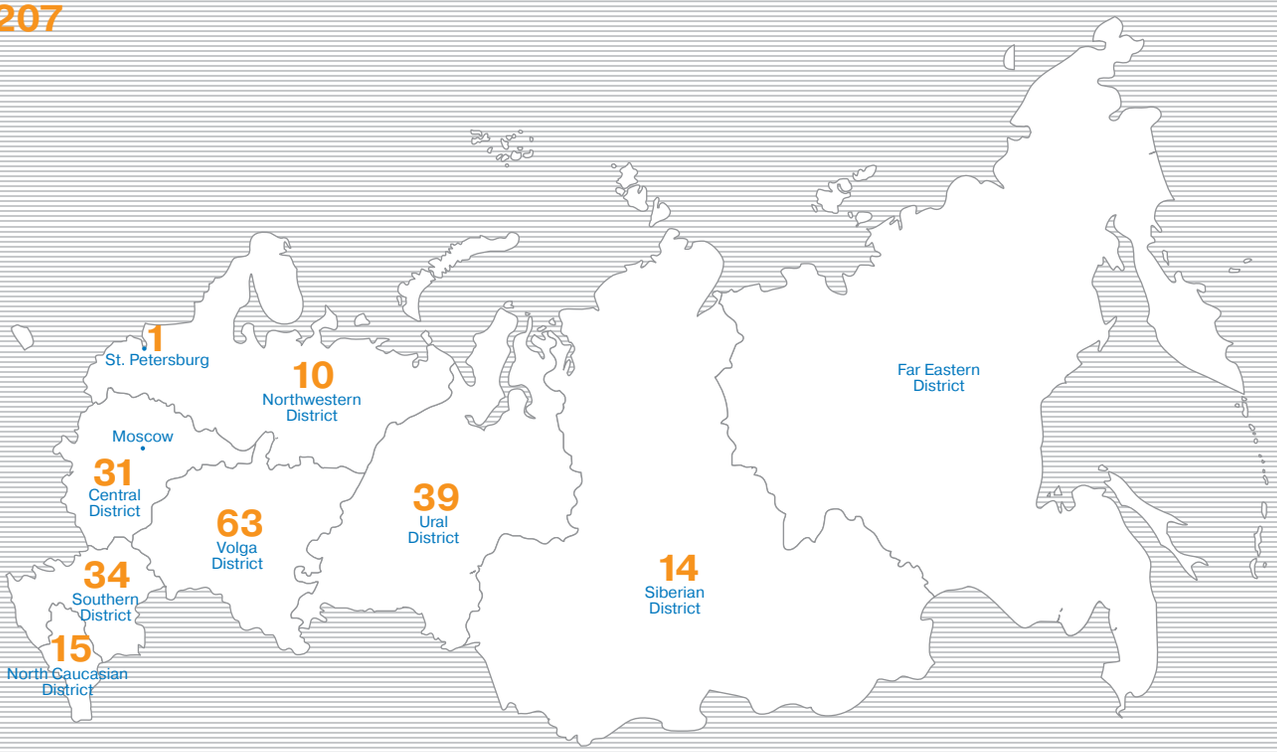
The combustion of 1,000 l of liquid petroleum motor fuel results in the emission of 180–300 kg of carbon monoxide, 20–40 kg of hydrocarbons, and 25–45 of nitrogen oxides. The use of natural gas instead of petroleum-based fuels results in a significant emission reduction: for carbon monoxide – approximately 2–3 times, for nitrogen oxides – 2 times, for hydrocarbons – 3 times, for smoke – 9 times. Gas fuel does not produce soot emissions characteristic to diesel engines.

CNG meets environmental requirements of the Euro-5 class and ensures a reduction in emissions of soot and highly toxic pollutants by 90%, depending on vehicle make and model.

At present, the number of NGV-refuelling compressor stations in Russia is relatively low.

Number of the *Gazprom Group's* NGV-refuelling compressor stations in Russia's federal districts in 2013

Total **207**



OOO Gazprom Gazomotornoye Toplivo created in December 2012 has been designated *Gazprom's* single operator for the development of the Russian gas motor fuel market. The company started building its chain of NGV-refuelling compressor stations by constructing new stations and buying existing stations from other subsidiaries of OAO Gazprom.

The strategic goal of OOO Gazprom Gazomotornoye Toplivo is the strengthening of the *Gazprom Group's* position as the leader in the gas motor fuel market, and ensuring a substantial and steady growth in CNG and LNG sales in Russia and abroad.

The *Group's* key priorities with regard to the development of the gas motor fuel market include:

- consolidation of investment resources and creation of the gas fuel market infrastructure: construction of NGV-refuelling compressor stations, cryogenic filling stations, gas liquefaction plants and other necessary elements of infrastructure;
- coordination of infrastructure development programmes of players in the gas fuel market with a view to achieving synergies between them;
- optimisation of the Russian legislation with regard to the gas motor fuel market and creation of effective mechanisms for state regulation of the sector;
- promotion and support of demand for gas fuel achieved, among other measures, through the signing of cooperation agreements with regional governments and Russian vehicle manufacturers: OAO AVTOVAZ, OOO GAZ Group Management Company, OAO Kirovsky Zavod, OAO KAMAZ, OOO VOLGABUS, OOO Zavod Ispytatelnykh Mashin, OOO KKU Traktorniye Zavody, OAO Sinara-Transportniye Mashiny, and OAO RZhD.

OOO Gazprom Gazomotornoye Toplivo collaborates with executive authorities of Russian regions in order to expand the use of gas fuel. Regional governments support the expansion of NGV vehicle fleets and adopt regional legislation regulating and promoting the use of gas motor fuel. They are also responsible for ensuring adequate demand for services of NGV-fuelling compressor stations at the moment of their commissioning.

In the reporting period, OOO Gazprom Gazomotornoye Toplivo signed cooperation agreements with a number of Russian regions, including Moscow, St. Petersburg, Krasnodar and Kamchatka Territories, the Republic of Tatarstan, Udmurt Republic, as well as Orenburg, Vladimir, Leningrad, Novgorod, Rostov, Sverdlovsk, Omsk, Oryol, Sakhalin, Kaliningrad, and Tomsk Regions.

To support the implementation of the agreements, OOO Gazprom Gazomotornoye Toplivo and regional governments have created joint working groups that coordinate actions for the development of gas fuel infrastructure in the respective regions.

In 2013, priority cities for pilot projects to convert municipal vehicles to gas fuel were identified. These include Moscow, St. Petersburg, Krasnodar, and Tomsk, as well as certain cities in Tatarstan and Moscow Region.

In 2012–2013, OOO Gazprom Gazomotornoye Toplivo carried out a number of information campaigns in Russia and abroad to promote the development of the gas fuel market. The company also was:

- an organiser of the business programme of the St. Petersburg International Gas Forum 2013;
- a co-organiser of the Blue Corridor 2013: Hansa rally of NGV vehicles, and
- a co-organiser of the roundtable discussion on NGVs at the St. Petersburg International Automotive Forum 2013.

More details about initiatives of OOO Gazprom Gazomotornoye Toplivo are available on the company's website: http://www.gazprom-gmt.ru/.

In 2012, OAO Gazprom Gazenergoset, *Gazprom's* operator of liquefied hydrocarbon gases (LHG) sales, accounted for 32% of total LHG sales as a motor fuel and for household consumption within Russia. OAO Gazprom Neft accounted for additional 5% of LHG sales.

In 2013, OAO Gazprom Gazenergoset marketed LHG to retail customers through its network of LHG filling stations based in Astrakhan, Belgorod, Bryansk, Volgograd, Lipetsk, Nizhny Novgorod, Orenburg, Oryol, Rostov, and Tambov Regions, as well as the Republic of Tatarstan and Krasnodar Territory. In 2013, the company entered retail markets of Kursk Region and the Republic of Adygea. As of December 2013, the company owned 177 LHG filling stations.

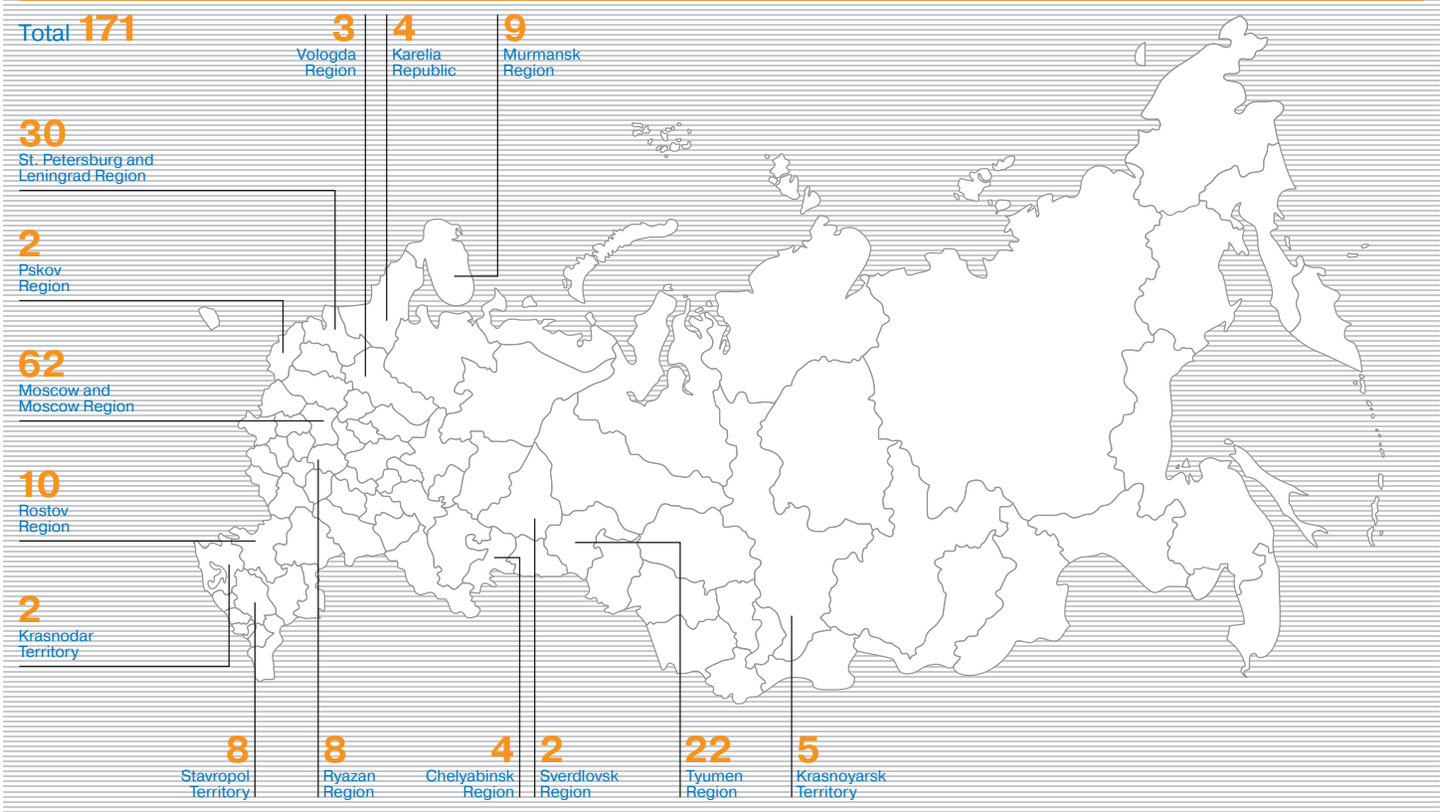
Major LHG suppliers to Russian market

Supplier	Market share, %
OAO Gazprom Gazenergoset	32
OAO SIBUR Holding	14
OAO LUKOIL Oil Company	11
OAO Surgutneftegaz	7
OAO NOVATEK	6
OAO Gazprom Neft	5
OOO Samaranefteorgsintez	5
OAO Tatneft	4
OAO Nizhnekamskneftekhim	3
OAO Rosneft Oil Company	2
OAO Bashneft Oil Company	2

9.3.5. Electricity Supply

Subsidiaries of OOO Gazprom Energoholding annually sell 170–190 bn kWh of electricity generated by them or purchased from other producers. In 2013, they supplied electricity to 16 Russian regions and Finland.

Generating capacities in Russian regions: sales in 2013, bn kWh

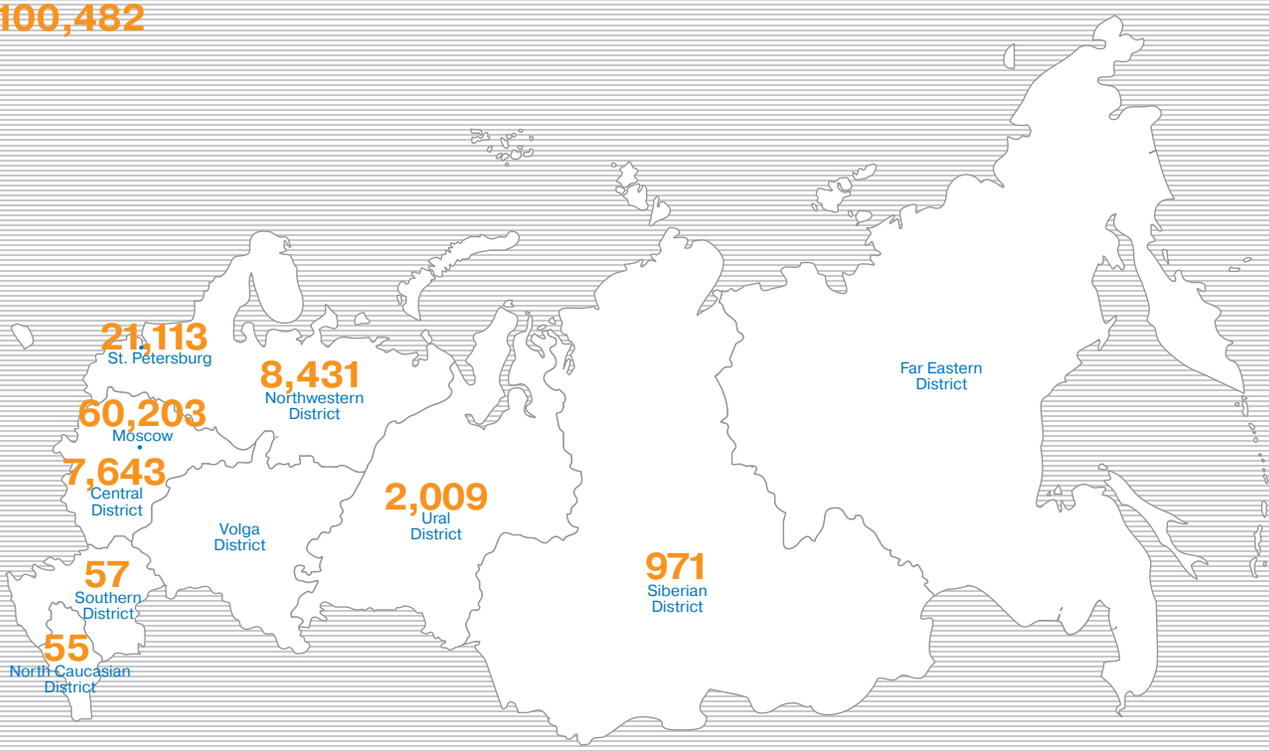


9.3.6. Heat Supply

Gazprom Energoholding supplies heat to customers in the regions where generating capacities of its subsidiaries are based. In 2013, the company supplied heat to 16 Russian regions. OAO MOEK, a *Group* company since 2013, supplies heat and hot water to customers in Moscow and several other cities located close to the Russian capital.

Heat supply by federal district in 2013, thousand Gcal

Total **100,482**



9.4. SOCIAL AND CHARITY PROGRAMMES

Gazprom annually expands its involvement in projects focused on the socio-economic development of Russian regions, creating new jobs, providing assistance to those in need, supporting indigenous communities of the Extreme North, and investing funds in the construction of industrial and social infrastructure facilities.

9.4.1. Supporting Youth

Gazprom for Children

The programme Gazprom for Children is the *Gazprom Group's* largest social project aimed at creating conditions for harmonious intellectual, spiritual, and physical development of Russia's young generation, promoting a healthy lifestyle among the Russian youth, and involving as many children and teenagers as possible in sports, amateur art clubs, and creative groups.

The programme Gazprom for Children encompasses 73 Russian regions. A total of 45 *Gazprom Group* companies and 50 regional subsidiaries of OOO Gazprom Mezhregiongaz are involved in its implementation.

Under the programme, *Gazprom Group* companies:

- construct or renovate sports centres and multi-purpose outdoor sports grounds;
- purchase equipment for sports sections, amateur art clubs, and creative groups;
- recruit highly-skilled coaches and teachers to train children and teenagers;
- organise festivals and sports competitions all over the country;
- organise festivals of amateur performing arts collectives.

Within the framework of the programme, in 2007–2012, 1,032 sports and cultural facilities were built or renovated at a total cost of RUB 20 bn. Total number of children attending these facilities and involved in clubs and sections amounts over 100 thousand people on a daily basis. Other 113 sports facilities are currently under construction.

In 2012-2013 the following facilities were constructed by the *Gazprom Group* as a part of Gazprom for Children programme:

Arkhangelsk region	2012 – Prefabricated court for ice hockey in Arkhangelsk 2013 – Multifunctional playground in a small town Privodino 2013 – 3 multifunctional sports grounds in Severodvinsk
Vladimir region	2013 – Multifunctional playground in the village Volginsky
Volgograd region	2012 – Multifunctional playground for children in Kotelnikovo 2013 – School stadium for SEI Volgograd Lyceum 2013 – Multifunctional playground for the MOU Lyceum number 2
Vologda Region	2013 – Multifunctional playground in Vologda 2013 – Multifunctional playground in Gryazovets 2013 – Multifunctional playground in the village Nyuksenitsa 2013 – Fitness center in Gryazovets
Voronezh Region	2012 – 32 multifunctional children's sports grounds
Ivanovo region	2013 – 15 multifunctional sports grounds
Irkutsk region	2013 – 7 multifunctional sports grounds
Kaliningrad region	2013 – 7 multifunctional sports grounds in Zelenogradskiy area

Kaluga region	2013 – Fitness center in Sukhinichi 2013 – Fitness center in Meshchovsk 2013 – Fitness center in the village Baryatino
Karachay-Cherkess Republic	2013 – 10 multifunctional sports grounds
Kemerovo region	2013 – Ice Palace in Leninsk-Kuznetsk
Kirov region	2013 – Multifunctional playground in a small town Tuzha
Kostroma region	2013 – 15 multifunctional sports grounds
Krasnodar region	2012 – Multifunctional playground in the Uspensky area
Kursk region	2012 – 25 multifunctional sports grounds
Leningrad Region	2012 – 2 multifunctional sports grounds
Lipetsk region	2013 – 3 multifunctional sports grounds
Moscow Region	2013 – 3 multifunctional sports grounds
Nizhny Novgorod region	2012 – Health and Fitness Center in the village of Tanning 2013 – A hockey rink in the village of Luchino
Orenburg region	2013 – 4 multifunctional sports grounds
Pskov region	2013 – Health and Fitness Center in the city of Velikie Luki
Republic of Bashkortostan	2013 – Multifunctional playground in Kumertau 2013 – Ski complex “Olympic Park” in Ufa 2013 – Indoor ice rink in Ordzhonikidze district
Republic of Karelia	2013 – 13 multifunctional sports grounds
Komi Republic	2013 – 9 multifunctional sports grounds
Republic of Mordovia	2012 – Aquatics Stadium in Saransk
Republic of Sakha (Yakutia)	2013 – Children’s multifunctional complex in Yakutsk
Republic of North Ossetia – Alania	2012 – 3 multifunctional sports grounds 2013 – Multifunctional playground in the village of Dur Dur
Rostov region	2012 – 10 multifunctional sports grounds 2012 – Children and Youth equestrian school in the village Lopanka 2013 – 10 multifunctional sports grounds
Ryazan region	2013 – 18 multifunctional sports grounds
Samara region	2013 – Covered complex playground in Samara
St. Petersburg	2012 – Sport and Recreation Center “Crystal” 2013 – Sports school on bullet and shotgun shooting
Saratov region	2012 – 2 multifunctional sports grounds 2013 – Multifunctional playground in the village Mikhailovka 2013 – Fitness center with swimming pool in the village of Stepnoe
Sverdlovsk region	2013 – Indoor hockey court in Yekaterinburg
Stavropol	2013 – 13 multifunctional sports grounds
Tver region	2013 – 2 multifunctional sports grounds
Tula region	2012 – Specialized hall for gymnastics in Tula 2013 – 53 multifunctional sports grounds
Udmurtia	2012 – Biathlon Complex in Izhevsk

Chuvash Republic	2012 – Ice Palace in Cheboksary 2013 – 3 multifunctional sports grounds
Yamal-Nenets Autonomous District	2013 – 2 multifunctional sports grounds
Yaroslavl region	2013 – Fitness club with swimming pool and universal game room in Myshkin 2013 – 5 multifunctional sports grounds

Charity projects for children

OAO Gazprom has traditionally organised New Year charity events for children. In January 2012, over 1,000 children from social institutions of Moscow and Moscow Region were invited to the Meridian Cultural Centre for a New Year festival organised by Gazprom. At a similar event held in 2013 at the Izmaylovo Concert Hall, children from social institutions of Moscow and Moscow Region were joined by children and teenagers from Bryansk, Ivanovo, and Vladimir Regions.

Group companies also organise various events and charity actions to help children. Before the New Year 2014, OOO Gazprom Dobycha Nadym conducted the traditional campaign A Gift for Every Child. Over 3 thousand little residents of Yamalo-Nenets Autonomous Area received surprise presents from the company and its employees; a helicopter brought gifts from Nadym to the remote village of Yar-Sale (Yamalsky district). In December 2013, staff members of OOO Gazprom VNIIGAZ visited the children's unit of the Vidnoye District Hospital. Little patients watched a show with clowns and were given presents, whereas the hospital's somatic department received a donation for purchasing a necessary piece of medical equipment – a UV bactericidal cabinet for storing sterile materials and instruments.

In 2013, before the beginning of the new school year traditionally marked by the Knowledge Day, staff members of OOO Transgaz Saratov took part in the charity campaign Help a Kid Prepare for School. Employees of all branches of the company donated funds within the framework of the corporate social project Green Planet for Children. Then the donations totalling over RUB 100 thousand were used to purchase stationery, backpacks, sports equipment, and other supplies. On the Knowledge Day, long-awaited gifts were presented to children from over 50 socially vulnerable families and families with many children, as well as to 20 children with special needs living in the regions where the company's operations were based: Saratov, Penza, and Tambov Regions.

These examples are only a small part of the charitable activities of the *Gazprom Group*, focused on children.

Charitable activities of the *Gazprom Neft Group*

Over several years, *Gazprom Neft Group* companies have implemented the social investment programme Home Towns, which includes the following components:

- A Town for People – development of the urban environment (housing construction, urban improvement projects, development of local amenities);
- Birthplace of Victory – construction and enhancement of infrastructure for children's and amateur sports, support for sports institutions, and the organisation of sports events;
- New Horizons – support to and development of the education sector in Russian regions, including measures to address problems associated with the lack of kindergartens and the need to improve the condition of existing ones;
- Cultural Code – preservation and development of local cultural potential;
- Preserving Traditions – engagement with minority indigenous peoples of the North.

In 2013, OAO Gazprom Neft implemented 348 social projects – 59 more than in 2012. In 2012–2013, over RUB 6.3 bn was spent on the programme. In 2013, some RUB 2.5 bn was spent on infrastructure development projects under socio-economic cooperation agreements with regional and municipal authorities, whereas expenditures on corporate charitable initiatives amounted to RUB 1.2 bn. In 2013, the company actively worked on the component New Horizons in Orenburg Region, focusing its efforts on the maintenance and renovation of schools, kindergartens, and cultural centres. In Khanty-Mansiysk, the Childhood Planet day-care facility was commissioned; 20% of the places were allocated for children of employees of a local Gazpromneft subsidiary, Gazpromneft-Khantos.

9.4.2. Supporting Culture and the Arts

Gazprom Group companies pay constant attention to maintaining and deepening traditions of Russia's multinational culture, moral and aesthetic education of the younger generation, the development of international cultural exchange.

Since 2003, once every two years, *Gazprom* holds Fakel corporate festival that brings together amateur creative teams and performers subsidiaries and organizations of OAO Gazprom. The final round of the festival in May 2013 was the first time outside of Russia – in Vitebsk (Belarus).

Within the reporting period concerts of classical music Russian Rachmaninov Trio and the Austrian singer V. Holtsmayer were arranged in the State Tretyakov Gallery and the House of Music with the support of OAO Gazprom and Austrian company OMV.

The *Company* has sponsored the organization of workshops of famous Russian musicians and teachers for students of leading conservatories in China.

Within the reporting period the Company continued cooperation with the State Tretyakov Gallery and the South Korean company Kogas for the publication of the album Golden Map of Russia. Masterpieces of Russian Art in Korean.

Within the Year of the Russian Federation in the Kingdom of the Netherlands and the Year of the Kingdom of the Netherlands in the Russian Federation the Company was a partner of the Festival of Russian classical music in the Netherlands.

With the support of OAO Gazprom and the company GDF SUEZ sponsorship project – production of The Rite of Spring was implemented in honour of the 100th anniversary of its premiere by the Mariinsky Theatre under the direction of Valery Gergiev at the Theatre des Champs Elysees in Paris.

Company sponsored the first St. Petersburg International Film Forum and made a financial contribution to the five-volume edition of EA Yevtushenko A poet in Russia – more than a poet.

Gazprom Group companies have implemented charity and sponsorship projects to support culture and the arts in regions of operations. For example, since 2007, OAO Gazprom Neft has been the general partner of the Fire Spirit Debut Film Festival held annually in Khanty-Mansiysk and being one of the main cultural events of the region.

OOO Gazprom Transgaz Stavropol has a long history of cooperation with the State Enterprise 'Nasledіye' of the Ministry of Culture of Stavropol Territory and OOO NII SevKavArkheologiya – institutions involved in fundamental and applied research in the field of the conservation, use, and study of historical and cultural heritage.

9.4.3. Supporting Sports

Supporting the development of sports is an important priority of the *Gazprom Group's* social policy, which is focused on promoting a healthy lifestyle among young people, while helping them realise their potential.

The Olympics

In 2012–2013, one of the *Gazprom Group's* most significant national projects was the construction of sport venues and the Mountain Olympic Village for the 2014 Winter Olympics in Sochi.

By financing and implementing these projects, the Gazprom Group made a major contribution to the organisation of the Olympics. Construction projects implemented since 2007 include the Adler TPP, the Dzhubga – Lazarevskoye – Sochi gas pipeline, a biathlon and ski complex on the Psekhako Ridge, the Mountain Olympic Village for skiers and biathletes, a mountain tourist centre, the "Galaxy" Cultural Centre, new facilities at the Alpica Service ski resort, and many others.

As part of the construction of a biathlon and ski complex in Krasnaya Polyana, *Gazprom* commissioned a biathlon shooting range and roller skiing track in 2012. This made it possible to carry out several major competitions before the start of the Olympics. These events included the Russian Biathlon Cup, the finals of the Russian Cross-Country Skiing Cup, and the Russian Biathlon and Cross-Country Skiing Championships for Paralympic athletes.

Football

The *Gazprom Group* is known for its special attitude towards football due to its long and successful history of cooperation with football organisations, the status of an official partner of the UEFA Champions League, and its support of Russian and European football clubs.

Gazprom Group companies sponsor the Russian Zenit Football Club, the German Bundesliga club Schalke 04, and the Serbian Crvena Zvezda, as well as the Football Union of Russia. In 2012, the *Gazprom Group* became the Global Energy Partner of the English Chelsea Football Club.

In 2013, Russian President Vladimir Putin, Russian Sports Minister Vitaly Mutko, Chairman of the Management Committee of OAO Gazprom Alexey Miller, and FIFA (International Federation of Association Football) President Joseph Blatter signed an agreement for OAO Gazprom to become an official FIFA partner. According to the agreement, Gazprom will have the status of an official partner of all FIFA tournaments held between 2015 and 2018, including the 2018 FIFA World Cup, which will be held in Russia for the first time.

In 2013, the *Group* continued its international children's project Football for Friendship, a part of the programme Gazprom for Children. The project is intended to promote such important values as respect for other cultures and ethnic groups, as well as healthy lifestyle.

Gazprom also helps promote futsal. The futsal club Gazprom-Yugra, formerly known as TTG, was founded in 1993 and achieved significant results: is won the European Futsal Cup Winners Cup. In 2012, the club won the Russian Futsal Cup for the first time.

Ice hockey

For many years *Gazprom Group* companies are engaged in the development of Russian hockey, supporting leading Russian ice hockey team – the SKA (St. Petersburg) and Avangard (Omsk). Gazprom Neft Cup, a part of the programme Gazprom for Children, is a prominent example of partnership between business and the society, an event which over the years has become one of Europe's largest and best children's hockey tournaments.

In 2012, another initiative under the framework programme Gazprom for Children was launched – a major inter-regional social project titled the Avangard Hockey Academy. The project aims to build a qualitatively new modern system for training young players and facilitate the development of children's and youth hockey. The project is implemented on the basis of the hockey club Avangard. In is planned that, beginning in 2013, several Academy branches will be established in regions where *Gazprom Neft Group* companies operate. The branches will share a common training philosophy, methodology, standards, and approach towards the development of young athletes. The best students of regional branches will have an opportunity to continue their training at the Academy's centre in Omsk.

Other sports

The *Gazprom Group's* programmes for supporting sports

Sports	Programmes and projects
Equestrian sports	OAO Gazprom supports the development of equestrian sports in the Russian Federation. Chairman of the Management Committee of OAO Gazprom Alexey Miller has become the Chairman of the Board of Directors of OAO Russian Hippodromes. The *Gazprom Group* supported the Russian President's Cup Horse Race.
Biathlon	Since 2007, *Gazprom Group* companies have sponsored the International Biathlon Competition for the Vitaly Fatyanov Prize. OAO Gazprom is a sponsor of the Russian Biathlon Union.
Karate	OOO Gazprom Dobycha Yamburg supports the Russian Kyokushinkai Federation and the development of this sport in Yamal. The Yamburg Cup, a regular open international tournament, has been held in Yamalo-Nenets Autonomous Area since 2001.
Rhythmic gymnastics	OAO Gazprom provides sponsorship to the Russian Rhythmic Gymnastics Federation.
Tennis	OAO Gazprom will build Lakhta Tennis Club in St. Petersburg – the future Tennis Academy.

Table tennis	OOO Gazprom Dobycha Orenburg supports the table tennis club Fakel Gazproma (Orenburg), a five-time champion of Russia and a three-time winner of the Russian Cup. Fakel Gazproma also became the first club in the history of Soviet and Russian table tennis to win the Cup of the European Champions League, the most prestigious award in the Old World.
Sailing	The *Group* supports the regional non-governmental organisation St. Petersburg Yacht Club in organising competitions, including international ones, and in the construction of infrastructure for the development of children's and youth, amateur, and professional sailing sports in St. Petersburg.
Volleyball	OAO Gazprom provides sponsorship to the Russian Volleyball Federation and finances voleyball club Zenit (Kazan).
Rowing	OAO Gazprom provides sponsorship to the Russian Canoe Federation.
Chess	OAO Gazprom provides sponsorship to the Russian Chess Federation.

9.4.4. Supporting the Indigenous Communities of the North

The nature of the *Gazprom Group's* business implies industrial operations in the areas where indigenous peoples of the North, Siberia, and the Russian Far East have traditionally lived. *Group* companies engage with indigenous communities to preserve their way of life and areas used for traditional natural resource management practices.

OAO Gazprom's approach towards indigenous communities living in the areas where the Company operates is based on the organic combination of respect for their identity and traditional culture, on the one hand, and their engagement in the modern social life, on the other hand.

OAO Gazprom-Noyabrskneftegaz discusses its programmes for supporting indigenous communities with community leaders on a regular basis. The company also provides assistance for the preservation of cultural heritage of peoples of the far north.

The Yamal Peninsula, one of the *Gazprom Group's* key gas production regions, has the unofficial status of the world's largest reindeer herding centre. The number of domestic reindeer in Yamal is over 600,000 – this is the biggest flock worldwide. Group companies annually provide funds for the Reindeer Herder's Day, one of the of the most important events to Nenets communities. The companies have traditionally provided support for organising reindeer herders' and fishermen's festivals in four municipalities – Nadymsky, Yamalsky, Purovsky, and Priuralsky districts.

In 2012–2013, representatives of *Group* companies actively participated in organising Reindeer Herder's Day events in Yamalo-Nenets Autonomous Area. Within the framework of corporate charity programmes, OOO Gazprom Dobycha Urengoy provided some RUB 7 million for organising Reindeer Herder's Day festivities in the town of Muravlenko, the villages of Tolka and Khalyasovey (YaNAA), and the village of Russkinskaya in Surgutsky District (KhMAA). The company annually spends tens of millions of roubles on health services for indigenous communities, secondary and higher education for indigenous children, as well as purchase of fuel and lubricants, food, special clothing, vehicles, and construction materials.

OOO Gazprom Transgaz Surgut provided funds to Yamal for Our Descendants, a local indigenous rights movement in Purovsky district, for organising Reindeer Herder's Day festivities.

OOO Gazprom Dobycha Urengoy and OOO Gazprom Dobycha Yamburg provide substantial financial aid to indigenous fishing communities. The funds are used to purchase necessary clothing and fishing equipment, as well as equipment for fish storage, transportation, and processing. The companies care for fishermen's working conditions and the well-being of their families.

Group companies also build supply posts and finance indigenous communities in order to support their traditional economic practices. For example, OAO Gazprom Neft donated power generators, chainsaws, and snowmobiles, and provided funds for purchasing construction materials and special clothing.

OAO Gazprom-Noyabrskneftegaz annually sign socio-economic agreements with indigenous families. These documents not only define obligations with regard to supporting the families, but also help engage them in the company's activities. Currently the company has such agreements with more than a hundred indigenous families.

FEEDBACK

For suggestions and questions concerning this Sustainability Report, please contact the Public Relations Division of the Public Relations Directorate of OAO Gazprom's Information and Communications Department. Telephone: +7 (495) 719-32-82, +7 (495) 719-12-83. Fax: +7 (495) 718-63-85.

10. Annexes

10.1. Annex 1. GRI Content Index

Indicator	Indicator definition	Indicator disclosure	Comments	Page
General standard disclosures				
Strategy and Analysis				
G4-1	Statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability	Statement from OAO Gazprom's Chairman of the Management Committee	Disclosed	6–7
G4-2	Description of key impacts, risks, and opportunities	2.2. The *Group's* Strategy and Sustainability 2.3. Sustainability Risks 7.3. Climate Change See the Risk Management chapter of the OAO Gazprom Annual Report 2013	Disclosed	27 31–32 132–135 113–123
Organisational Profile				
G4-3	Name of the organisation	1.1. Key Activities and the Scale of Operations	Disclosed	12–13
G4-4	Primary brands, products, and services	1.1. Key Activities and the Scale of Operations	Disclosed	13–17
G4-5	Location of the organisation's headquarters	16 Nametkina St., Moscow, GSP-7, 117997, Russian Federation	Disclosed	–
G4-6	Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	1.1. Key Activities and the Scale of Operations 3.2. International Business	Disclosed	15 54–57
G4-7	Nature of ownership and legal form	2.1. Corporate Governance System	Disclosed	23–24
G4-8	Markets served by the organisation (including geographic breakdown, sectors served, and types of customers and beneficiaries)	1.1. Key Activities and the Scale of Operations 3.1. Operations in the Russian Market 3.2. International Business	Disclosed	15 43–50 54–62
G4-9	Scale of the organisation	1.1. Key Activities and the Scale of Operations 2.1. Corporate Governance System 4.2. HR Profile of the *Gazprom Group* See the Major Results chapter of the OAO Gazprom Annual Report 2013	Disclosed	13–17 23–26 76–77 6-7
G4-10	Total number of employees	4.2. HR Profile of the *Gazprom Group* Annex 2. Additional Information on the Activities of the Gazprom Group in 2010–2013	Partially disclosed	76–77 194

Indicator	Indicator definition	Indicator disclosure	Comments	Page
G4-11	Percentage of total employees covered by collective bargaining agreements	4.4. Social Partnership	Partially disclosed	83
GRI G4 - EU1	Installed capacity, broken down by primary energy source and regulatory regime	3.1. Operations in the Russian Market Annex 2. Additional Information on the Activities of the *Gazprom Group* in 2010–2013 See the Electric Power and Heat Generation section in the Performance Results chapter of the OAO Gazprom Annual Report 2013	Partially disclosed	47–48, 62 185 57–59
GRI G4 - EU2	Net energy output broken down by primary energy source and by regulatory regime	Annex 2. Additional Information on the Activities of the *Gazprom Group* in 2010–2013 See the Electric Power and Heat Generation section in the Performance Results chapter of the OAO Gazprom Annual Report 2013	Partially disclosed	187 59-60
G4-12	Description of the organisation's supply chain	3.4. Procurement and Cost Control System	Partially disclosed	70–71
G4-13	Description of any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	1.2. Key Projects 2.2. The *Group's* Strategy and Sustainability See the Major Events chapter of the OAO Gazprom Annual Reports 2013 and 2012 Statutory consolidated accounting reports of OAO Gazprom and its subsidiaries for 2013: http://www.gazprom.com/f/posts/07/271326/gazprom-financial-report-2013-en.pdf	Disclosed	18–19 27–28 8–9, 10–13
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	7.1. Environmental Management 7.4. Protecting Vulnerable Ecosystems	Disclosed	115 136
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	2.5. Stakeholder Engagement 3.2. International Business 7.3. Climate Change	Disclosed	37 64–65 135
G4-16	Membership in associations and/or national or international advocacy organisations	2.5. Stakeholder Engagement 3.2. International Business 8.4. Prospective Innovative Solutions and Projects 9.1. General Contribution to Economic and Social Development 9.4. Social and Charity Programmes	Disclosed	38–39 64–65 145–146 153 165–170

Indicator	Indicator definition	Indicator disclosure	Comments	Page
Identified Material Aspects and Boundaries				
G4-17	List of all entities included in the organisation's consolidated financial statements or equivalent documents. Information on whether any entity included in the organisation's consolidated financial statements or equivalent documents is not covered by the report	About This Report See Note 20 to the Statutory consolidated accounting reports of OAO Gazprom and its subsidiaries for 2013: http://www.gazprom.com/f/posts/07/271326/gazprom-financial-report-2013-en.pdf	Disclosed	8–9
G4-18	Explanation of the process for defining the report content and the aspect boundaries.	About This Report	Disclosed	8–9
G4-19	Explanation of how the organisation has implemented the reporting principles for defining report content	About This Report	Disclosed	8–9
G4-20	List of all the material aspects identified in the process for defining report content	Material aspects are disclosed in accordance with the Report boundaries, unless otherwise stated.	Disclosed	–
G4-21	Description for each material aspect, the aspect boundary within the organisation	Data on material aspects outside the organisation are not deemed material, and are not tracked by the *Gazprom Group's* data collection systems.	Not disclosed	–
G4-22	Description for each material aspect, the aspect boundary outside the organisation	There were no restatements in the reporting period.	Disclosed	8–9
G4-23	Explanation of the effect of any restatements of information provided in previous reports, and the reasons for such restatements	The scope and aspect boundaries have been expanded to the boundaries of the Consolidated Financial Statements of OAO Gazprom and Its Subsidiaries for 2013, unless otherwise stated.	Disclosed	–
Stakeholder Engagement				
G4-24	List of stakeholder groups engaged by the organisation	2.5. Stakeholder Engagement	Disclosed	37
G4-25	Explanation of the basis for identification and selection of stakeholders with whom to engage	2.5. Stakeholder Engagement	Disclosed	37
G4-26	Description of the organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	2.5. Stakeholder Engagement 3.1. Operations in the Russian Market 3.2. International Business 3.4. Procurement and Cost Control System 4.4. Social Partnership 7.1. Environmental Management 9.1. General Contribution to Economic and Social Development 9.2. Partnership with Russian Regions 9.4. Social and Charity Programmes	Disclosed	37–39 49–50 54–65 70–71 83 122–126 155 156 165–170

Indicator	Indicator definition	Indicator disclosure	Comments	Page
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting	About This Report 2.5. Stakeholder Engagement 7.1. Environmental Management 7.4. Protecting Vulnerable Ecosystems	Disclosed	8–9 37 124–126 136
Report Profile				
G4-28	Reporting period	About This Report	Disclosed	8–9
G4-29	Date of most recent previous report (if any)	Sustainability Report of OAO Gazprom for 2010–2011 was published in December 2012.	Disclosed	–
G4-30	Reporting cycle	About This Report	Disclosed	8–9
G4-31	Contact point for questions regarding the report or its contents	Feedback	Disclosed	171
G4-32	The 'in accordance' option the organisation has chosen	'Core' option	Disclosed	–
G4-33	Organisation's policy and current practice with regard to seeking external assurance for the report	No external assurance for this Sustainability Report of the *Gazprom Group* was carried out.	Disclosed	–
Governance				
G4-34	Governance structure of the organisation, including committees of the highest governance body. Committees responsible for decision-making on economic, environmental and social impacts.	2.1. Corporate Governance System 2.2. The *Group's* Strategy and Sustainability	Disclosed	23–24 28–29
G4-35	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	2.2. The *Group's* Strategy and Sustainability	Disclosed	29-31
G4-39	Whether the Chair of the highest governance body is also an executive officer (and, if so, his or her function within the organisation's management and the reasons for this arrangement)	The Chair of the highest governance body is not an executive officer.	Disclosed	–
G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed	2.4. Improving Operational Efficiency Information about material facts, affiliated entities, transportation services, list of insider information and the Company's details is disclosed through OAO Gazprom's official website: http://www.gazprom.ru/investors/disclosure/facts/2014/	Disclosed	33

Indicator	Indicator definition	Indicator disclosure	Comments	Page
G4-51	Remuneration policies for the highest governance body and senior executives	2.1. Corporate Governance System 4.3. Employee Attraction, Professional Development, and Motivation	Disclosed	25 81–82
Ethics and Integrity				
G4-56	Description of the organisation's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	2.1. Corporate Governance System 2.2. The *Group's* Strategy and Sustainability 2.4. Improving Operational Efficiency	Disclosed	23–24 30 33
Specific standard disclosures				
Management approach		2.2. The *Group's* Strategy and Sustainability 2.3. Sustainability Risks	Disclosed	27–30 31–32
Indicators				
Category: Economic				
Management approach to ensure short and long-term electricity availability and reliability		2.2. The *Group's* Strategy and Sustainability 3.1. Operations in the Russian Market 3.3. Investment See the Electric Power and Heat Generation section in the Performance Results chapter of the OAO Gazprom Annual Reports 2012 and 2013	Disclosed	26–27 48–49 66, 67–68 71-74, 61–65
Research and development activity and expenditure aimed at providing reliable electricity and promoting sustainable development (potentially)		8.3. Results of Innovation Activities in 2012–2013	Disclosed	144
G4-EC1	Direct economic value generated and distributed	9.1. General Contribution to Economic and Social Development	Disclosed	151–154
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	7.3. Climate Change	Disclosed	132–135
G4-EC3	Coverage of the organisation's defined benefit plan obligations	4.4. Social Partnership See Note 16 to the Open Joint Stock Company Gazprom Statutory Accounting Reports of the Parent Company OAO Gazprom 2013: http://www.gazprom.com/f/posts/07/271326/gazprom-financial-report-2013-en.pdf	Partially disclosed	89–90
G4-EC7	Development and impact of infrastructure investments and services supported	9.1. General Contribution to Economic and Social Development 9.4. Social and Charity Programmes	Disclosed	159–163 174–180
G4-EC8	Significant indirect economic impacts, including the extent of impacts	9.1. General Contribution to Economic and Social Development	Disclosed	159–163
GRI G4 - OG1	Volume and type of estimated proved reserves and production	3.1. Operations in the Russian Market 3.2. International Business	Disclosed	43–44, 46 54

Indicator	Indicator definition	Indicator disclosure	Comments	Page
GRI G4 - EU10	Planned capacity against projected electricity demand over the long term, broken down by energy source and regulatory regime	In accordance with the programme of capacity supply agreements (CSAs), in 2014–2016 the Gazprom Group plans to commission 3.4 GW of new capacity. For more details, see annual reports of OOO Gazprom Energoholding's subsidiaries: http://www.geh.gazprom.ru/pages/main/shareholders/6668/index.shtml	Disclosed	–
GRI G4 - EU11	Average generation efficiency of thermal plants by energy source and by regulatory regime	Annex 2. Additional Information on the Activities of the *Gazprom Group* in 2010–2013 See annual reports of OOO Gazprom Energoholding's subsidiaries: http://www.geh.gazprom.ru/pages/main/shareholders/6668/index.shtml	Disclosed	186
Category: Environmental[1]				
G4-EN3	Energy consumption within the organisation	Annex 2. Additional Information on the Activities of the *Gazprom Group* in 2010–2013	Partially disclosed	186, 191
G4-EN5	Energy intensity	6.3. Energy Intensity of the *Group's* Operations	Disclosed	107–109
GRI G4 - OG3	Total amount of renewable energy generated by source	6.4. Renewable Energy Use	Disclosed	110
G4-EN6	Reduction of energy consumption	6.1. Energy Conservation and Energy Efficiency 6.2. The *Group's* Energy Conservation and Energy Efficiency Initiatives Annex 2. Additional Information on the Activities of the *Gazprom Group* in 2010–2013	Disclosed	101–103 104–106 189–190
G4-EN8	Total water withdrawal by source	7.2. Environmental Impact of the Group's Operations	Disclosed	127
G4-EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	7.4. Protecting Vulnerable Ecosystems	Partially disclosed	136
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	7.3. Climate Change	Partially disclosed	134–135
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	See CDP reports of OAO Gazprom: https://www.cdp.net/en-US/Results/Pages/Company-Responses.aspx?company=7047.	Partially disclosed	–
G4-EN19	Reduction of greenhouse gas (GHG) emissions	7.3. Climate Change	Disclosed	133–135

1 The information disclosed under the category Environmental has been prepared using standards and techniques compliant with Russian legislation, unless otherwise stated.

Indicator	Indicator definition	Indicator disclosure	Comments	Page
G4-EN21	NOX, SOX, and other significant air emissions	7.2. Environmental Impact of the *Group's* Operations	Disclosed	127–128
G4-EN22	Total water discharge by quality and destination	7.2. Environmental Impact of the *Group's* Operations See the Water Use and Protection of Water Resources section of the OAO Gazprom Environmental Report 2013	Disclosed	129 25-27
G4-EN23	Total weight of waste by type and disposal method	7.2. Environmental Impact of the *Group's* Operations	Disclosed	129
G4-EN24	Total number and volume of significant spills	No significant oil and petroleum product spills (over 10 tonnes) took place at the *Group's* facilities in the reporting period.	Disclosed	–
GRI G4 - OG6	Volume of flared and vented hydrocarbon	See the Improving Air Quality section of the OAO Gazprom Neft Sustainable Development Report 2013	Disclosed	90-91
GRI G4 - OG7	Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal	See the Waste Management section of the OAO Gazprom Neft Sustainable Development Report 2013	Disclosed	93
G4-EN29	Monetary value of significant fines and total number of nonmonetary sanctions for noncompliance with environmental laws and regulations	7.1. Environmental Management	Disclosed	119–120
G4-EN30	Significant environmental impacts of transporting products and other goods and materials for the organisation's operations, and transporting members of the workforce	7.2. Environmental Impacts of the *Group's* Operations 7.3. Climate Change	Disclosed	127–135 133–134
G4-EN31	Total environmental protection expenditures and investments by type	7.1. Environmental Management	Disclosed	119–122
Category: Social				
Sub-category: Labour practices and decent work				
Programs and processes to ensure the availability of a skilled workforce		4.3. Employee Attraction, Professional Development, and Motivation	Disclosed	78–82
Policies and requirements regarding health and safety of employees and employees of contractors and subcontractors		5.1. Occupational Health and Safety Management 5.2. Workplace Safety 5.3. Coordination of OHS Activities of Contractors and Suppliers	Disclosed	89–91 92–93 94
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region	4.2. HR Profile of the *Gazprom Group*	Partially disclosed	76–77

Indicator	Indicator definition	Indicator disclosure	Comments	Page
G4-LA2	Total number and rates of new employee hires and employee turnover by age group, gender, and region	4.4. Social Partnership No such data is collected at the *Gazprom Group* level.	Partially disclosed	83–85
G4-LA4	Benefits provided to fulltime employees that are not provided to temporary or parttime employees, by significant locations of operation	The *Group* fully complies with legal requirements concerning notice periods regarding operational changes.	Disclosed	–
G4-LA5	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	5.1. Occupational Health and Safety Management Trade union organisations, which are active in virtually all Group companies, represent employees in joint health and safety committees.	Partially disclosed	89–91
G4-LA6	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs	5.2. Workplace Safety	Partially disclosed	92-93
G4-LA8	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Health and safety topics are covered in the General Collective Agreement of OAO Gazprom and its Subsidiaries for 2010–2012; and since 2013 in the General Collective Agreement of OAO Gazprom and its Subsidiaries for 2013–2015.	Disclosed	–
G4-LA9	Health and safety topics covered in formal agreements with trade unions	4.3. Employee Attraction, Professional Development, and Motivation See the Personnel section of the OAO Gazprom Annual Reports 2012 and 2013	Partially disclosed	79–80 108, 89
G4-LA10	Average hours of training per year per employee by gender, and by employee category	4.3. Employee Attraction, Professional Development, and Motivation	Partially disclosed	78–82
G4-LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	The *Gazprom Group* has a system in place for selecting candidates for certain positions and supporting their development. Among other activities, the system involves periodic performance assessments reviews and the identification of needs for the development of personal and professional competencies.	Partially disclosed	–

Indicator	Indicator definition	Indicator disclosure	Comments	Page
G4-LA12	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Annex 2. Additional Information on the Activities of the *Gazprom Group* in 2010–2013 Gender composition of the Board of Directors of OAO Gazprom as of 31 December 2012: men – 91%, women – 9%. Age composition of the Board of Directors of OAO Gazprom as of 31 December 2012: 30–50 y.o. – 27%, above 50 y.o. – 73%. Gender composition of the Management Committee of OAO Gazprom as of 31 December 2013: men – 88%, women – 12%. Age composition of the Management Committee of OAO Gazprom as of 31 December 2013: 30–50 y.o. – 47%, above 50 y.o. – 53%.	Disclosed	194
Sub-category: Human Rights				
G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	The *Group* does not practice human rights screening of investment agreements. To reduce the risks associated with procurement decisions, the Corporate Costs Department carries out an open pre-qualification of bidders. The pre-qualification involves comprehensive assessment of a potential bidder. Articles of association and other corporate documents are requested and reviewed; conformance to mandatory requirements is verified. Furthermore, information from the corporate security service, the referrals of other customers, and the materials of an on-site inspection (engineering audit) are also taken into account; a collegial discussion of this information is held. The *Gazprom Group* makes a decision on whether or not to include an applicant in the registry of potential suppliers and contractors based on these results.	Partially disclosed	–
G4-HR3	Total number of incidents of discrimination and corrective actions taken	The *Group* has not identified any incidents of discrimination during the reporting period.	Disclosed	–
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	4.4. Social Partnership During the reporting period, the *Group* has not identified any incidents where the right to exercise the freedom of association and collective bargaining were violated.	Disclosed	83

Indicator	Indicator definition	Indicator disclosure	Comments	Page
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	The *Group* does not use child labor. According to Russian legislation, the *Group* is not liable for the activities of its suppliers; it does not conduct such an assessment.	Disclosed	–
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	The *Group* does not use forced or compulsory labor. According to the Russian legislation, the *Group* is not liable for the activities of its suppliers; it does not conduct such an assessment.	Disclosed	–
G4-HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken	OOO Gazprom Transgaz Surgut paid nearly RUB 500 thousand to indigenous communities as a compensation for disrupting the traditional regime of natural resource management.	Disclosed	–
GRI G4 - OG9	Operations where indigenous communities are present or affected by activities and where specific engagement strategies are in place	7.1. Environmental Management 9.4. Social and Charity Programmes	Disclosed	115–118 179–180
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	The *Group* does not practice such an assessment.	Disclosed	–
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	No such grievances were received by the *Group* during the reporting period	Disclosed	–
Sub-category: Society				
G4-SO2	Operations with significant actual or potential negative impacts on local communities	7.1. Environmental management 9.4. Social and Charity Programmes	Disclosed	132–134 169–170
GRI G4 - OG10	Number and description of significant disputes with local communities and indigenous peoples	No significant disputes with local communities and indigenous peoples took place during the reporting period	Disclosed	–
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	2.4. Improving Operational Efficiency No such risks assessments were conducted during the reporting period. However, the Code of Corporate Ethics of OAO Gazprom was developed, and mechanisms for filing reports with the Corporate Ethics Commission have been introduced.	Partially disclosed	33
G4-SO4	Communication and training on anticorruption policies and procedures	2.4. Improving Operational Efficiency	Disclosed	33
G4-SO5	Confirmed incidents of corruption and actions taken	No incidents of corruption were identified during the reporting period.	Disclosed	–

Indicator	Indicator definition	Indicator disclosure	Comments	Page
Sub-category: Product responsibility				
G4-PR5	Results of surveys measuring customer satisfaction	See the Stakeholder Engagement: Customers section of the OAO Gazprom Neft Sustainable Development Report 2013.	Partially disclosed	60-61
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	No breaches of customer privacy and losses of customer data were registered during the reporting period.	Disclosed	–
G4-PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services	No such fines were imposed during the reporting period.	Disclosed	–

10.2. Annex 2. Additional Information on the Activities of the Gazprom Group in 2010–2013

Manufacturing of main petroleum and gas-based products by the *Gazprom Group* (without OAO Gazprom Neft and OAO Gazprom Neftekhim Salavat)

Product	2010	2011	2012	2013
Stable gas condensate and oil, thousand tonnes	3,828.12	4,595.12	4,675.34	6,035.33
Dry gas, bcm	26.20	25.72	24.96	24.19
LHG, thousand tonnes	2,311.63	2,281.74	2,286.45	2,287.40
Motor gasoline, thousand tonnes	2,114.32	2,153.31	2,243.82	2,428.75
Naphtha, thousand tonnes	975.35	1,108.16	1,416.40	1,549.59
Diesel fuel, thousand tonnes	1,366.25	1,280.62	1,554.47	1,568.99
Aviation fuel, thousand tonnes	165.70	166.49	145.99	158.84
Fuel oil, thousand tonnes	377.95	299.46	347.30	351.42
Sulphur, thousand tonnes	5,154.88	5,283.47	5,203.37	4,790.40
Helium, tcm	4,856.10	3,526.43	4,923.90	3,570.74
Gas odorant, thousand tonnes	3.29	3.38	3.20	3.20
Gas liquids, thousand tonnes	491.70	697.37	998.37	1,587.57
Ethane, thousand tonnes	384.14	391.80	397.12	388.95
Carbon black, thousand tonnes	31.65	31.35	31.16	30.15
Methanol, thousand tonnes	663.20	690.39	744.50	514.05
Pentane-hexane fraction, thousand tonnes	151.52	145.12	151.60	138.86
Hydrocarbon fraction, thousand tonnes	5.57	28.77	34.81	63.05

Manufacturing of main petroleum products by OAO Gazprom Neft, thousand tonnes

	2010	2011	2012	2013
Liquefied Hydrocarbon Gases	807.7	691.0	810.9	989.0
Gasoline	7,254.5	8,100.0	8,961.6	8,923.0
Diesel fuel	11,464.7	11,491.1	11,508.1	12,087.8
Jet fuel	2,432.5	2,569.0	2,667.7	2,693.2
Heating oil	7,798.5	8,363.0	8,775.2	7,476.9
Oils	367.1	391.0	380.3	396.2
Sulfur	97.5	108.0	107.7	117.0

Manufacturing of main petroleum and gas-based products by OAO Gazprom Neftekhim Salavat in 2012–2013, thousand tonnes

Product	2012 (June – December)	2013
Refinery		
Gasoline	501.550	773.339
Diesel fuel	1,396.880	2,558.387
Heating oil	970.200	1,303.791
Other petroleum products	999.300	1,730.389
The Monomer Plant		
Ethylene	115.785	277.148
Propylene	42.543	112.503
Butane-butylene fraction	29.376	70.272
Pyrolysis condensate	60.389	155.291
Heavy tar	15.647	40.422
Benzene	54.900	120.300
Styrene	74.000	168.600
Polyethylene	49.200	109.500
Polystyrene	13.583	24.715
Butyl alcohols	78.492	88.897
Plasticisers	20.478	21.685
Other products	270.800	305.016

Domestic sales of main petroleum and gas-based products by OAO Gazprom Gazenergoset

Product	2010	2011	2012	2013
Stable gas condensate and oil, thousand tonnes	1,085	2,028	1,477	1,864
LHG, thousand tonnes	1,622	1,588	2,027	2,113
Motor gasoline, thousand tonnes	2,183	1,726	2,284	2,581
Diesel fuel, thousand tonnes	1,181	1,146	1,376	1,727
Aviation fuel, thousand tonnes	248	260	202	299
Fuel oil, thousand tonnes	366	143	160	35
Sulphur, thousand tonnes	1,524	2,039	2,309	2,085
Helium, tcm	–	–	4,843	3,547
Gas liquids, thousand tonnes	187	72	229	242
Carbon black, thousand tonnes	7	7	7	5

Exports of oil and petroleum products, million tonnes

Regions/countries	2010	2011	2012	2013
Oil	**19.3**	**16.5**	**17.3**	**13.4**
FSU countries	3.0	3.0	2.5	4.2
incl. the *Gazprom Neft Group*	3.0	3.0	2.5	4.1
Non-FSU countries	16.3	13.5	14.8	9.2
incl. the *Gazprom Neft Group*	15.9	13.1	14.2	8.3
Petroleum products	**23.5**	**23.0**	**27.8**	**29.9**
FSU countries	3.8	2.5	5.2	4.7
incl. the *Gazprom Neft Group*	2.6	2.1	4.2	3.3
Non-FSU countries	19.7	20.5	22.6	25.2
incl. the *Gazprom Neft Group*	14.1	15.0	14.7	16.5

Generating capacities of the *Gazprom Group* in the Russian Federation

	2010	2011	2012	2013
Electricity generating capacities, MW				
OAO Mosenergo[1]	11,900	12,305	12,299	12,262
OAO MOEK1	–	–	–	193
OOO Novo-Salavatskaya CHPP[2]	–	–	–	541
OAO OGK-2[1]	8,707	17,869	18,448	17,995
OAO OGK-6[3]	9,162	–	–	–
OAO TGK-1[1]	6,266	6,837	6,870	7,238
Total	**36,035**	**37,011**	**37,617**	**38,229**
Heat generating capacities, Gcal/h				
OAO Mosenergo[1]	34,852	35,083	35,011	34,809
OAO MOEK1	–	–	–	17,529
OOO Novo-Salavatskaya CHPP[2]	–	–	–	1,619
OAO OGK-2[1]	1,649	4,316	4,473	4,474
OAO OGK-6[3]	2,704	–	–	–
OAO TGK-1[1]	14,426	14,616	14,497	14,234
Total	**53,631**	**54,015**	**53,981**	**72,665**

1 As of the takeover date.
2 Starting from 2013.
3 In November 2011, OAO OGK-6 was reorganized and consolidated into OAO OGK-2.

Average capacity factor in electricity and heat generation

	2010	2011	2012	2013
Capacity factor in electricity generation	**55.4**	**54.3**	**50.9**	**48.3**
OAO Mosenergo	62.3	61.0	56.8	54.6
OAO OGK-2	52.8	52.1	47.4	44.9
OAO TGK-1	49.4	48.1	50.0	46.1
Capacity factor in heat generation	**33.2**	**31.0**	**31.7**	**31.4**
OAO Mosenergo	45.0	42.5	43.4	43.3
OAO OGK-2	17.6	17.4	16.9	17.4
OAO TGK-1	22.6	20.2	20.6	20.1

Fuel mix of generating companies of OOO Gazprom Energoholding in 2012–2013, %

Fuel	2012	2013
OAO Mosenergo		
Gas	97.9	98.2
Coal	1.0	1.7
Oil-based fuel	1.1	0.1
OAO OGK-2		
Gas	65.7	68.0
Coal	33.4	31.7
Oil-based fuel	0.9	0.3
OAO TGK-1		
Gas	95.2	96.5
Coal	3.5	3.5
Oil-based fuel	1.3	0.0
OOO Gazprom Energoholding		
Gas	83.4	85.0
Coal	15.6	14.8
Oil-based fuel	1.0	0.2

Electricity and heat generation by the *Gazprom Group* in the Russian Federation

	2010	2011	2012	2013
Electricity generation, bn kWh				
OAO Mosenergo[1]	65.0	64.7	61.3	58.6
OAO MOEK[1]	–	–	–	0.4
OOO Novo-Salavatskaya CHPP[2]	–	–	–	2.5
OAO OGK-2[1]	47.6	79.7	75.2	70.6
OAO OGK-6[3]	34.9	–	–	–
OAO TGK-1[4]	27.2	28.4	30.4	29.3
Total	**174.7**	**172.8**	**166.9**	**161.4**
Heat generation, million Gcal				
OAO Mosenergo[1]	69.9	66.4	68.4	67.6
OAO MOEK[1]	–	–	–	7.7
OOO Novo-Salavatskaya CHPP[2]	–	–	–	5.1
OAO OGK-2[1]	2.4	6.3	6.0	6.8
OAO OGK-6[3]	4.4	–	–	–
OAO TGK-1[4]	28.8	26.1	26.7	25.3
Total	**105.5**	**98.8**	**101.1**	**112.5**

1 As of the takeover date.
2 Starting from 2013.
3 In November 2011, OAO OGK-6 was reorganized and consolidated into OAO OGK-2.
4 Starting from 1 January 2010.

Electricity and heat sales by the generating companies of the *Gazprom Group*

	2010	2011	2012	2013
Electricity sales[1], bn kWh				
OAO Mosenergo[1]	66.3	70.1	65.8	61.7
OAO MOEK[1]	–	–	–	0.4
OOO Novo-Salavatskaya CHPP[2]	–	–	–	2.3
OAO OGK-2[1]	53.2	84.6	79.9	75.3
OAO OGK-6[3]	39.9	–	–	–
OAO TGK-1[4]	32.0	32.9	35.0	33.7
Heat sales[1], million Gcal				
OAO Mosenergo[1]	70.3	66.8	68.7	52.1[1]
OAO MOEK[1]	–	–	–	23.2[1]
OOO Novo-Salavatskaya CHPP[2]	–	–	–	5.1
OAO OGK-2[1]	2.3	6.1	6.1	6.5
OAO OGK-6[3]	4.2	–	–	–
OAO TGK-1[5]	25.7	24.2	24.6	25.7

1 Excluding intergroup transfer between OAO Mosenergo in OAO MOEK in Q4 2013.
2 As of the takeover date.
3 Starting from 2013.
4 In November 2011, OAO OGK-6 was reorganized and consolidated into OAO OGK-2.
5 Starting from 1 January 2010.

Electricity supply to Russian regions

Region	Indicator	2010	2011	2012	2013
Vologda Region	Sales, bn kWh	3	3	3	3
	Electricity sales, RUB million	2,857	3,277	2,660	3,186
Krasnodar Territory	Sales, bn kWh	–	–	–	2
	Electricity sales, RUB million				2,192
Krasnoyarsk Territory	Sales, bn kWh	6	6	7	5
	Electricity sales, RUB million	2,736	3,220	4,534	3,259
Leningrad Region	Sales, bn kWh	29	27	28	30
	Electricity sales, RUB million	26,283	27,078	26,438	31,802
Moscow Region	Sales, bn kWh	66	70	66	62
	Electricity sales, RUB million	53,471	66,518	62,505	66,080
Murmansk Region	Sales, bn kWh	8	9	9	9
	Electricity sales, RUB million	4,220	6,237	6,127	6,436
Pskov Regions	Sales, bn kWh	3	2	2	2
	Electricity sales, RUB million	2,476	2,005	1,727	1,758
Karelia Republic	Sales, bn kWh	4	4	5	4
	Electricity sales, RUB million	2,189	3,218	3,993	3,670
Rostov Region	Sales, bn kWh	11	11	10	10
	Electricity sales, RUB million	9,948	11,205	9,947	11,262
Ryazan Region	Sales, bn kWh	10	10	9	8
	Electricity sales, RUB million	9,443	10,521	9,600	9,815
Sverdlovsk Region	Sales, bn kWh	3	4	3	2
	Electricity sales, RUB million	2,706	3,569	2,550	2,093
Stavropol Territory	Sales, bn kWh	12	12	11	8
	Electricity sales, RUB million	11,718	12,722	11,878	9,906
Tyumen Region	Sales, bn kWh	26	25	24	22
	Electricity sales, RUB million	18,436	19,298	18,976	18,660
Chelyabinsk Region	Sales, bn kWh	9	5	5	4
	Electricity sales, RUB million	6,776	3,978	4,351	4,107
Total	**Sales, bn kWh**	**191**	**190**	**181**	**171**
	Electricity sales, RUB million	**153,256**	**175,037**	**165,287**	**174,225**

Heat supply in Russia

Region	Indicator	2010	2011	2012	2013
Central FD	Sales, thousand Gcal	3,179	3,377	7,886	7,643
	Sales, RUB million	11,635	12,535	13,825	12,269
Southern FD	Sales, thousand Gcal	57	62	59	57
	Sales, RUB million	72	39	76	85
Northwestern FD	Sales, thousand Gcal	8,635	7,923	8,171	8,431
	Sales, RUB million	8,029	9,893	10,285	10,529
Siberian FD	Sales, thousand Gcal	1,237	1,066	1,046	971
	Sales, RUB million	469	416	460	465
Ural FD	Sales, thousand Gcal	2,160	1,997	1,929	2,009
	Sales, RUB million	790	732	732	829
North Caucasian FD	Sales, thousand Gcal	61	90	59	55
	Sales, RUB million	38	46	45	47
Moscow	Sales, thousand Gcal	67,285	63,589	61,645	60,203
	Sales, RUB million	50,789	57,078	53,980	47,778
St. Petersburg	Sales, thousand Gcal	22,101	21,104	21,307	21,113
	Sales, RUB million	16,075	15,317	15,762	20,611
Total	**Sales, thousand Gcal**	**104,715**	**99,208**	**102,102**	**100,482**
	Sales, RUB million	**87,897**	**96,056**	**95,165**	**92,613**

Natural gas and fuel savings by the *Gazprom Group*, thousand tce

	2010	2011	2012	2013
Natural gas				
OAO Gazprom and its subsidiaries, incl.:	2,663.0	2,758.3	2,076.4	2,206.9
Gas transmission via trunklines	2,379.5	2,423.5	1,843.9	1,896.0
Gas, condensate, and oil production	249.6	310.8	210.8	274.7
Underground gas storage	14.4	12.6	12.6	18.1
Gas and condensate processing	19.5	11.4	9.1	18.1
Fuel				
OAO Gazprom Neft	–	33.7	755.6	302.6
OOO Gazprom Energoholding, incl.:	542.8	800.4	756.2	772.5
OAO Mosenergo	499.6	567.6	540.2	641.2
OAO TGK-1	27.0	222.9	212.6	25.5
OAO OGK-2	16.2	9.9	3.4	105.8

Electricity savings by the *Gazprom Group*, thousand tce

Company	**2010**	**2011**	**2012**	**2013**
OAO Gazprom and its subsidiaries, incl.:	62.5	66.9	79.5	98.4
Gas transmission via trunklines	51.8	57.3	68.4	88.3
Gas, condensate, and oil production	3.9	1.3	1.7	2.1
Underground gas storage	0.7	0.9	2.2	0.7
Gas and condensate processing	6.1	7.4	7.2	7.3
OAO Gazprom Neft	–	1.1	21.8	25.4
OOO Gazprom Energoholding, incl.:	34.9	56.8	95.3	94.6
OAO Mosenergo	31.9	54.7	92.5	92.6
OAO TGK-1	2.2	1.3	2.2	1.0
OAO OGK-2	0.8	0.8	0.6	1.0
Total	**97.4**	**124.8**	**196.6**	**218.4**

Heat savings by the *Gazprom Group*, thousand tcs

Company	2010	2011	2012	2013
OAO Gazprom and its subsidiaries, incl.:	29.7	15.3	35.8	32.0
Gas transmission via trunklines	13.3	7.2	9.4	8.3
Gas, condensate, and oil production	1.3	4.0	6.8	3.3
Underground gas storage	0.2	–	–	–
Gas and condensate processing	14.9	4.1	19.6	20.4
OAO Gazprom Neft	–	37.1	55.3	35.7
OOO Gazprom Energoholding, incl.:	6.8	3.8	3.3	4.3
OAO Mosenergo	6.6	3.5	3.3	1.6
OAO TGK-1	–	–	–	–
OAO OGK-2	0.2	0.3	0	2.7
Total	**36.5**	**56.2**	**94.4**	**72.0**

Own energy resource consumption for process needs by the *Gazprom Group*, thousand tce

Own energy resource consumption for process needs	2010	2011	2012	2013
OAO Gazprom and its subsidiaries	66,713.3	69,337.1	63,288.0	65,715.0
Electricity	5,305.3	5,822.1	5,305.3	5,133.1
Heat	3,477.2	3,507.0	3,744.7	3,343.5
Natural gas	57,930.8	60,008.0	54,238.0	57,238.4
OAO Gazprom Neft	5,718.3	5,955.1	6,203.6	6,509.7
Electricity	993.1	1,032.9	1,075.2	1,150.1
Heat	1,290.0	1,331.8	1,384.2	1,425.4
Natural gas	2,323.7	2,445.0	2,638.3	2,853.0
Fuel oil	713.3	735.3	684.7	645.8
Solid fuel (coke)	398.2	410.1	421.2	435.4
OOO Gazprom Energoholding	4,590.4	4,591.8	4,173.7	4,074.7
Electricity	4,339.7	4,463.7	4,067.9	3,949.0
Heat	250.7	128.1	105.8	125.7
Total	**77,022.0**	**79,884.0**	**73,665.3**	**76,299.4**

Number of the *Gazprom Group's* gas distribution stations in Russia

Region	2010	2011	2012	2013
Central FD	1,017	1,021	1,007	1,014
Southern FD	614	617	611	612
Northwestern FD	222	221	245	268
Far Eastern FD	37	44	45	48
Siberian FD	121	120	121	114
Ural FD	336	337	345	346
Volga FD	1,162	1,165	1,165	1,176
North Caucasian FR	435	437	437	443
Moscow	0	0	12	11
St. Petersburg	8	8	8	6
Total	**3,952**	**3,970**	**3,996**	**4,038**

Number and cost of procurement contracts concluded through competitive tendering (OAO Gazprom) in 2012–2013

	2012		2013	
	Number of tender-based contracts	Cost of tender-based procurement, RUB bn	Number of tender-based contracts	Cost of tender-based procurement, RUB bn
Materials and equipment	3,688	324.7	6,373	326.3
incl. under the Investment Programme	481	265.1	353	157.8
Works and services	11,538	817.3	15,800	588.5
incl. under the Investment Programme	1,299	355.0	778	333.9
Total	**15,226**	**1,142.0**	**22,173**	**914.8**

Staff of the *Gazprom Group* companies by category and gender, thousand

	2010	2011	2012	2013
Total staff size	**400.6**	**404.4**	**431.2**	**459.5**
managers. incl.	48.8	51.5	55.9	61.5
men	38.4	40.0	43.7	47.1
women	10.4	11.5	12.2	14.4
specialists. incl.	97.5	102.6	111.1	120.9
men	53.0	55.7	64.2	63.6
women	44.5	46.9	46.9	57.3
administrative staff. incl.	16.6	17.2	18.7	20.8
men	13.4	13.8	14.9	17.0
women	3.2	3.4	3.8	3.8
workers. incl.	237.7	233.1	245.5	256.3
men	189.4	185.9	196.7	199.9
women	48.3	47.2	48.8	56.4

Staff of the *Gazprom Group* companies by age, thousand

	2010	2011	2012	2013
Total staff	**400.6**	**404.4**	**431.2**	**459.5**
Under 30 y.o.	73.3	81.5	82.9	87.0
30—50 y.o.	228.6	224.0	239.6	254.6
50 y.o. and above	98.7	98.9	108.7	117.9

10.3. Annex 3. List of Terms and Abbreviations Used in This Report

ADR	American depositary receipt
AA	Autonomous Area
ADCS	Automatic Dispatch Control System
APG	Associated petroleum gas
CCGT	Combined-cycle gas turbine
CCPTS	Continuing Corporate Professional Training System
CDW	Corporate Data Warehouse
CHPP	Combined heat and power plant
CIS	Commonwealth of Independent States
CNG	Compressed natural gas
Company	OAO Gazprom
CS	Compressor station
CSA	Capacity supply agreement
EIA	Environmental impact assessment
EMS	Environmental management system
ERU	Emission reduction unit
EU	European Union
FD	Federal District
FIFA	International Federation of Association Football
FSU countries	Former republics of the Soviet Union, except for the Russian Federation
FTS of Russia	Federal Tariff Service of the Russian Federation
Gazprom Energoholding	OOO Gazprom Energoholding and its subsidiaries (OAO Mosenergo, OAO TGK-1, and OAO OGK-2)
Gazprom Neft Group, Gazprom Neft	OAO Gazprom Neft and its subsidiaries
Gazprom, Gazprom Group, the *Group*	OAO Gazprom (the parent company) and its subsidiaries taken as a whole
GDP	Gross domestic product
GDS	Gas distribution station
GHG	Greenhouse gas
GRI	Global Reporting Initiative
GTS	Gas transportation system
HPP	Hydropower plant
IFRS	International Financial Reporting Standards
IGU	International Gas Union
IPO	Initial public offering

KhMAA	Khanty-Mansi Autonomous Area – Yugra
KPI	Key performance indicator
LHG	Liquefied hydrocarbon gases
LNG	Liquefied natural gas
mcm	Million cubic metres
MET	Mineral extraction tax
MICEX	Moscow Interbank Currency Exchange
NGO	Non-governmental organisation
NGV	Natural gas vehicle
NPF	Non-State Pension Fund
OAO	Open joint-stock company
OHS	Occupational health and safety
OHSAS	Occupational Health and Safety Assessment Standards
OOO	Limited liability company
OTC	Over-the-counter (trading)
R&D	Research and Development
Report	Sustainability Report of the *Gazprom Group* for 2012–2013
RES	Renewable energy sources
Russia, RF	Russian Federation
SDCs	Subsidiaries and dependent companies
tce	Tonne of coal equivalent (equivalent to 877 cubic metres of natural gas, 0.7 tonnes of oil or gas condensate)
tcm	Thousand cubic metres
toe	Tonne of oil equivalent
TPP	Thermal power plant
UAE	United Arab Emirates
UGS	Underground gas storage
UGSS	Unified Gas Supply System
UNECE	United Nations Economic Commission for Europe
UOHSMS	Unified Occupational Health and Safety Management System
YaNAA	Yamalo-Nenets Autonomous Area
ZAO	Closed joint-stock company