

**MANAGEMENT REPORT  
OAO GAZPROM  
2010**

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*Notes:*

In the present Management Report some of operating and economic parameters have been determined in accordance with International Financial Reporting Standards (IFRS) principles and for the Group entities consolidated in the IFRS consolidated financial statements of OAO Gazprom for the year ended 31 December 2010, therefore they can differ from similar parameters in reports of OAO Gazprom prepared under Russian statutory requirements.

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

Analysis of financial results should be read in conjunction with the audited annual consolidated financial statements of OAO Gazprom for the year ended 31 December 2010, prepared in accordance with IFRS.

## THE GAZPROM GROUP

The Gazprom Group (OAO Gazprom and its subsidiaries) is one of the world's largest vertically-integrated oil and gas companies (hereafter Gazprom, the Group). Gazprom has the right for development of one fifth of world's gas reserves and provides for one sixth of world's gas production, being rated the first among oil and gas companies. In Russia Gazprom provides for approximately 80% of gas production and 9% of oil and gas condensate production. The Group carries out field exploration and development projects in fourteen countries of the world.

The Group is the sole owner of the world's largest gas transportation network with length of more than 160 thousands kilometers, which provides natural gas to customers within Russia and to the European markets. Approximately a half of the gas refining in Russia and 14% of oil refining is attributable to Gazprom.

Gazprom is the dominant gas supplier to Russian market and accounts for approximately 70% of the natural gas demand of other former Soviet Union (FSU) countries, besides the Group supplies approximately a quarter of natural gas consumed in Europe. The Group has branched network of fuel stations of more than 1,500 in Russia, FSU and on Balkans.

The Group also owns electricity generating assets, which provide approximately 17% of the electricity generation in Russia.

Major operational and financial parameters of the Gazprom Group for 2009 and 2010 are presented in the tables below:

	<b>As of and for the year ended 31 December</b>		<b>Change</b>
	<b>2010</b>	<b>2009</b>	
<b>Reserves of hydrocarbons under PRMS Standards</b>			
Proved and probable gas reserves, tcm	22.5	21.9	2.7%
Proved and probable crude oil and gas condensate reserves, million tons	1,901.2	1,881.2	1.1%
Proved and probable reserves of hydrocarbons, bboe	147.1	143.4	2.6%
<b>Operating indicators</b>			
Gas production, billion cm	508.6	461.5	10.2%
Crude oil and gas condensate production, million tons	43.3	41.7	3.8%
Hydrocarbon production, million boe	3,322.6	3,032.5	9.6%
Oil and gas condensate refining, million tons	50.2	44.3	13.3%
Electricity generation, billion kilowatt-hour (kWh)	175.1	138.5	26.4%
<b>Statement of Comprehensive Income highlights (RR million)</b>			
Sales	3,597,054	2,991,001	20.3%
Operating profit	1,113,822	856,912	30.0%
Profit of the year attributable to owners of OAO Gazprom	968,557	779,585	24.2%
Adjusted EBITDA	1,357,700	1,089,951	24.6%
<b>Balance Sheet highlights (RR million)</b>			
Cash and cash equivalents	440,786	249,759	76.5%
Total debt	1,315,448	1,625,705	-19.1%
Net debt	870,993	1,372,307	-36.5%
Equity, including non-controlling interest	6,536,361	5,649,321	15.7%
<b>Ratios</b>			
Net earnings per share for profit attributable to owners of OAO Gazprom, RR	42.20	33.18	27.2%
Total debt to equity, including non-controlling interest	0.20	0.29	-31.0%
Adjusted EBITDA to interest expense	35.1	14.7	138.8%
Return on average capital employed	14.0%	12.7%	

## **INNOVATIVE DEVELOPMENT**

The Gazprom Group views innovative activity and technological upgrade among its priority tasks. Gazprom significantly invests in research and development.

In 2010 innovative research and development costs financed by the Gazprom Group totalled RR 7 billion.

In this area the Group is the leader among Russian energy companies and is in the top ten global energy companies

The Group has innovative projects in all of its core operations. These projects are primarily aimed at enhanced efficiency, stability and safety of production facilities, efficient field development, increased depth of hydrocarbon refinery, and higher quality and competitiveness of produced goods.

Gazprom pays special attention to development and use of Russian high-technology innovations. In particular, it is a Company's priority to increase the Russian component of equipment and technology used in new LNG projects. In addition, Russian modern innovative research and development projects financed by the Group also include:

- development and pre-production of an environmentally friendly power unit working on fuel elements with a proton-conducting membrane;
- creation of a new generation of inspection pigs that incorporate a system regulating the speed with which the shell moves in the gas flow as well as a more accurate and reliable system of pipe fault detection.

Innovative activities of the Gazprom Group are characterized by an effective intellectual property management system. The system is controlled at every stage of the life cycle of intellectual property. As of 31 December 2010 Gazprom Group entities held 1,486 patents.

### International Cooperation on Innovative Activities

Mutually beneficial cooperation in the area of science and technology is based on agreements and joint programs and is an integral part of Gazprom's interaction with foreign partners.

This cooperation facilitates an exchange of best operating practices, an exchange of information on prospects and priorities of global technical development of the gas industry, identification of topical science and technology issues the joint solution of which creates a foundation for new international knowledge and technology.

In Europe Gazprom's partners in research and development projects are well known German companies E.ON Ruhrgas AG (E.ON Ruhrgas), BASF SE (BASF), Wintershall Holding GmbH (Wintershall Holding), Verbundnetz Gas AG, Siemens AG, Europipe, as well as N.V. Nederlandse Gasunie, a Dutch company, GDF SUEZ S.A. (GDF SUEZ), a French company, ENI S.p.A. (ENI), an Italian company, and Statoil ASA, a Norwegian company.

In the Asian-Pacific Region the science and technology cooperation is being actively developed with the Korean gas corporation KOGAS, the Chinese National Petroleum Corporation (CNPC), the Agency for Natural Resources and Energy under the Japanese Ministry of Economy, Trade and Industry.

### Long-term Planning of Innovative Activities

Gazprom stands high in the energy industry. The scope of the Group's operations and accumulated experience enable the Group to set requirements and standards; specify direction of upgrading the industry and related industries that produce equipment and materials for oil and gas companies. Therefore the Gazprom Group is well placed to significantly promote the innovative process in the Russian energy sector as well as in the country economy on the whole.

By developing and implementing innovative technology and processes the Gazprom Group is already at a high level of technological development. Gazprom actively cooperates with leading science and research institutes and centres as well as domestic and foreign companies, animating development of the country's scientific potential. Following the import substitution policy and demanding high quality of products Gazprom is stimulating implementation of advanced technology and solutions by Russian equipment producers.

Gazprom is working on the Program of Innovative Development for the Period to 2020. The Program will be a document of long-term planning and management of innovative operations and will cover all business lines of Gazprom (gas, oil and electric energy). The Program will cover the whole innovative cycle from the development of technical solutions to their practical application. It will connect all elements of Gazprom's organizational and financial procedures dealing with different stages of the innovative process and will regulate interaction of the process participants.

The Program will connect innovative activities and solution of priority tasks faced by Gazprom as well as to ensure that Gazprom becomes an advanced and technology intensive international energy company.

## FINANCIAL AND ECONOMIC TRENDS IN 2010

Recovery of the global economy, and world commodity markets in particular, has significantly affected the economic growth in Russia in 2010. Whilst there have been certain improvements in the Russian economy as compared with 2008-2009 and certain positive movement of macroeconomic indicators, a significant level of uncertainty still remained in the reporting year due to changed market conditions as a result of the 2008 financial and economic crisis. In 2010 Russia's GDP increased by 4%, industrial production increased by 8% while investments into fixed assets increased by 6%; in spite of that inflation went above the initial target limit resulting in 8.8% growth of the consumer price index. In 2010, in order to stimulate financing of real sector the Central Bank of the Russian Federation reduced the refinancing rate from 8.75% to 7.75%. However, many entities in Russia remained short of credit resources.

The above economic conditions have affected, in a varying degree, the operations of the Gazprom Group, including, among other factors, the financial position of our customers. After the decrease of certain operating indicators of the Gazprom Group in 2009, there seems to start their gradual recovery. Nevertheless, the future demand for natural gas and other energy resources remained uncertain in the reporting year, therefore the risk of adverse consequences for the business, financial position and performance of the Gazprom Group also sustained.

In those circumstances, to improve its operating efficiency the Gazprom Group has implemented the 2010 Complex Action Plan on the Group's Financial Strategy. In addition to actions adopted in 2009, the plan included optimization of business processes, management of debt and accounts receivable, development of risk management system and other objectives. Results have been obtained in the following key areas:

- *Debt management:* in 2010 the consolidated debt of the Gazprom Group reduced from RR 1,626 billion to RR 1,315 billion; borrowings of Gazprom Group entities were brought under control (existing borrowings of at least a USD 100 million equivalent); the following drafts were developed: Provisional Rules of Raising Debt Financing in OAO Gazprom; Regulation on the procedure of granting loans to Gazprom Group enterprises and organisations.
- *Capital costs optimization in OAO Gazprom:* the Group managed to reduced capital investments. Gazprom also designed a procedure for purchasing / selling licensed geological fields that serve / do not serve the company's strategic goals.
- *Procurement system of OAO Gazprom and its principal gas production, transportation, underground storage and processing subsidiaries:* testing of the procurement system resulted to certain recommendations that may save up to 5-10% of total procurement costs. In 2010 average prices of inventory purchases were at least 14% lower than in the prior year.
- *Asset management:* the merger & acquisition management system is being developed; the dividend policies of certain subsidiaries have been reconsidered to increase the cash flow in favour of OAO Gazprom.
- *Marketing policies:* RosUkrEnergo repaid its debt to the Gazprom Group; volumes of supply increased, additional economic benefits were received under a number of contracts with European gas buyers.

It should be highlighted that the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the Russian Ruble's inconvertibility in most countries, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

## OPERATING RESULTS

### Reserves, exploration and production of hydrocarbons

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

	As of 31 December	
	2010	2009
<b>Gas production</b>		
Assets, million RR	1,466,058	1,438,222
Share in total assets of the Group	15.9%	17.2%
<b>Oil and Gas Condensate Production</b>		
Assets, million RR	1,094,309	1,124,222
Share in total assets of the Group	11.8%	13.4%
	Year ended 31 December	
	2010	2009
<b>Gas production</b>		
Capital additions, million RR	215,236	218,921
Share in capital additional of the Group	23.4%	33.1%
<b>Oil and Gas Condensate Production</b>		
Capital additions, million RR	95,289	84,749
Share in capital additional of the Group	10.4%	12.8%

#### Reserves

According to the audit of Gazprom Group's hydrocarbon reserves under PRMS Standards performed by DeGolyer and McNoton, as of 31 December 2010, proved and probable reserves of the Gazprom Group were as follows: 22.5 tcm of gas, 719.3 million tons of condensate, 1,181.9 million tons of oil, which in the aggregate makes 147.1 bboe. Net present worth at 10 per cent of the Gazprom Group's hydrocarbon reserves is assessed at U.S.\$ 269.6 billion, which is U.S.\$ 28.2 billion or 11.7% higher than as of 31 December 2009. The valuation covered 93% of natural gas, 86% of gas condensate and 90% crude oil reserves of the Group under ABC<sub>1</sub> classification accepted in Russia.

The following table shows proved and probable reserves of Gazprom Group under PRMS Standards:

		As of 31 December	
		2010	2009
<b>Gas</b>			
Share of ABC <sub>1</sub> reserves covered by the assessment under PRMS Standards <sup>(1)</sup>		93%	89%
Proved			
	tcm	19.0	18.6
	tcf	671.0	656.9
Probable			
	tcm	3.5	3.3
	tcf	123.6	116.5
Proved and probable			
	tcm	22.5	21.9
	tcf	794.6	773.4
<b>Gas condensate</b>			
Share of ABC <sub>1</sub> reserves covered by the assessment under PRMS Standards <sup>(1)</sup>		86%	82%
Proved			
	million tons	572.1	586.0
	billion barrels	4.7	4.8
Probable			
	million tons	147.2	141.2
	billion barrels	1.2	1.1

		As of 31 December	
		2010	2009
Proved and probable			
	million tons	719.3	727.2
	billion barrels	5.9	5.9
<b>Oil</b>			
Share of ABC <sub>1</sub> reserves covered by the assessment under PRMS Standards <sup>(1)</sup>		90%	85%
Proved			
	million tons	717.4	718.5
	billion barrels	5.3	5.3
Probable			
	million tons	464.5	435.5
	billion barrels	3.4	3.2
Proved and probable			
	million tons	1,181.9	1,154.0
	billion barrels	8.7	8.5
<b>Total</b>			
Share of ABC <sub>1</sub> reserves covered by the assessment under PRMS Standards <sup>(1)</sup>		92%	89%
Proved			
	billion tons of fuel equivalent	23.8	23.3
	bboe	121.9	119.7
Probable			
	billion tons of fuel equivalent	4.9	4.6
	bboe	25.2	23.7
Proved and probable			
	billion tons of fuel equivalent	28.7	28.0
	bboe	147.1	143.4

Note:

(1) The ABC<sub>1</sub> classification accepted in Russia is based on analysis of geological parameters of reserves and evaluates the actual hydrocarbon reserves. PRMS Standards take into account not only the probability of hydrocarbon deposition in geological formations but also the economic feasibility of extraction of reserves, determined based on exploration and drilling costs, operating expenses for production and transportation, taxes, hydrocarbon selling prices and other factors. Thus, PRMS information about proved and probable reserves of the Group can not be used for evaluation of reserves that were not subject to PRMS evaluation.

Comparing to the assessment made as at 31 December 2009, the Group's proved and probable reserves increased by 3.7 bboe, this is mainly explained by the inclusion into the estimate under PRMS Standards the Antipayutinskoe and North Tambeiskoe fields located in the Yamal - Nenets Autonomous Area (YaNAO), and by the results of exploration activity on certain fields subject to PRMS evaluation.

As of 31 December 2010 the Group had licenses for ABC<sub>1</sub> hydrocarbon reserves development in the following volumes: 33,052.3 bcm of natural gas, 1,284.8 million tons of gas condensate and 1,732.9 million tons of crude oil, for a total of 217.9 bboe.

As of 31 December 2010 the Group's share in the ABC<sub>1</sub> reserves of associated companies was 645.4 bcm of natural gas, 57.8 million tons of liquid hydrocarbons and 611.8 million tons of crude oil, for a total of 8.8 bboe.

The following table sets forth changes to the Group's ABC<sub>1</sub> reserves of natural gas, gas condensate and crude oil in the licensed areas in Russia in 2010:



	Gas, bcm	Gas condensate, million tons	Oil, million tons	Total, million bboe
<b>Reserves as of 31 December 2009</b>	<b>33,578.4</b>	<b>1,325.1</b>	<b>1,785.0</b>	<b>221,700.1</b>
<b>including share of non-controlling     shareholders</b>	<b>832.4</b>	<b>32.1</b>	<b>98.5</b>	<b>5,887.4</b>
Additions to reserves as a result of exploration	547.7	32.3	83.2	4,100.0
Transfer of reserves discovered in 2010 to the Undistributed Subsoil Fund of Russia <sup>(1)</sup> , acquisition from other companies	(50.9)	(0.4)	1.5	(292.1)
Receipt of licenses, including	120.0	4.4	0.6	747.2
due to opening new fields	65.9	3.7	0.6	422.8
as a result of tenders	54.1	0.7	–	324.4
Return of licenses	(1.5)	–	–	(8.8)
Acquisition of assets	1.7	0.3	4.6	46.2
Disposal of assets	(627.2)	(68.6)	(101.1)	(4,996.4)
Revaluation	(7.6)	(0.2)	(8.9)	(111.6)
Production (including losses)	<u>(508.3)</u>	<u>(8.1)<sup>(2)</sup></u>	<u>(32.0)</u>	<u>(3,294.7)</u>
<b>Reserves as of 31 December 2010</b>	<b>33,052.3</b>	<b>1,284.8</b>	<b>1,732.9</b>	<b>217,889.9</b>
<b>including share of non-controlling     shareholders</b>	<b>535.0</b>	<b>0.2</b>	<b>52.3</b>	<b>3,536.1</b>

Notes:

- (1) Under the law of the Russian Federation, the subsoil user does not have any vested right to develop reserves discovered in areas covered by exploration licenses or beyond the licensed areas. Such reserves shall be transferred to the Undistributed Subsoil Fund of the Russian Federation. Subsequently the subsoil user has a preference right to receive a license for their development.
- (2) Any changes in gas condensate reserves due to production are recognized as converted into stable gas condensate (C5+). The production volume of unstable gas condensate of Gazprom Group in 2010 was 11.3 million tons.

As compared with 2009 the ABC<sub>1</sub> hydrocarbon reserves of Gazprom Group decreased in 2010 by 526.1 bcm of natural gas, 40.3 million tons of gas condensate and 52.1 million tons of oil which is the equivalent of 3,810.2 mboe. That decrease related primarily to the disposal of a controlling interest in OOO SeverEnergiya, which was included within the consolidated financial statements of the Group as an associated undertaking effective 30 November 2010.

As of 31 December 2010 and 2009 ABC<sub>1</sub> hydrocarbon reserves of the Group abroad were considered insignificant and accounted for less than 1% of the Group's ABC<sub>1</sub> reserves in Russia.

### Exploration

Oil and gas exploration in Russia is concentrated mainly in West Siberia which accounts for more than 60% of the total exploration drilling. East Siberia and Far East account for about 25% of the exploration drilling volumes.

Fulfilling the task of expanding its reserves outside of Russia, in 2010 the Group participated in exploration projects in various countries of the world, including Algeria, Bolivia, Venezuela, Vietnam, India, Libya and countries of Central Asia. In 2010 about 60% of total exploration costs were incurred on sea shelves of Vietnam and India under corresponding contracts.

The following table shows summary information on exploration work at licensed areas of Gazprom Group (excluding the work performed by Naftna Industrija Srbije (NIS), a subsidiary to the Group, abroad):

	<b>For the year ended 31 December 2010</b>	
	<b>In Russia</b>	<b>Abroad</b>
Total financing of exploration, RR billion	55.6	14.9
including expenses posted to capital investments	21.0	1.4
Exploration drilling, thousand meters	204.9	21.8
Completed exploration wells, units	82	10
including successful wells	64	4
Seismic exploration 2D, thousand line km	18.5	11.4
Seismic exploration 3D, thousand km <sup>2</sup>	10.8	2.6

The exploration work in Russia resulted in the increase of reserves by 547.7 bcm of natural gas and 115.5 million tons of crude oil and gas condensate. Recovery of natural gas reserves was 108%, of crude oil and gas condensate – 288%.

In 2010 exploration activities resulted in the discovery of three new fields in Russia, including a major gas condensate Yuzhno-Kirinsky field on the shelf of the Okhotsk Sea within the Kirinsky licensed area, and 26 new deposits.

The main increase of C<sub>1</sub> natural gas reserves on the existing fields relates to the Chayandinsky field in the Republic of Sakha (Yakutia) and Antipayutinsky and Totayakhinsky fields in offshore area of the Gulf of Ob and the Taz Bay.

In 2010 exploration activities performed by the Gazprom Group abroad resulted in the discovery of hydrocarbon reserves within the licensed area El-Assel in the Berkin basin (Algeria) and in the Dzhel platform (plateau Ustyurt in west Uzbekistan).

#### Innovations in field exploration

For the purposes of improving the efficiency of exploration works and accuracy of forecasting the reservoir development Gazprom Group is implementing:

- methods of identifying the areas with complex permafrost conditions in the fields which may result in problems during construction and development works;
- technologies of forecasting development areas of the oil-and-gas bearing collectors based on fields modelling

#### Licensing

In 2010 the Gazprom Group received ten licenses, including seven licenses as a result of opening new fields. Costs of license acquisition totaled RR 1.5 billion.

In the reporting year 21 licenses for subsoil use were returned: seven due to expiry, 14 were terminated early due to inexpediency of any work continuation. Licenses for 18 areas (fields) have been extended.

#### Transactions with assets that changed controlled reserves and production capacities

Late 2010 OAO Gazprom sold its 51% interest in OOO SeverEnergiya, subsidiaries of which hold licenses for the development and production of hydrocarbons in oil and gas condensate fields in YaNAO. The asset, control over which the Group obtained in September 2009, was bought by OOO Yamal razvitie, a joint venture established on a parity basis by OAO Gazprom neft, a subsidiary to the Group, and OAO Novatek for development of oil and gas condensate fields in the region.

As a result of that transaction the Gazprom Group's effective interest in OOO SeverEnergiya was 25.5% as of 31 December 2010. Hydrocarbon reserves of OOO SeverEnergiya were recorded within the Group's share in hydrocarbon reserves of its associates.

In 2010 the Group acquired a 100% interest in OOO STS-Service, which holds licenses for the development and production of ABC<sub>1</sub> reserves of natural gas (1.7 bcm) and oil and gas

condensate (4.9 million tons) in Zapadno-Luginetsky and Nizhneluginetsky fields in East Siberia.

### Revaluation

In 2010 as a result of the revaluation the amounts of reserves in the territory of Russia decreased by 7.6 bcm for gas and by 0.2 million tons for gas condensate primarily due to changed volumetric parameters in the calculation of reserves in the Kruzhilovsky and Urengoy fields. The oil reserves decreased by 9.1 million tons primarily due to the changed oil recovery factor at oil fields of the Gazprom нефт Group.

### Production

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

	Natural and associated gas <sup>(1)</sup> , bcm	Unstable condensate <sup>(2)</sup> , million tons	Crude Oil, million tons	Total, million boe
<b>Year ended 31 December 2010</b>				
Production of Gazprom Group	508.6	11.3	32.0	3,322.6
Share of Gazprom Group in the production of associated companies	17.6	1.6	20.7	268.5
<b>Year ended 31 December 2009</b>				
Production of Gazprom Group	461.5	10.1	31.6	3,032.5
Share of Gazprom Group in the production of associated companies	13.6	1.2	19.2	230.7

Notes:

- (1) Gross of losses incurred in production of natural and associated gas.
- (2) Volume of unstable gas condensate extracted from subsoil. In the Russian classification gas condensate reserves are assessed by recalculation to stable gas condensate. In stable condensate terms production of the Group was 8.1 million tons in 2010 as compared with 7.3 million tons in 2009.

Key fields of the Group, production at which was put to a limit due to adverse economic conditions of 2009, were brought back to their project level of gas production in the reporting year. The Zapolyarnoye field accounted for over 50% of the gas production growth.

In 2010 the Gazprom Group's production of gas condensate was 11.3 million tons (or 11.9% higher than in 2009); crude oil production totaled 32.0 million tons (or 1.3 % higher than in 2009). Over 30 % of oil was produced at the Priobsky field in the Khanty-Mansiysk Autonomous Area - Yugra (KhMAO), the Group's most perspective oil fields.

Gazprom's foreign entity, the Serbian concern Naftna Industrija Srbije (NIS), included within the Gazprom нефт Group, demonstrated significant production growth. In 2010 oil production of NIS increased to 1.0 million tons or 7.3 million boe.

In 2010 the Group's 49% share of production in Lybia in the framework of C96 and C97 concessions was 0.2 bcm of natural gas and 2.0 million tons of liquid hydrocarbons (or 15.9 million boe in total). The concessions are held by Wintershall AG, an associate undertaking to the Group.

The following table sets forth information on the number of the developing fields and production wells of Gazprom Group:

	As of 31 December 2010	
	In Russia	Abroad
Developing fields	120	50
Gas production wells	7,403	114
including active	6,806	95
Oil production wells	6,464	720
including active	5,941	613

#### Main areas of capital investments

Main investments in the Group's gas production segment in 2010 were allocated to the development of the Bovanenkovskoye field and construction of the railway Obskaya – Bovanenkovo on the Yamal peninsula, development of gas and condensate deposits of Zapolyarnoe field, maintenance of current production levels at Medvezhye, Urengoykoye and Yamburgskoye fields, development of Kshukskoye and Nizhne-Kvarchinskoye gas condensate fields in the Kamchatsky territory. In 2010 the Gazprom Group put into operation 88 new gas production wells in Russia.

In 2010 capital expenditures for oil production included the Priobskoye and Prirazlomnoye fields as well as the development of the eastern section of the Orenburg oil and gas condensate field. In total in 2010 the Group put into operation 852 new oil production wells in Russia.

In addition the Group financed in its 51% share the implementation of the first phase of the Shtockman field development: the Group allocated RR 3,735.6 million to purchase an additional issue of shares of Shtockman Development AG, an associated undertaking to the Group, which is the operator of the first phase of this project. As a result the Group's 51% interest in Shtockman Development AG remained unchanged.

#### Sale of oil and gas condensate

In 2010 the Group sold 22.6 million tons of oil and stable gas condensate that closely approximated the volumes sold in the previous year.

Operations of the Group are significantly affected by the prevailing price of crude oil, both in domestic and international oil markets. Crude oil prices have historically been highly volatile, dependent upon the balance between supply and demand, global and regional economic and political developments in oil-producing regions, global economic conditions and are sensitive to the production levels of OPEC as well as the trends of global financial markets.

In 2010 the total growth of global oil prices was about 20%. The price for BRENT crude oil stabilized at around U.S.\$91 per barrel by the end of 2010. The following table shows average monthly prices for BRENT and URALS crude oil in 2010 as per Platt's agency:

Oil grade	January	February	March	April	May	June
	U.S.\$ per barrel					
BRENT <sup>(1)</sup>	76.19	73.63	78.89	84.89	75.16	74.85
URALS <sup>(2)</sup>	76.09	72.85	76.9	82.64	73.76	74.36
Spread URALS to BRENT	0.1	0.8	2.0	2.3	1.4	0.5
Oil grade	July	August	September	October	November	December
	U.S.\$ per barrel					
BRENT <sup>(1)</sup>	75.64	77.15	77.79	82.74	85.33	91.36
URALS <sup>(2)</sup>	73.86	75.52	77.31	81.67	84.51	89.53
Spread URALS to BRENT	1.8	1.6	0.5	1.1	0.8	1.8

Notes:

(1) Based on BRENT (Dated) closing quotes.

(2) Based on average closing quotes of URALS Mediterranean and URALS Rotterdam.

Volumes of oil and gas condensate sold on domestic and external markets were as follows:

(million tons)	Year ended 31 December		Change
	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	
Russia	3.3	3.2	3,1%
incl. the Gazprom нефт Group	0.01	0.3	-96,7%
FSU	3.0	3.3	-9,1%
incl. the Gazprom нефт Group	3.0	3.3	-9,1%
Europe and other countries	16.3	16.1	1,2%
incl. the Gazprom нефт Group	15.9	15.6	1,9%
<b>Total</b>	<b>22.6</b>	<b>22.6</b>	-

Note:

(1) The volumes of sold oil and gas condensate by markets do not include intra-group sales. All volumes of gas sold by the Gazprom Group, of own production and purchased from third parties, are included.

### Innovations in field development and production

For the purposes of improving the efficiency of fields development including new gas production regions the Group has developed:

- technology of low temperature separation and rectification of hydrocarbons of gas condensate fields;
- multisite observation well design for simultaneous control over terrastatic pressure in several development targets of multilayer oil-gas condensate fields;
- technology to develop thin, below gas cap oil fringes by using multilateral and multifunctional wells and initializing the vertical oil displacement by the working fluid;
- model of gas producing field operation as the unified thermal-and-hydraulic system;
- pipes and fittings for the field underwater and land pipelines with diameter of up to 500 mm and pressure of up to 27.5 megapascal.

### Reporting year and subsequent events

At the beginning of 2010 the Gazprom нефт Group, within a consortium of state companies KOGAS (Republic of Korea), Petronas (Malaysia) and TPAO (Turkey), joined the project of developing the Badra field in Iraq. The Gazprom нефт Group was assigned to the project as the operator with 30% interest. The Badra field development project is scheduled for 20 years and a potential extension for another 5 years. The maximum level of oil production is expected at 170 thousand barrels per day and will be reached starting from 2016.

At the end of 2010 a subsidiary of OAO Gazprom нефт and Petronas signed the Agreement on reassignment of a share and the General Provisions of the Joint Operations that address exploration and subsequent development of the four blocks located on the sea shelf of Cuba. In accordance with the above documents a 30% interest in the project shall be transferred to the Gazprom нефт Group, which shall compensate Petronas a part of the incurred costs and will participate in the financing of current operations pro rata to its share.

In December 2010 the Group sold its 9.4% interest in OAO Novatek to a party unrelated to the Gazprom Group for RR 57,462 million paid in cash.

In March 2011 at a tender held within the bankruptcy procedure OAO Gazprom acquired the property of OAO Rusia Petroleum Company, which was the subsoil user of the Kovykta gas field. The acquired property included a 100% interest in OOO Kovyktaneftegas, which owned property located in the Khandinsky licensed area. Acquisition of this property will allow OAO Gazprom to apply for a re-registration in its own name of the license for the use of the Kovykta gas condensate field with the estimated C<sub>1</sub>+C<sub>2</sub> hydrocarbon reserves of about 2 tcm.

In March 2011 a Memorandum of understanding was signed with Wintershall Holding with regard to a potential asset swap transaction based on exchange of assets in sections IV and V of the Achimov formation of the Urengoy field (the license for the development of the field is held

by OOO Gazprom Dobycha Urengoy) for a potential participation of the Gazprom Group in Wintershall Holding's foreign projects.

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

The strategy of Gazprom Group reserve base development is aimed at maintaining parity between additions to reserves and production of hydrocarbons and ensuring an expended reproduction of reserves in the future.

The required levels of gas production are planned to be maintained in the mid-term perspective by intensively developing acting fields and putting into operation new fields in the Nadym-Put-Tazovsky region and the Yamal peninsula. Gazprom's priorities in hydrocarbon production in Russia are connected with developing Lower Cretaceous gas condensate deposits of the Zapolyarnoye field, bringing the Kharvutinsky platform of the Yamburgsky field to the designed production levels, putting into operation the Zapadno-Pestsoviye field, the Nydinsky platform of the Medvezhiye field, developing the Achimov formation of the Urengoy field and putting into operation Cenomanian-Aptian formation of the Bovanenkovo field in the Yamal peninsula.

In the future new major gas producing centres may be formed on the basis of the Shtockman field, gas resources of Eastern Siberia, Far East and offshore areas of the Gulf of Ob and the Taz Bay. There are plans to continue implementation of gas exploration projects abroad so as to expand the Group's reserve base outside Russia.

The Gazprom нефт Group is the base for the development of the Group's oil business. The company intends to increase hydrocarbon production by developing the following priority directions: formation of a new production centre in the north of YaNAO by developing fields of the subsidiaries of OOO SeverEnergiya, the Novoportovskiy field and the Messoyakha group of fields, by improving business processes and procedures of managing major projects, by increasing the reserve base, including through new acquisitions. It is planned to expand development of the projects abroad so that they account for approximately 10 % of the total oil production by 2020.

## Transportation of gas

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

	As of 31 December	
	2010	2009
Assets, million RR	4,000,952	3,323,087
Share in total assets of the Group	43.3%	39.7%
	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2009</b>
Capital additions, million RR	407,571	231,723
Share in total capital additions of the Group	44.3%	35.1%

### Gas transportation system

In Russia OAO Gazprom owns the largest gas transportation system (GTS) in the world forming the Unified Gas Supply System (UGSS) and can provide an uninterrupted long-distanced gas supply to customers in Russian Federation and abroad.

As of 31 December 2010 the total length of the GTS UGSS was 161.7 thousand km. 215 compressor stations on the pipelines with a total capacity of about 42 thousand MW provided for gas transportation through the system.

The age of the gas trunk pipelines is shown in the table below:

Age of trunk pipelines	As of 31 December 2010	
	Length, km	Share
Up to 10 years	17,205.0	10.6%
11 - 20	25,011.9	15.5%
21 - 30	70,934.6	43.9%
31 - 40	23,783.5	14.7%
41 - 50	19,279.6	11.9%
Over 50	5,465.5	3.4%
<b>Total</b>	<b>161,680.1</b>	<b>100%</b>

The Group is continually working to improve the reliability and efficiency of the GTS. There have been no major interruptions of gas supplies caused by any failure or fault of the system over the last 10 years. As a result of the regular pipeline repairs, advanced maintenance and diagnostic technology, the incidence of technical faults that involve interruptions or restrictions of gas supply are maintained at a low level. In 2010 seven technical faults of GTS were registered (0.04 faults per 1,000 km) as compared with 14 faults in 2009 (0.09 faults per 1,000 km).

In 2010 the gas transportation system transported 661.2 bcm of natural gas (589.7 bcm in 2009). Gas volumes transported for gas suppliers outside Gazprom Group totalled 72.6 bcm, and major gas suppliers were OAO Novatek (33%) and OOO NGK Itera (27%).

In 2010 the average length of transportation was 2,592 km for domestic supplies and 3,262 km for export supplies.

Volumes of natural gas used for own technical needs of the GTS and UGSF were 43.6 bcm of natural gas for 2010 (36.3 bcm of natural gas for 2009). The Group assesses the level of gas losses as low and the level of gas consumed as fuel as satisfactory.

In Russia apart from gas transportation assets of GTS the Group also owns:

- The gas pipeline Komsomolsk – Khabarovsk with the length of 472.2 km (via control over OAO Daltransgaz);
- The trunk gas pipeline Sobolevo – Petropavlovsk-Kamchatsky with the length of 394.7 km that was put into operation in September 2010.

The Group's gas transportation assets outside Russia are presented mainly by the part of Yamal - Europe pipeline on the territory of Republic of Belarus and the gas transportation system in the

Republic of Armenia. As of 31 December 2010 the Group's gas transportation assets outside Russia included 2.4 thousand km of trunk gas pipelines and five compressor stations with a total capacity of about 416 MW.

#### Main areas of capital investments

In 2010 the main capital expenditures in the Group's gas transportation segment are allocated to the construction of the trunk pipelines: Bovanenkovo-Ukhta, Sakhalin – Khabarovsk – Vladivostok, Pochinki-Gryazovets and Gryazovets-Vyborg, Dzhubga – Lazarevskoye – Sochi; Sobolevo - Petropavlovsk-Kamchatsky as well as reconstruction and re-equipment of active gas transportation assets. We put into operation 1,338.6 km of gas pipelines and one compressor station with a total capacity of 64 MW.

In addition the Group allocated RR 10,237 million to the North Stream project and made an additional contribution into Nord Stream AG (Nord Stream) in the framework of the additional issue of shares to retain the Group's interest at 51%. In April 2010 construction of the first line of the North Stream gas pipeline via the bottom of the Baltic Sea commenced.

#### Innovations in gas transportation

For the purposes of ensuring the reliability and safety of gas transportation, improving the effectiveness of the gas pumping equipment operation the Group has developed and applies:

- gas-dynamic seals and magnetic bearings of natural gas compressors intended to replace the oil support sealing compressor sections;
- modern intrapipe pigs having a bypass system to control the shell's speed in gas flow and system to identify the defects of the pipes with the particular accuracy and authenticity.
- external scanning pigs to identify and assess the defects of pipes and welding joints when performing the capital repairs of trunk gas pipelines by means of re-isolation;
- pipes and fittings for extra-high pressure – 22.15 megapascal to provide for the construction of pipeline Gryazovets-Vyborg including the rigging of compression station Portovaya.

#### Reporting year and subsequent events

In February 2010 the Group paid U.S.\$625 million to acquire an additional 12.5% interest in OAO Beltransgaz and increased its total interest to 50%. This transaction was the last in a series of transactions performed in accordance with the contract signed between OAO Gazprom and the State Property Committee of the Republic of Belarus in May 2007 under which OAO Gazprom acquired a 50% interest in OAO Beltransgaz. Investments in OAO Beltransgaz are recognized as investments in an associated undertaking.

In March 2010 r. Gazprom and GDF SUEZ signed a Memorandum on the French company joining the North Stream project. A corresponding agreement among five shareholders was signed in June 2010. As a result of this transaction GDF SUEZ received a 9% interest in Nord Stream after E.ON Ruhrgas and Wintershall Holding sold to it their 4.5% interest each.

In the framework of preparations for the implementation of the South Stream project in March and April 2010 intergovernmental cooperation agreements were signed with Croatia and Austria respectively. Also in April 2010 the basic cooperation agreement was signed between OAO Gazprom and an authorized Austrian company OMV Gas & Power GmbH. Additionally in 2010 joint project companies were established with partner companies from Hungary, Greece and Bulgaria. In February 2011 a joint company was set up with the Austrian partner. In March 2011 OAO Gazprom and its partner from Slovenia signed an agreement to establish another joint project company. Feasibility studies of gas pipeline construction in Serbia and Slovenia, and in Austria and Croatia were completed in 2010 and in the first quarter 2011, respectively.

In June 2010 OAO Gazprom, ENI and EDF signed a trilateral Memorandum that defined specific actions for EDF to join the project of construction of the offshore section of the South



Stream project. In accordance with the document EDF will receive at least a 10% interest in South Stream AG (South Stream) due to reduced interest of ENI. Integration of efforts of energy majors from Russia, Italy and France highlighted once again the pan-European nature of the pipeline and became a guarantee of its successful implementation.

In March 2011 in connection with the South Stream project OAO Gazprom and Wintershall Holding, a subsidiary to BASF, signed the Memorandum of understanding, in accordance with which Wintershall Holding is expected to join the project's offshore part. The document provides that Wintershall Holding's interest in South Stream will be fixed at 15% and OAO Gazprom will retain its 50% interest.

#### Development plans for the Transportation of Gas segment

To ensure reliable gas supply to the domestic market and to fulfil its contracted export obligations the Group is involved in the construction of new transportation capacities.

The priority is given to the construction of the following gas pipelines in the territory of Russia: in the UGSS frame the pipeline SRTO – Torzhok, Bovanenkovo – Ukhta and Ukhta – Torzhok for transportation of gas from the Yamal peninsula fields; the pipeline Gryazovets – Vyborg for transportation of gas to the Nord Stream pipeline and to supply gas to customers of the north-west region of Russia; the pipeline Pochinki – Gryazovets; and the pipeline Sakhalin-Khabarovsk-Vladivostok. In addition perspective projects are being considered such as expansion of the UGSS to ensure supply of gas to the South Stream pipeline and construction of a new gas pipeline Altai to supply Russian gas to China along the western route (if commercial agreement is reached).

Priority foreign projects include construction of the Nord Stream pipeline from Russia to Germany under the Baltic Sea and the South Stream pipeline from Russia to South European countries under the Black Sea.

Gazprom's long-term objectives include the development of gas infrastructure in East Siberia and the Far East.

### **Gas underground storage**

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

	<b>As of 31 December</b>	
	<b>2010</b>	<b>2009</b>
Assets, million RR	169,146	125,069
Share in total assets of the Group	1.8%	1.5%
	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2009</b>
Capital additions, million RR	17,355	9,549
Share in total capital additions of the Group	1.9%	1.4%

The Group maintains underground storage of gas to help smooth seasonal fluctuations in the demand for gas and to ensure additional supply of gas in case of cold weather or technical failures in the UGSS, also to ensure reliable export supplies and long-term reservation.

#### Underground gas storages in Russia and abroad

As of 31 December 2010 the Group owns and operates 25 Underground Gas Storage facilities (UGSF) in the territory of Russia with total volume of active gas amounting to 65.4 bcm and potential maximum daily capacity of 620.0 million cm. During the period of peak load, this network of underground storages ensures about 20% of gas supply to Russian consumers and for export and in the days of quick freeze this figure reaches 30%.

The Group also controls one UGSF in the Republic of Armenia, active capacity of which amounts to 0.1 bcm as of 31 December 2010.

For the purpose of increasing reliability of export sales, the Group uses gas underground storage facilities on a lease basis in the territory of Austria (UGSF Haidach), UK (UGSF of the company Vitol), Germany (UGSF Reden and capacity of Verbundnetz Gas AG), Latvia (Inchukalnskoye UGSF), France (UGSF capacity of Vitol); it also participates in the construction of new gas underground storage facilities in Europe.

In 2010 47.7 bcm of gas were pumped into UGSFs in Russia and 40.8 bcm were withdrawn, at that utilized maximum daily capacity was 579.5 bcm. Outside Russia 4.3 bcm of gas was pumped into gas UGSFs, the total withdrawal was 2.4 bcm of gas.

#### Main areas of capital investments

The Group is currently constructing two underground gas storage facilities in Russia – Volgogradsky UGSF and Kaliningradsky UGSF with the active gas volume of 1.1 bcm. In 2010 a significant portion of the capital investments in underground gas storages was allocated to the construction of the Kaliningradsky UGSF, expansion of Nevskiy UGSF and reconstruction of Kaluzhskiy and Sovkhozniy UGSFs.

Gazprom has been involved in the following investment projects abroad: the second stage of UGSF Haidach (Austria), UGSF Katharina (Germany), UGSF Banatsky Dvor (Serbija) UGSF Bergemeer (Netherlands).

#### Development plans for the Gas Storage segment

The Group is developing the Underground Gas Storage Development Program in Russia for the period 2011-2020 targeting at the daily pumping out capacity of up to 1.0 bcm.

In accordance with decisions of OAO Gazprom Management Committee, action plan is worked out for 2011-2015 aiming at further development of the gas underground storage system, including technical re-equipment and reconstruction of active storage facilities as well as construction of new UGSFs.

Successful implementation of foreign projects will allow Gazprom to significantly increase its gas storage capacity in Europe and to bring it to the level of 5 bcm of active gas by 2015.

## Gas distribution

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

	As of 31 December	
	2010	2009
Assets, million RR	1,048,594	874,339
Share in total assets of the Group	11.4%	10.4%
<hr/>		
	Year ended 31 December	
	2010	2009
Capital additions, million RR	37,578	27,185
Share in total capital additions of the Group	4.1%	4.1%

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

bcm	Year ended 31 December		Change
	2010	2009	
Russia	277.3	273.5	1.4%
FSU <sup>(1)</sup>	70.2	56.7	23.8%
Europe and other countries <sup>(1)</sup>	148.1	148.3	- 0.13%
<b>Total</b>	<b>495.6</b>	<b>478.5</b>	<b>3.6%</b>

Note:

<sup>(1)</sup> The sales to FSU countries and Europe and other countries include both export from Russia, and sales of gas purchased by the Group outside Russia. According to the law “On Gas Export” dated 18 July 2006 No.117-FZ, as the owner of the UGSS, OAO Gazprom or its 100% owned subsidiaries have the exclusive right to export gas or liquefied natural gas (LNG) produced in any hydrocarbon field within Russia.

The year 2010 witnessed the global economy’s recovery which led to increased gas consumption in the world. Gas consumption in Russia increased by 6.5%; gas consumption in Europe increased by about 8% as per Gazprom’s estimate.

Despite the growth of demand the export volumes of Russian gas to Europe and other countries slightly decreased as compared with 2009. Under long-term contracts with OAO Gazprom in 2010 European customers bought 138.6 bcm of natural gas which is 1.4% lower than in the prior year. The sale of Russian gas to European customers under long-term contract continued to be affected by excessive LNG volumes offered on the European market as a result of a simultaneous launch of significant gas liquefaction in the world and re-gasification capacities in European countries.

In 2010 the overall sale of gas to final customers in Europe totalled 4.7 bcm which is 47% higher than in 2009.

In 2010 the Gazprom Group sold 1.82 million tons or 2.47 bcm of LNG (as compared to LNG sales of 1.35 million tons or 1.84 bcm in 2009). In 2010 LNG was delivered to Japan, the Republic of Korea, China, Great Britain and Taiwan.

### The price of natural gas in FSU, Europe and other countries

The Group’s performance is substantially reliant on natural gas prices on sales to Europe and other countries. Average U.S.\$ prices for natural gas increased in 2010 compared to 2009. The prices of our natural gas deliveries to Europe and other countries are basically linked to the global oil products prices. However, due to the six to nine months time lag embedded in the price formulas, our natural gas export prices exercise less volatility compared to the global crude oil prices.

A positive trend of 2010 is the convergence of prices on spot markets and under long-term contracts. If in the beginning of 2010 the difference in prices was over U.S.\$100 per mcm, by autumn of the reporting year it reduced almost two times.

Gazprom and gas buyers in Europe and other countries are bound by the system of long-term contracted obligations. Long-term contracts are in fact service contracts that provide the buyer with daily flexibility, differential supply volumes during the year and stipulate the seller's obligation to subsequently replenish the buyer with volumes that were paid by the buyer under "take-or-pay" provision. In addition, long-term contracts provide the buyer with guaranteed supplies of gas for a long period of time. This results in a different scope of risks and different prices for gas under long-term and spot contracts.

In 2010 under conditions of imbalanced gas offer and demand in the European market the Gazprom Group demonstrated a flexible approach to its relations with customers taking into account the unprecedented situation in the European gas market. To avoid any significant deviations from prices under similar competing contracts the Group has been consistently adapting its long-term contracts including by way of introducing a limited spot component into them. However, fundamental provisions of the contracts that determine the balance of interests between the supplier and the buyer remained unchanged.

The following table shows the average prices of natural gas sales to FSU, Europe and other countries in 2010 and 2009:

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2009</b>
	<b>(including excise and custom duties, net of VAT)</b>	
Natural gas sales to Europe and other countries		
U.S.\$ per mcm <sup>(1)</sup>	301.8	296.7
U.S.\$ per thousand cf <sup>(1)</sup>	8.6	8.4
Average price in nominal RR per mcm	9,166.6	9,413.5
Natural gas sales to FSU		
U.S.\$ per mcm <sup>(1)</sup>	231.7	202.1
U.S.\$ per thousand cf <sup>(1)</sup>	6.6	5.7
RR per mcm	7,039.0	6,411.1

Note:

(1) Calculated based on annual average currency exchange rate between RR and U.S.\$

Increase in the average price of natural gas sales to FSU as compared to the prior period mainly related to the fact that Gazprom started providing FSU customers with contractual prices the earning capacity of which is similar to the European prices.

#### Domestic natural gas prices

In 2010 the average price of gas sold by the Group in the domestic market remained lower than export prices (without regard to export duties and transportation costs), which is related to the regulation of gas wholesale prices in Russia by the Russian Government.

From 1 January 2010 the regulated wholesale gas prices for industrial consumers increased by 15%. For residential consumers gas prices increase by 5% from 1 January 2010 and by 15% by 1 April 2010. Average wholesale gas prices for all consumers increased by 26.3% as compared to 2009.

The following table shows the average domestic natural gas prices:

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2009</b>
	<b>(including excise, net of VAT)</b>	
RR per mcm	2,296.8	1,839.5
RR per thousand cf	65.1	52.1
U.S.\$ per mcm <sup>(1)</sup>	75.6	60.6
U.S.\$ per thousand cf <sup>(1)</sup>	2.1	1.7

Note:

(1) Calculated based on annual average currency exchange rate between RR and U.S.\$

### Main areas of capital investments

A significant portion of capital expenditures in Gas Distribution segment includes the Group's investments in gasification of the regions of the Russian Federation. In 2010 the gasification program was implemented in 67 territorial subjects of the Russian Federation. The construction of 156 gasification facilities with total length of 2.1 thousand km was completed; financing totalled RR 25.6 billion.

### Reporting year and subsequent events

In April 2010 OAO Gazprom and NAK Naftogas of Ukraine signed supplements to the gas supply contract dated 19 January 2009. In 2010 annual contracted gas volume increased to 36.47 bcm. NAK Naftogas of Ukraine will pay for gas with a discount equal to the amount by which the export duty on gas supplies to Ukraine is decreased and which is determined by the Government of Russian Federation.

In 2010 the LNG plant constructed under the Sakhalin-2 project and operated by Sakhalin Energy Investment Company Ltd. ("Sakhalin Energy") was up and running to its full capacity of 9.6 million tons per year.

In September 2010 OAO Gazprom subsidiaries and CNPC signed the Expanded Principal Terms of Gas Supply to underlie all sale and purchase contracts. After the contract is signed (which is expected in 2011) the parties will be able to launch the construction of the Russian and Chinese parts of the pipeline. Gas supplies along the western corridor are expected to start at the end of 2015. As to the eastern corridor, supplies of gas can be organized after 2017 there. Projects related to gas supplied along western and eastern corridors are aimed at meeting the demand for gas in different regional markets of China and are complementary in nature.

### Development plans for Gas Distribution segment

The Group's strategy in the Russian domestic market consists of ensuring a continuous gas supply to our domestic customers while improving the profitability of sales. One of the main landmarks of domestic gas market development is moving from the regulation of wholesale gas prices to the regulation of gas trunk pipelines transportation tariffs.

On 31 December 2010 the Russian Federation Government adopted Resolution No.1205 that provides for further improvement of the state regulation of gas prices in the direction of their liberalization. The Resolution envisages a transition period from 2011 to 2014. In this period conditions will be created to apply market pricing methods that are based on the principle of equal profitability of export and domestic supplies of gas. To ensure a gradual raising of domestic prices to their equal profitability with export prices the Russian Federal Tariff Service (FTS) is put in charge of setting up decreasing coefficients in the transition period. These coefficients are components of the gas price formula; they take into account specifics of domestic market pricing. For 2013-2014 the Russian Government has set the variation limits that are calculated at the price formula based on the average level. Such variations are within the range from -3 to +3 percentage points. The above pricing principles will be applied to gas supplied to all customers (except for residential customers).

The Group's key objectives in the European market are to maintain the market-leading position, provide for reliable gas supply, and increase the efficiency of our marketing activities. The Group plans to achieve these objectives by developing relationships with traditional customers on a long-term contractual basis and using new forms of trade based on short-term and medium-term sales, as well as gas exchange and one-time transactions. The Group intends to increase its ownership in companies engaged in the sale of gas and electricity to end-users.

The key objectives of Gazprom's marketing strategy in the FSU countries are to ensure that Russian gas will continue to maintain its leading position in the energy sector of the region and to expand access to the end-consumers.

To ensure the flexibility in determining the development stages for fields in the new gas producing regions in Russia, the Group cooperate with Central Asian and other countries in developing gas reserves, upgrading and modernizing gas transportation systems.

As part of the strategy to diversify the sales geography the Group considers the countries of Asia-Pacific Region as key new markets, access to these markets is expected to be obtained through stage-by-stage development of production, trade and marine transportation of LNG.

## Refining

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

	As of 31 December	
	2010	2009
Assets, million RR	819,440	747,980
Share in total assets of the Group	8.9%	8.9%

  

	Year ended 31 December	
	2010	2009
Capital additions, million RR	78,712	41,557
Share in total capital additions of the Group	8.6%	6.3%

### Processing of hydrocarbons and production of refined products

In 2010 natural gas and gas condensate was processed by gas processing and gas production subsidiaries of OAO Gazprom (OOO Gazprom Pererabotka, OOO Gazprom Dobycha Astrakhan, OOO Gazprom Dobycha Orenburg, Vostokgazprom Group), crude oil was refined at capacities of the Gazprom нефт Group - at Omsk Refinery, Moscow Refinery and OAO NGK Slavneft entities and NIS oil refineries.

The following table sets forth the volumes of the Group's hydrocarbon processing for the periods indicated:

	Year ended 31 December			
	2010 <sup>(1)</sup>		2009 <sup>(1)</sup>	
	Total	including abroad	Total	including abroad
Natural and petroleum gas, bcm	33.6	–	30.4	–
Crude oil and unstable gas condensate, million tons	50.2	2.9	44.3	2.4
incl. the Gazprom нефт Group	37.9	2.9	33.4	2.4

Notes:

- (1) The data in tables do not include raw materials supplied by customers.
- (2) NIS data is included in the Group's figures from February 2009. Sibir Energy's refinery volumes at OAO Moscow Refinery were consolidated effective the end of the second quarter of 2009, when the Group obtained control over Sibir Energy.

As of 31 December 2010 the total processing and refining capacity of the Group was 52.5 bcm of natural gas and 75.4 million tons of unstable gas condensate and crude oil.

The following table sets out production volumes of major refined products for the periods indicated.

	Year ended 31 December			
	2010 <sup>(1)</sup>		2009 <sup>(1)</sup>	
	Total	including abroad	Total	including abroad
Dry gas, bcm	26.2	–	24.2	–
Liquefied oil gas, thousand tons	3.1	0.1	2.8	0.1
including the Gazprom neft Group <sup>(2)</sup>	0.8	0.1	0.8	0.1
Broad fractions of light hydrocarbons, thousand tons	0.5	–	0.5	–
Stable gas condensate and crude oil, thousand tons	3.8	–	3.4	–
Oil products, thousand tons	39.7	2.3	35.3	2.1
including the Gazprom neft Group <sup>(2)</sup>	34.7	2.3	30.6	2.1
Helium, mcm	4.9	–	4.9	–
Sulfur, thousand tons	5.3	–	4.4	–
including the Gazprom neft Group <sup>(2)</sup>	0.1	–	0.1	–

Notes:

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

(2) NIS data is included in the Group's figures from February 2009. Sibir Energy's refinery volumes at OAO Moscow Refinery were consolidated effective the end of the second quarter of 2009, when the Group obtained control over Sibir Energy.

The increase in gas refinery is explained by increased production of gas, gas condensate and oil in 2010 due to recovery of the global and domestic markets from the crisis; the increase of oil refinery is explained by consolidation of Sibir Energy, which is a shareholder of OAO Moscow Refinery.

#### Sales of refined products

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

(million tons)	Year ended 31 December		Change
	2010 <sup>(1,2)</sup>	2009 <sup>(1,2)</sup>	
Russia	28.6	24.4	17.2%
including the Gazprom neft Group	20.6	17.6	17.0%
FSU	3.8	3.3	15.2%
including the Gazprom neft Group	2.6	3.0	–13.3%
Europe and other countries	19.7	16.5	19.4%
including the Gazprom neft Group	14.1	12.6	11.9%
<b>Total</b>	<b>52.1</b>	<b>44.2</b>	<b>17.9%</b>

Notes:

(1) Presenting the volumes of refined products and petrochemicals sold to the consumers of the corresponding sales markets less intercompany sales. The data include sale volumes of refined products produced by the Gazprom Group and purchased from third parties.

(2) The volumes do not include helium.

The increase in refinery product sales in 2010 is explained by reaching the planned levels of gas production and refinery as compared with the reduced refinery levels in 2009, and by increased oil refinery volumes of the Gazprom neft Group after the consolidation of Sibir Energy's share in the refinery volumes of OAO Moscow refinery, the development of premium sale segments and increased demand on the whole market of refinery products.

In 2010 the Group's sales of helium reached 4.9 million cm, which corresponds to the 2009 level.

The Group continues to strengthen its positions in the oil product retail sales in Russia and abroad. As of the end of 2010 the number of operating fuel stations increased to 1,596 stations, including 649 stations located abroad. As of the end of 2010 the single retail brand of "Gazprom neft" covered 950 fuel stations (including 455 partially rebranded stations).

In 2010 the volume of oil products of the Gazprom Group that are sold via the network of fuel stations increased by 41.4% and reached 4.85 million tons as compared with 3.43 million tons in 2009.

### Main areas of capital investments

In 2010 the capital investments were mainly made in the development of Novy Urengoy gas chemical plant, construction of the condensate pipeline Zapolyarnoye – Urengoy, construction of new units and modernization of the existing ones at the Omsk refinery and OAO Moscow Refinery, upgrade of NIS refinery capacities at the refinery plant in Pancevo, acquisition of a network of fuel stations and land plots for fuel stations construction in Kazakhstan as well as reconstruction and re-branding of the fuel stations network.

In 2010 construction of a diesel hydro treating unit and a FCC gasoline hydro treating unit was launched at the Omsky refinery. These units will produce diesel fuel and petrol of class 4 and 5. The largest in Europe light naphtha isomerisation unit Izomalk-2 was put into operation. A unit producing emulsified polymer bitumen and bitumen emulsion was also put into operation.

In 2010 the condensate pipeline Zapolyarnoye – Urengoy, 210.9 km long, was put into operation, it will allow to increase utilization of the current capacities of Urengoy ZPKT and Surgutsky ZSK.

Construction of light hydro cracking and hydro treating units was launched in 2010 within the process of modernizing NIS refinery capacities at the refinery in Pancevo, Serbia. The project will help to increase refinery volumes up to maximum plant's capacity of 4.8 million tons a year.

### Innovations in processing of hydrocarbons and production of oil and gas products

For gas processing purposes the Group is implementing the projects on:

- developing the testing and production facility to produce the synthetic liquid fuels with the capacity of 100 thousand tons per year;
- low-tonnage installation to produce super-gasoline to be used at depleted and low pressure wells.

For the purposes of rational utilization of the helium-rich fields the technology of complex raw processing to produce LNG and separate helium and technology and technical decisions related to transportation and storage of helium are being developed.

In order to increase the depth of liquid hydrocarbon raw processing and improving the quality of the produced petrol in accordance with Euro-4 and Euro-5, the secondary processing of the stable gas condensate and oil are being implemented.

In addition, other projects are being carried out:

- developing the technology of HSFO processing at Astrakhan gas processing plant by using the electron-stimulated cracking;
- implementation of sulphur bituminous for the purposes of construction and repairing the highways.

### Development plans for the Refining segment

The main objective of the Group's development in gas processing and gas chemistry is to increase the rate of extraction of valuable components of natural and associated oil gas and their effective use for further refining to marketable products with high added value; build up new gas processing and gas chemistry facilities, including in Eastern Siberia and Far East.

To ensure transportation of increased volumes of gas and gas condensate from new sites put into operation in Western Siberia it is planned to expand and reconstruct the Urengoy gas condensate treatment plant so as to increase its capacity by 12 million tons of de-ethanized condensate by 2014; to create treatment and transportation facilities for gas and oil from the Achimov formation and to finalize construction of the condensate pipeline Urengoy – Surgut; it is also planned to expand and reconstruct the Surgut Stable Condensate Plant.

The oil business development strategy provides for increased volumes of oil refinery due to increased scope of own oil refinery capacities in Russia and abroad.



Strategic goals set by Gazprom in refinery include production of goods that comply with the technical regulations, i.e. classes 4 and 5, increased depth of refinery to 90%-95% and yield of light fractions up to 79%. Moreover, the technological level of refineries should correspond to global standards, including in ecology and safety.

Strategic goals in the area of marketing include: increased sales of oil products through marginal sale channels in Russia and abroad, building up a strong retail brand, a 20% increase in the average flow of a filling station and a two times increase of the accompanying goods and services' share in the revenue. The growth of retail sales will be based on the expansion of filling stations network through acquiring existing networks and entering new regions of Russia and FSU countries.

## Electric Power

The following table shows assets and capital investments related Electric and heat energy generation and sales segment:

	As of 31 December	
	2010	2009
Assets, million RR	487,046	470,221
Share in total assets of the Group	5.3%	5.6%
	Year ended 31 December	
	2010	2009
Capital expenditures, million RR	46,239	26,139
Share in the Group's total capital additions	5.0%	4.0%

The Gazprom Group is the largest owner of power generating assets in the Russian Federation. The total installed capacity of the Group's main generating companies in Russia (OAO Mosenergo, OAO TGC-1, OAO WGC-2 and OAO WGC-6) is about 36 GW, or 17% of the total installed capacity of the Russian energy system.

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

Generating companies	Generating capacities as of 31 December 2010, GW	Power generation, year ended 31 December 2010, billion kWh	Heat capacity as of 31 December 2010, thousand Gcal/h	Heat production, year ended 31 December 2010, million Gcal
OAO Mosenergo	11.9	65.0	35.0	69.9
OAO WGC-2	8.7	47.6	1.6	2.4
OAO WGC-6	9.2	34.9	2.7	4.4
OAO TGC-1	6.3	27.2	14.4	28.8
ZAO Kaunasskaya TEC (Lithuania)	0.2	0.4	0.9	1.4
<b>Total<sup>(1)</sup></b>	<b>36.2</b>	<b>175.1</b>	<b>54.6</b>	<b>106.9</b>

Note:

(1) Totals may not add up due to rounding.

In 2010 the Group's power generation increased by 26.4% to 175.1 billion kWh as compared with 138.5 billion kWh in 2009.

All power generated by the Group is sold at the wholesale market of electricity and power capacity.

In 2010 heat production totalled 106.9 million Gcal which is 45.6% higher than in 2009.

The increase in sales of electricity and heat in the Gazprom Group mainly results from the consolidation of OAO TGC-1 in 2009.

In addition, improved performance indicators of the Group's generating companies in 2010 are also explained by increased demand for electric power in the regions where these companies operate mainly due to the growth of industrial production in Russia.

### Main areas of capital investments

In 2010 the Group primarily invested in modernisation of Kirishskaya TPP based on steam-gas technology and construction of a carbon block with circulating fluidized bed (CFB) at Novocherkassky TPP (OAO WGC-6); construction of the steam-gas power generating units at Pervomaysky TPP-14 and Yuzhny TPP-22 (OAO TGC-1) as well as construction of Adlersky power-generating station.

Under the Gazprom Group's investment program new generating capacities of 676 MW, or 21% of the total new capacities in Russia for the period, were put into operation in 2010. In addition OAO Mezhtregionenergostroy, a related party to the Group, put into operation the second power generating unit at Kaliningradsky TPP-2 with the capacity of 450 MW.

Outside Russia the Group is involved in the construction and modernization of the fifth power generating unit of Razdansky TPP (Armenia). After the unit is put into operation Gazprom will have a significant share in the power generating market of Armenia and will be able to supply electric power to its neighbouring countries. The fifth power generating unit of Razdansky TPP is expected to be put into operation in the second half of 2011.

### Innovations in electric power

Gazprom Group is implementing a number of large-scale projects having no parallel in the Russian power energy:

- modernization of a steam-power block of Ryazansky TPP of OAO WGC-6 by adding gas turbine capacity of 110 MW of OAO Saturn-Rybinsky motors (increase in thermal efficiency up to 45%);
- the construction of a carbon block with CFB-330 at Novocherkassaya TPP which will enable to use the several different coal types including those of bottom quality for boiler equipment operation is under way;
- at OAO Gazprom production facilities the modern reducing valve generator units using the technological drop of natural gas pressure are being implemented. Reducing valve generator units ensure the generation of the additional electricity with CNG energy efficiency at not less than 80%.

### Development plans for electric and heat energy generation and sales segment

The development strategy of Gazprom Group's energy sector provides for a qualitative improvement of generating companies' operating efficiency and their capitalization growth. Accomplishment of the investment program is also a priority for development of the energy companies: the Group's strategy up to 2020 provides for the growth of generating capacities to 44.8 GW.

Implementation of the strategy will allow Gazprom to retain and strengthen its leading position in the electric power market of Russia as well as to bring efficiency factors to the level of major global power generating companies.

## ENVIRONMENT PROTECTION

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

In 2010 statutory environmental inspections identified no significant violations of the Russian environmental legislation by the Group's companies. Penalties related to violation by Gazprom of environmental legislation in 2010 amounted to RR 1.8 million (by 10% less than in 2009).

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

Main indicators	Year ended 31 December		Change
	2010	2009	
Pollutant emissions into the air, thousand tons	3,225.3	3,391.1	-4.9 %
carbonic oxide	666.8	645.8	3.3 %
nitrogen oxide	377.4	335.3	12.6 %
sulfur dioxide	296.1	249.1	18.9 %
hydrocarbons (methane)	1,589.1	1,859.8	-14.6 %
Discharge of waste water, million cm	5,701.0	5,336.3	6.8 %
including in surface-water bodies	5 364,1	5,175.9	3.6 %
including clean and cleaned as per standard norms	5,348.9	5,031.3	6.3 %
Generation of waste, thousand tons	5,600.3	5,210.8	7.5 %
Recultivated lands, thousand ha	9.8	12.6	- 22.2 %

The Group's power assets account for the main contribution in the formation and movement of waste generation and discharge of water waste in surface water bodies. The Group's power assets account for 98% of taken and discharge water. At the same time 99.7% of waste water volume that go to surface waters are clean as per regulatory requirements or have been cleaned at treatment facilities.

Gazprom Group's environmental costs are disclosed below:

(million RR)	Year ended 31 December		Change
	2010	2009	
Current costs	10,289.8	10,376.5	-0.8%
Costs of capital repairs of fixed assets used for environmental protection	1,243.2	962.7	29.1%
Pollution charges	1,234.4	1,218.4	1.3%
Capital environmental costs	7,744.4	6,323.6	22.5%
<b>Total</b>	<b>20,511.8</b>	<b>18,881.2</b>	<b>8.6%</b>

In 2010, CO<sub>2</sub> emissions of the main Gazprom's subsidiaries in production, transportation and underground gas storage operations increased by 6 million tons of CO<sub>2</sub> – equivalent as compared with the prior year and amounted to 137 million tons of CO<sub>2</sub> – equivalent. This dynamics is explained by the increase in natural gas consumption for compressing resulting from increase in gas production and transportation

In line with the Energy Strategy of Russia up to 2030 and with the Climate and Ecology Doctrines of the Russian Federation, OAO Gazprom strictly adheres to the corporate policy of Earth climate protection. Participation in international organizations, working out environmental standards in accordance with the international agreements, conducting research and special projects aiming to decrease in emissions of greenhouse gases, efficient usage of associated gases – those are the main components of Gazprom's policy for climate protection.

## EMPLOYEES

In its operations, the Group complies with all requirements of the conventions of International Labour Organization ratified by the Russian Federation. Guided thereby, the Group complies with international standards related to freedom of associations, salary, duration of the working day and labour conditions, employees' compensation for their work, social security, provision of paid vacation, labour safety, etc.

As of 31 December, 2010 the number of employees in the Gazprom Group's subsidiaries was 400.6 thousand people, including 21.3 thousand employees of Gazprom Group's entities registered abroad.

The structure of Gazprom Group's employees as of 31 December, 2010 is provided in the following table.

	<b>As of 31 December 2010</b>
(share)	
Managers	12.2%
Specialists	24.3%
Other employees	4.1%
Workers	59.4%

The table below shows the level of education of Gazprom Group staff as of 31 December, 2010.

	<b>As of 31 December 2010</b>
(share)	
Post-graduate	0.5%
Higher professional	38.3%
Secondary-level professional	23.8%
Secondary	37.4%

Professional training of workers is carried out in training divisions of subsidiaries, training of graduates – in corporate and governmental educational institutions. In total 188.9 thousand employees were covered by professional training in 2010.

In 2010, the Group's costs on employee training (including business trip costs) totaled RR 2.16 billion which represents a 35% increase (or an increase by RR 0.56 billion) as compared with 2009.

In 2010, social and labour relations between employees and employers in the Group's entities were regulated by labour legislation, Industry Agreement for Entities of Oil and Gas Sectors and Construction of Oil and Gas Facilities of the Russian Federation for 2008-2010, Industry Tariff Agreement in the Russian Utilities Sector for 2009–2011, General Collective Agreement of OAO Gazprom, its subsidiaries and entities for 2010–2012 and by subsidiaries' and entities' collective agreements.

The General Collective Agreement of OAO Gazprom, its subsidiaries and entities for 2010–2012 affects interests of more than 300 thousand employees.

The established social partnership system allows regulating social and labour relations in accordance with the changing economic and social environment, on-going balancing of personnel's and employer's interests without decrease in the achieved level of material protection of employees and their families, maintaining social stability and attractiveness of Gazprom Group entities in the labour market.

## ANALYSIS OF FINANCIAL RESULTS OF OPERATIONS

### Results of operations

(RR million)

	Year ended 31 December	
	2010	2009
Sales	3,597,054	2,991,001
Net gain from trading activity	6,256	4,171
Operating expenses	(2,440,777)	(2,092,832)
Impairment provision and other provisions	<u>(48,711)</u>	<u>(45,428)</u>
<b>Operating profit</b>	<b>1,113,822</b>	<b>856,912</b>
Purchase of non-controlling interest in OAO Gazprom neft	-	13,865
Gain from disposal of OAO Novatek	77,375	-
Gain from swap of assets transaction	-	105,470
Finance income	171,841	375,799
Finance expense	(169,147)	(441,487)
Share of net income of associated undertakings and jointly controlled entities	76,520	62,557
Gains on disposal of available-for-sale financial assets	<u>3,292</u>	<u>6,319</u>
<b>Profit before profit tax</b>	<b>1,273,703</b>	<b>979,435</b>
Current profit tax expense	(249,387)	(182,255)
Deferred profit tax expense	<u>(26,323)</u>	<u>(3,387)</u>
Profit tax expense	(275,710)	(185,642)
<b>Profit for the period</b>	<b>997,993</b>	<b>793,793</b>
<b>Other comprehensive income</b>		
Gains arising from change in fair value of available-for-sale financial assets, net of tax	18,904	32,193
Share of other comprehensive income of associated undertakings and jointly controlled entities	4,100	7,098
Translation differences	(9,407)	1,704
Revaluation of equity interest	<u>-</u>	<u>9,911</u>
<b>Other comprehensive income for the period, net of tax</b>	<b>13,597</b>	<b>50,906</b>
<b>Total comprehensive income for the period</b>	<b>1,011,590</b>	<b>844,699</b>
<b>Profit attributable to:</b>		
owners of OAO Gazprom	968,557	779,585
non-controlling interest	<u>29,436</u>	<u>14,208</u>
	<b>997,993</b>	<b>793,793</b>
<b>Total comprehensive income attributable to:</b>		
owners of OAO Gazprom	981,280	835,182
non-controlling interest	<u>30,310</u>	<u>9,517</u>
	<b>1,011,590</b>	<b>844,699</b>

## Sales

The following table sets out our volumes and realized prices

(RR million unless indicated otherwise)	Year ended 31 December	
	2010	2009
Sales of gas		
<i>Europe and other countries</i>		
Gross sales <sup>(1)</sup>	1,357,852	1,396,415
Excise	-	(220)
Custom duties	(258,627)	(290,742)
Net sales	1,099,225	1,105,453
Volumes in bcm	148.1	148.3
Gross average price, U.S.\$ per mcm (including excise and custom duties) <sup>(2)</sup>	301.8	296.7
Gross average price, RR per mcm (including excise and custom duties)	9,166.6	9,413.5
<i>FSU (Former Soviet Union)</i>		
Gross sales (net of value added tax (VAT))	493,806	363,400
Custom duties	(43,669)	(53,471)
Net sales	450,137	309,929
Volumes in bcm	70.2	56.7
Gross average price, U.S.\$ per mcm (including custom duties, net of VAT) <sup>(2)</sup>	231.7	202.1
Gross average price, RR per mcm (including custom duties, net of VAT) <sup>(2)</sup>	7,039.0	6,411.1
<i>Russian Federation</i>		
Gross sales (net of VAT)	636,843	503,121
Net sales	636,843	503,121
Volumes in bcm	277.3	273.5
Average price, RR per mcm (net of VAT)	2,296.8	1,839.5
<i>Total sales of gas</i>		
Gross sales (net of VAT)	2,488,501	2,262,936
Excise	-	(220)
Customs duties	(302,296)	(344,213)
Net sales	2,186,205	1,918,503
Volumes in bcm	495.6	478.5
Net sales of refined products (net of excise, VAT and custom duties)	709,062	540,505
Net sales of electric and heat energy (net of VAT)	288,655	192,826
Net sales of crude oil and gas condensate (net of excise, VAT and custom duties)	196,074	176,403
Gas transportation net sales (net of VAT)	92,631	65,563
Other revenues (net of VAT)	<u>124,427</u>	<u>97,201</u>
<b>Total sales (net of excise tax, VAT and custom duties)</b>	<b>3,597,054</b>	<b>2,991,001</b>

Notes:

(1) VAT is not charged on sales to Europe and other countries.

(2) Calculated on the basis of annual average currency exchange rate between RR and U.S.\$.

Total sales (net of excise tax, VAT and custom duties) increased by RR 606,053 million, or 20%, to RR 3,597,054 million in the year ended 31 December 2010 compared to the year ended 31 December 2009.

Net sales of gas accounted for 61% and 64% of total net sales in the year ended 31 December 2010 and 2009, respectively.

Net sales of gas increased from RR 1,918,503 million in the year ended 31 December 2009 to RR 2,186,205 million in the year ended 31 December 2010, or by 14%.

Net sales of gas to Europe and other countries decreased by RR 6,228 million or 1%, to RR 1,099,225 million in the year ended 31 December 2010 as compared to the year ended

31 December 2009. This mainly results from the decrease of gross average realized prices in RR terms (including excise tax and custom duties) by 3%.

Net sales of gas to FSU countries increased by RR 140,208 million, or 45%, to RR 450,137 million in the year ended 31 December 2010 as compared to the year ended 31 December 2009. This increase was mainly due to increase in volumes of gas sold to FSU countries by 24% in the year ended 31 December 2010 compared to the year ended 31 December 2009, and increase in gross average RR price (including custom duties, net of VAT) by 10% in the year ended 31 December 2010 compared to the year ended 31 December 2009.

Net sales of gas in the Russian Federation increased in the year ended 31 December 2010 compared to the year ended 31 December 2009, by RR 133,722 million, or 27%, to RR 636,843 million. This increase was mainly due to 25% increase in the gross average gas sale price regulated by the Federal Tariffs Service (FTS), and 1% increase in the volumes of gas sold.

Net sales of refined products (net of excise tax, VAT and custom duties) increased by RR 168,557 million, or 31%, to RR 709,062 million in the year ended 31 December 2010 in comparison with RR 540 505 million in the year ended 31 December 2009. The increase mainly resulted from increase of world prices for refined products and increase in volumes sold by the Group as well as from the acquisitions of subsidiaries by the Gazprom neft Group in 2009. In the years ended 31 December 2010 and 2009 the Gazprom neft Group's sales comprised 84% and 85% of the total amount of our net sales of refined products, respectively.

Net sales of electric and heat energy (net of VAT) increased by RR 95,829 million, or 50%, to RR 288,655 million in the year ended 31 December 2010 as compared to the year ended 31 December 2009. RR 49,687 million of the total increase related to consolidation of TGC-1 effective 31 December 2009 when control over that entity was established. Another reason for the total increase in the Group's electric and heat energy net sales was an increase in electric and heat energy sales of Mosenergo, WGC-2 and WGC-6 by RR 45,487 million, or 24%.

Net sales of crude oil and gas condensate (net of excise tax, VAT and custom duties) increased by RR 19,671 million, or 11%, to RR 196,074 million in the year ended 31 December 2010 as compared to RR 176,403 million in the year ended 31 December 2009. The increase was mainly caused by increase in price for oil and gas condensate as well as by increase in volumes of gas condensate sold in the year ended 31 December 2010 as compared to the year ended 31 December 2009. Sales of crude oil included in net sales of crude oil and gas condensate (net of excise tax, VAT and custom duties), amounted to RR 169,193 million and RR 157,874 million in the years ended 31 December 2010 and 2009, respectively.

Gas transportation net sales (net of VAT) increased by RR 27,068 million, or 41%, to RR 92,631 million in the year ended 31 December 2010 from RR 65,563 million in the year ended 31 December 2009. The increase was mainly caused by increase in gas volumes transported for independent gas suppliers.

Other revenues increased by RR 27,226 million, or 28%, to RR 124,427 million in the year ended 31 December 2010 compared to RR 97,201 million in the year ended 31 December 2009.

Net gain from trading activity increased by RR 2,085 million, or 50%, to RR 6,256 million in the year ended 31 December 2010 in comparison with the year ended 31 December 2009. This growth is due to increase of trading operations by Gazprom Marketing and Trading Ltd., a subsidiary to the Group, under the terms of gas sales contracts.

### **Operating expenses**

Operating expenses increased by 17% in the year ended 31 December 2010 to RR 2,440,777 million from RR 2,092,832 million in the year ended 31 December 2009. Operating expenses as a percentage of sales decreased from 70% in the year ended 31 December 2009 to 68% in the

year ended 31 December 2010. The table below presents a breakdown of operating expenses in each year:

(RR million)	Year ended 31 December	
	2010	2009
Purchased gas and oil	616,407	607,310
Staff costs	342,846	255,977
Taxes other than on income	289,978	244,748
Transit of gas, oil and refined products	260,776	220,961
Depreciation	243,615	221,197
Repairs and maintenance	159,894	138,779
Materials	83,043	83,576
Cost of goods for resale, including refined products	70,072	52,203
Electricity and heating expenses	60,386	43,375
Transportation services	27,130	17,952
Social expenses	25,635	20,639
Research and development expenses	24,158	28,524
Rental expenses	20,019	19,912
Insurance expenses	15,685	16,315
Exchange rate differences on operating items	12,876	(44,223)
Processing services	8,442	9,744
Other	179,815	155,843
<b>Total operating expenses</b>	<b>2,440,777</b>	<b>2,092,832</b>

#### Purchased gas and oil

Cost of purchased gas and oil increased by 1% to RR 616,407 million in the year ended 31 December 2010 from RR 607,310 million in the year ended 31 December 2009. The cost of purchased gas decreased by RR 41,590 million or 9% and amounted to RR 401,725 million for the year ended 31 December 2010 which is mainly explained by decrease in prices and volume of gas purchased outside the Russian Federation. The cost of purchased oil increased by RR 50,687 million, or 31%, and amounted to RR 214,682 million in the year ended 31 December 2010 in comparison with RR 163,995 million in the year ended 31 December 2009 due to increase of world oil prices.

#### Staff costs

Staff costs increased by 34% to RR 342,846 million in the year ended 31 December 2010 from RR 255 977 million in the year ended 31 December 2009. Staff costs included costs for pension expense in the amount of RR 64 990 million and RR 20 486 million for 2010 and 2009, respectively. The increase in staff costs (without pension expense) resulted mainly from increase in the average salary. The increase was also due to consolidation of TGC-1 effective 31 December 2009 when control over that entity was established; and due to acquisitions of new assets by the Gazprom нефт Group in 2009. Increase in pension expense related primarily to unfunded post-retirement benefits such as funeral payment, health improvement, medical aid and other types of financial support to pensioners.



Taxes other than on income

Taxes other than on income consist of:

(RR million)	Year, ended	
	31 December , 2010	2009
Natural resources production tax	170,455	144,908
Excise tax	62,338	53,024
Property tax	42,034	36,034
Other taxes	<u>15,151</u>	<u>10,782</u>
<b>Taxes other than on income</b>	<b>289,978</b>	<b>244,748</b>

The natural resources production tax increased by 18% to RR 170,455 million in the year ended 31 December 2010 from RR 144,908 million in the year ended 31 December 2009. The increase mainly relates to the production of crude oil and was caused by the increase of world oil prices that in turn resulted in the increase of tax rate.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 18% to RR 260,776 million in the year ended 31 December 2010 from RR 220,961 million in the year ended 31 December 2009. This growth mainly relates to increased costs of gas transportation through Ukraine.

Depreciation

Depreciation increased by 10% or RR 22,418 million to RR 243,615 million in the year ended 31 December 2010 from RR 221,197 million in the year ended 31 December 2009. The increase primary relates to the growth in the fixed asset base.

Repairs and maintenance

Cost of repairs and maintenance increased by 15% to RR 159,894 million in year ended 31 December 2010 from RR 138,779 million in the year ended 31 December 2009. This increase was mainly caused by increase in volume of repair services rendered by third parties to the Group in the year ended 31 December 2010.

Materials

Cost of materials decreased by 1% to RR 83,043 million in the year ended 31 December 2010 from RR 83,576 million in the year ended 31 December 2009. This decrease was partially compensated by the increase in cost of fuel in operating segment "Electric and heat energy generation and sales" as well as by increase in costs resulting from the changes in the Group's procurement logistics as related to the capital repair activities.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased by 34% to RR 70,072 million in the year ended 31 December 2010 from RR 52,203 million in the year ended 31 December 2009. The increase is mainly due to the increase in prices for oil and oil products.

Electricity and heating expenses

Electricity and heating expenses increased by 39% to RR 60,386 million in the year ended 31 December 2010 from RR 43,375 million in the year ended 31 December 2009. The increase mainly resulted from increase in electricity consumption, growth of electricity tariffs and consolidation of OAO TGC-1 effective 31 December 2009.

Exchange rate differences on operating items

Exchange rate differences on operating items in the year ended 31 December 2010 amounted to a net loss of RR 12,876 million compared to net gain exchange rate differences on operating items

in the amount of RR 44,223 million in the year ended 31 December 2009. The change was primarily driven by depreciation of RUR against USD by 1% and by appreciation of RUR against EUR by 7% in the year ended 31 December 2010 comparing to depreciation of RUR against USD and EUR by 3% and 5%, respectively, in the year ended 31 December 2009.

#### Other operating expenses

Other operating expenses increased by 15% to RR 179,815 million in the year ended 31 December 2010 from RR 155,843 million in the year ended 31 December 2009. Other expenses include heat energy transmission expenses, bank charges, security services, legal and consulting services, advertisement services, gas storage services, charity and financial aid and others.

#### Impairment provision and other provisions

In the years ended 31 December 2010 and 2009 the Group has assessed whether there were any indicators that non-current assets of the Group might be impaired. No such indicators were identified.

Included in the impairment and other provisions are provisions for short-term and long-term accounts receivable in the amount of RR 48,448 million and RR 33,586 million for the years ended 31 December 2010 and 2009 respectively.

#### Operating profit

As a result of the factors discussed above, our operating profit increased by RR 256,910 million, or 30%, to RR 1,113,822 million in the year ended 31 December 2010 from RR 856,912 million in the year ended 31 December 2009. Our operating profit margin increased from 29% in the year ended 31 December 2009 to 31% in the year ended 31 December 2010.

#### Purchase of non-controlling interest in OAO Gazprom neft

In April 2009 the Group purchased an additional 20% interest in OAO Gazprom neft for USD 4.1 billion (approximately RR 138,527 million) from ENI S.p.A. As a result of this transaction, the Group increased its interest in OAO Gazprom neft to 95.68%. The difference between the carrying value of the acquired non-controlling interest (approximately RR 152,392 million) and purchase consideration was recognized as a gain in the amount of RR 13,865 million in the consolidated statement of comprehensive income.

#### Disposal of interest in OAO Novatek

In December 2010 the Group sold a portion of the associated undertaking (total carrying value of RR 84,978 million as of the date sold) representing a 9.4% interest in OAO Novatek to a party unrelated to the Group for RR 57,462 million paid in cash. As a result of this transaction the Group has ceased to exercise significant influence over the business activities of OAO Novatek. Therefore the remaining 9.99% interest was classified as long-term available-for-sale financial asset and was recognized at fair value in the amount of RR 104,484 million at the date of disposal.

In the consolidated statement of comprehensive income for the year ended 31 December 2010 the Group recognized a gain of RR 77,375 million representing the difference between the sum of fair value of the remaining 9.99% interest at the date of transaction, cash proceeds from disposal of 9.4% interest and accumulated net gain previously recognized in other comprehensive income in relation to this associated undertaking, and the carrying amount of total 19.39% interest as at transaction date.

#### Gain from transaction for asset swap with E.ON Ruhrgas AG

On 30 October 2009 the Group closed the swap agreement with E.ON Ruhrgas AG. As a result thereof, the Group swapped its 25% share in OAO Severneftegazprom less three ordinary shares, three preference shares without voting right of OAO Severneftegazprom and a preference share

in ZAO Gazprom YRGM Development for a 49% interest in ZAO Gerosgaz and a cash compensation of Euro 67 million. OAO Severneftegazprom holds the license for the development of Yuzhno-Russkoe oil and gas field in Siberia. ZAO Gerosgaz is the company holding the investment in 2.93% shares of OAO Gazprom. As a result of the swap the Group recognized the gain on disposal of interest in OAO Severneftegazprom and ZAO Gazprom YRGM Development in the consolidated statement of comprehensive income in the amount of RR 105,470, being the difference between carrying amount of transferred assets and respective fair value of ZAO Gerosgaz shares acquired. Treasury shares were recognized as deduction from equity at market value as at the date of the swap closure.

### Finance income (expense)

(RR million)	Year ended 31 December ,	
	2010	2009
Exchange gains	150,384	338,976
Exchange losses	<u>(130,433)</u>	<u>(367,320)</u>
Net exchange gain (loss)	19,951	(28,344)
Interest income	20,692	36,762
Interest expense	(38,714)	(74,167)
Gains on extinguishment of restructured liabilities	<u>765</u>	<u>61</u>
<b>Net finance income (expense)</b>	<b>2,694</b>	<b>(65,688)</b>

Exchange gains decreased by RR 188,592 million to RR 150,384 million in the year ended 31 December 2010, compared to RR 338,976 million in the year ended 31 December 2009. Exchange losses decreased by RR 236,887 million to RR 130,433 million in the year ended 31 December 2010 from RR 367,320 million in the year ended 31 December 2009. The decrease in exchange gains and exchange losses resulted from a lower fluctuation of USD and EUR exchange rates against RR in the year ended 31 December 2010 in comparison with the year ended 31 December 2009.

Interest income decreased by 44% to RR 20,692 million in the year ended 31 December 2010 from RR 36,762 million in the year ended 31 December 2009, mainly due to change of presentation of the Group's banking subsidiaries in the first half of 2010.

Interest expense decreased by 48% to RR 38,714 million in the year ended 31 December 2010 from RR 74,167 million in the year ended 31 December 2009, mainly due to decrease in average borrowings balance during the year ended 31 December 2010 in comparison with the prior year.

### Share of net income of associated undertakings and jointly controlled entities

Share of net income of associated undertakings and jointly controlled entities increased by RR 13,963 million, or 22%, to RR 76,520 million in the year ended 31 December 2010 compared to RR 62,557 million in the year ended 31 December 2009. The increase of the Group's share of net income of associated undertakings and jointly controlled entities in the year ended 31 December 2010 relates mainly to increase in net income of Sakhalin Energy Investment Company Ltd. due to increase in sales of hydrocarbons.

### Profit tax

Total profit tax expense increased by RR 90,068 million, or 49%, to RR 275,710 million for the year ended 31 December 2010 compared to RR 185,642 million for the year ended 31 December 2009. The effective profit tax rate was 21.6% and 19.0% in the years ended 31 December 2010 and 2009, respectively. The change in the effective tax rate results mainly from the effect of one-time non-taxable income related to the purchase of an additional interest in OAO Gazprom neft

and the gain from swap of assets with E.ON Ruhrgas in 2009 and in 2010 to effect of the disposal of interest in OAO Novatek.

#### Profit for the period attributable to owners of OAO Gazprom

As a result of the factors discussed above, our profit for the period attributable to owners of OAO Gazprom increased by RR 188,972 million, or 24%, from RR 779,585 million in the year ended 31 December 2009 to RR 968,557 million in the year ended 31 December 2010.

#### Profit for the period attributable to non-controlling interest

Profit for the period attributable to non-controlling interest increased by RR 15,228 million, or 107%, to RR 29,436 million in the year ended 31 December 2010 compared to RR 14,208 million in the year ended 31 December 2009. Increase is mainly related to the increase of profit of OAO Severneftegazprom and OAO Mosenergo in the year ended 31 December 2010 compared to the year ended 31 December 2009.

### **Liquidity and capital recourses**

The following table summarizes our statement of cash flows:

(RR million)	Year ended 31 December,	
	2010	2009
Net cash provided by operating activities	1,460,116	897,154
Net cash used for investing activities	(1,050,307)	(993,111)
Net cash used for financing activities	(212,384)	(2,867)

#### Net cash provided by operating activities

Net cash provided by operating activities increased by RR 562,962 million, or 63%, and amounted to RR 1,460,116 million in the year ended 31 December 2010 compared to RR 897,154 million in the year ended 31 December 2009. The increase was primarily due to growth of our operating profit in the year ended 31 December 2010 in comparison with the year ended 31 December 2009, which was supplemented by positive dynamics of changes in working capital.

#### Net cash used for investing activities

Net cash used for investing activities increased by RR 57,196 million, or 6%, to RR 1,050,307 million in the year ended December 31, 2010 compared to RR 993,111 million in the year ended December 31, 2009. This increase relates mainly to the increase in cash used for capital expenditures in development of fields and transport infrastructure which was partly offset by decrease in cash used for acquisition of shares in subsidiaries due to purchase of non-controlling interest in OAO Gazprom neft for RR 138,527 million in the year ended 31 December 2009.

#### Net cash used for financing activities

Net cash used for financing activities amounted to RR 212,384 million in the year ended 31 December 2010 compared to net cash used for financing activities in the amount of RR 2,867 million in the year ended 31 December 2009. This increase was due to change from net proceeds from long term loans and borrowings in 2009 to net repayment in 2010.

#### Working capital

The working capital surplus (current assets less current liabilities) was RR 854,634 million as of 31 December 2010 and RR 639,082 million as of 31 December 2009. The RR 215,552 million increase in our working capital in the year ended 31 December 2010 was primarily due to a

decrease in short-term borrowings and current portion of long-term borrowings and an increase in cash and cash equivalents. These effects were partially offset by an increase in accounts payable.

The decrease in short-term borrowings and current portion of long-term borrowings in the amount of RR 234,010 million was caused mainly by deconsolidation of Group's banking subsidiaries, and also by redemption of loans and loan participation notes issued.

The increase in cash and cash equivalents amounting to RR 191,027 million was caused by the increase of cash on Group accounts.

The increase in accounts payable and accrued charges amounting to RR 200,565 million was caused mainly by increase in advances received for gas sold, increase of trade payables for gas sold, and also by increase in trade payables related to investment construction.

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

### Capital expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segment for the years ended 31 December 2010 and 2009 in nominal RR terms, amounted to the following:

	Year ended 31 December	
	2010	2009
(RR million)		
Transport	503,487	289,164
Production of gas	281,540	274,755
Production of crude oil and gas condensate	91,805	88,764
Refining	92,271	58,589
Electric and heat energy generation and sales	53,929	29,953
Distribution	44,633	35,823
Gas storage	21,016	10,942
All other segments	<u>22,153</u>	<u>22,880</u>
<b>Total</b>	<b>1,110,834</b>	<b>810,870</b>

Note:

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

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) increased by RR 299,964 million, or 37%, from RR 810,870 million in the year ended 31 December 2009 to RR 1,110,834 million in the year ended 31 December 2010.

The increase of our capital expenditures in the Transport segment was primarily due to increased capital expenditure on the construction of major transportation projects, including Sakhalin-Khabarovsk-Vladivostok, Pipeline Bovanenkovo-Uhta, and Gryazovets-Viborg. The increase of our capital expenditures in the Refining segment was primarily due to increased capital expenditure of OAO Gazprom neft. The increase of our capital expenditures in the Electric and heat energy generation and sales segment was primarily due to consolidation of TGC-1 starting from 31 December 2009 after control over that entity was obtained.

## Debt obligations

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities, net of cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations) decreased by RR 501,314 million, or 37%, from RR 1,372,307 million as of 31 December 2009 to RR 870,993 million as of 31 December 2010. This decrease resulted from decrease of short-term and long-term borrowings, which was primarily caused by the effect of early redemption of long-term borrowings, deconsolidation of banking subsidiaries of the Group as of 31 December 2010 and the increase in cash and cash equivalents.

(RR million)	<b>As of 31 December,</b>	
	<b>2010</b>	<b>2009</b>
<b>Long-term borrowings</b>		
Fixed interest rate borrowings	1,065,435	1,149,288
Weighted average interest rates for fixed rate borrowings	7.66%	7.84%
Variable interest rate borrowings	186,531	268,848
Weighted average interest rates for variable rate borrowings	<u>3.01%</u>	<u>2.10%</u>
<b>Total long-term borrowings</b>	<b>1,251,966</b>	<b>1,418,136</b>
RR denominated borrowings	129,071	154,887
Foreign currency denominated borrowings	<u>1,122,895</u>	<u>1,263,249</u>
<b>Total long-term borrowings</b>	<b>1,251,966</b>	<b>1,418,136</b>
Less: current portion of long-term borrowings	(127,571)	(233,679)
Add: long-term promissory notes	<u>-</u>	<u>4,592</u>
<b>Total long-term debt obligations</b>	<b>1,124,395</b>	<b>1,189,049</b>
<b>Short-term debt borrowings</b>		
Fixed interest rate borrowings	21,375	134,823
Weighted average interest rates for fixed rate borrowings	4.81%	8.78%
Variable interest rate borrowings	41,899	56,353
Weighted average interest rates for variable rate borrowings	<u>3.11%</u>	<u>3.08%</u>
<b>Total short-term borrowings</b>	<b>63,274</b>	<b>191,176</b>
RR denominated borrowings	16,111	119,178
Foreign currency denominated borrowings	<u>47,163</u>	<u>71,998</u>
<b>Total short-term borrowings</b>	<b>63,274</b>	<b>191,176</b>
Plus: Current portion of long-term borrowings	127,571	233,679
Short-term promissory notes	207	11,761
Average discount on promissory notes	<u>-</u>	<u>-</u>
<b>Total short-term debt obligations</b>	<b>191,052</b>	<b>436,616</b>
<b>Total borrowings</b>	<b>1,315,447</b>	<b>1,625,665</b>

The following table shows our actual foreign currency denominated long-term borrowings (expressed in millions of U.S.\$) as of 31 December 2010 and 2009 as well as the same balances expressed in RR:

	<b>As of 31 December,</b>	
	<b>2010</b>	<b>2009</b>
U.S.\$ denominated (expressed in millions of U.S.\$)	26,140	26,261
Euro denominated (expressed in millions of U.S.\$) <sup>(1)</sup>	9,849	12,785
Other currencies denominated (expressed in millions of U.S.\$)	855	2,723
<b>Total long-term foreign currency denominated borrowings expressed in millions of U.S.\$</b>	<b>36,844</b>	<b>41,769</b>
<b>Total long-term foreign currency denominated borrowings expressed in millions of RR <sup>(2)</sup></b>	<b>1,122,895</b>	<b>1,263,249</b>

Notes:

(1) Converted at Euro to U.S.\$ exchange rate of 1.32 and 1.43 as of 31 December 2010 and 2009, respectively.

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

A portion of our long-term borrowings denominated in convertible currencies is collateralized by revenue under certain of the Group's export contracts. As of 31 December 2010 and 2009, borrowings of RR 22,747 million and RR 27,118 million, respectively, inclusive of current portion of long-term borrowings, were secured by revenues from export supplies of gas to Western Europe.

The following table shows the schedule of repayments for long-term borrowings (excluding long-term promissory notes) as of 31 December 2010 and 2009:

(RR million)	<b>As of 31 December,</b>	
	<b>2010</b>	<b>2009</b>
Between one and two years	166,853	162,848
Between two and five years	551,310	527,212
After five years	<u>406,232</u>	<u>494,397</u>
<b>Total</b>	<b>1,124,395</b>	<b>1,184,457</b>

## SHAREHOLDER STRUCTURE AND STOCK MARKET OF OAO GAZPROM

OAO Gazprom's charter capital amounts to RR 118,367,564,500 consisting of 23,673,512,900 common registered shares with a nominal value of RR 5 each. As of 31 December 2010 there were 46,286 registered shareholders of OAO Gazprom, including 11 nominee holders.

Together with its ordinary shares, OAO Gazprom issued American Depositary Receipts (ADRs) for OAO Gazprom ordinary shares in accordance with the program of issuance of Level I American Depositary Receipts. The program provides for a free conversion of OAO Gazprom shares into ADRs and vice versa. The Bank of New York Mellon acts as the depositary bank for the program. At present, Gazprom's Level I ADRs are freely tradeable on the over-the-counter stock market in the United States and on European exchanges such as the London Stock Exchange (LSE), the Berlin-Bremen Stock Exchange and the Frankfurt Stock Exchange.

According to the Russian legislation the maximum volume of common shares underlying ADR may not exceed 35% of Gazprom's charter capital.

The following table summarizes shareholder structure of OAO Gazprom as of the last working days of 2010 and 2009:

	As of 31 December	
	2010	2009
Interest controlled by the Russian Federation, total, including:	50.002%	50.002%
Russian Federation represented by the Federal Agency For State Property Management	38.373%	38.373%
OAO Rosneftegaz	10.740%	10.740%
OAO Rosgazifikatsiya	0.889%	0.889%
ADR holders	27.570%	24.350%
Other entities	22.428%	25.648%

In 2010 there were no significant changes to the shareholder structure. The Russian Federation remains the major shareholder of OAO Gazprom. Taking into account OAO Gazprom voting shares owned by OAO Rosneftegaz and OAO Rosgazifikatsiya (10.74% and 0.889%, respectively), the state controls 50.002%.

The share of ADR holders in OAO Gazprom equity increased to 27.57% as of 31 December 2010 (31 December 2009 – 24.35%).

Based on the 2010 results, the quotation of OAO Gazprom shares increased on the Russian Stock Exchange MICEX and ADR for OAO Gazprom ordinary shares slightly decreased on LSE.

Changes in the price of OAO Gazprom shares and ADRs and trading volumes on major trading floors in 2010 and 2009 are presented in the table below.

	As of 31 December		Change
	2010	2009	
<b>MICEX</b>			
Closing price for share, RR			
Year end	193.62	183.21	6%
Minimum	142.84	101.91	40%
Maximum	197.3	200.16	-1%
Average daily trading volume, million shares	56.4	83.5	-32%
Average daily trading volume, RR billion	9.6	13.0	-26%



	As of 31 December		Change
	2010	2009	
<b>LSE</b>			
Closing price for ADR <sup>(1)</sup> , U.S.\$			
Year end	25.25	25.50	-1%
Minimum	18.06	12.26	47%
Maximum	26.64	27.30	-2%
Average daily trading volume, mln.	13.73	12.42	11%
Average daily trading volume, RR bln.	308.42	243.09	27%

Note:

(1) 1 ADR provides for a right for 4 ordinary shares of OAO Gazprom

The average daily trading volume on MICEX in 2010 was RR 9.6 billion or approximately 18% of total average daily volume of the MICEX's secondary trades.

Market capitalization of OAO Gazprom increased up to U.S.\$150.9 billion as of 31 December 2010. The average market capitalization of OAO Gazprom increased by 13% and totaled US\$131.7 billion as compared with 2009.

Dividends paid in 2010 based on OAO Gazprom performance results for 2009 are as follows:

	As of 31 December 2010			
	Accrued, RR thousand	Paid, RR thousand	Unpaid dividends, RR thousand <sup>(1)</sup>	Proportion of unpaid and accrued dividends
Total	56,579,696	55,975,274	604,422	1.07%
including dividends on shares:				
– owned by the state	21,711,412	21,711,412	–	–
– owned by state-controlled legal entities OAO Rosneftegaz and OAO Rosgazifikatsiya	6,579,452	6,579,452	–	–
– owned by individuals and legal entities (apart from state-controlled)	28,287,471	27,684,410	603,061	2.13%
– owned by undefined holders	1,361	–	1,361	100%

Note:

(1) Dividends are not paid to individuals for the reason of their death, the information on which was received as of the date of dividend payments. Dividends are not paid to the shareholders (legal entities and individuals) that did not provide data required for dividend payments as per para 5, Art. 44 of Federal Law No. 208-FZ "On Joint Stock Companies" dated 26 December, 1995. Dividends accrued on shares of undefined holders are paid as the shareholders' rights for securities are established.

## MANAGEMENT STRUCTURE OF OAO GAZPROM

The rights of OAO Gazprom shareholders and regulation of OAO Gazprom management activity are determined by and carried out in accordance with the legislation of the Russian Federation and may differ from the regulating practice in companies registered in Great Britain. In accordance with the Federal Law “On Joint Stock Companies” and OAO Gazprom’s Charter, OAO Gazprom’s operations are governed by OAO Gazprom’s General Meeting of Shareholders, Board of Directors, Management Committee and the Chairman of Management Committee.

The General Meeting of Shareholders is OAO Gazprom’s highest governing body and, among other things, elects OAO Gazprom’s Board of Directors.

OAO Gazprom’s Board of Directors is responsible for formulating the strategy and the executive bodies (Management Committee and the Chairman of Management Committee) are responsible for implementing the strategy and managing OAO Gazprom on a day-to-day basis. All the governing bodies act in compliance with the effective laws of the Russian Federation, OAO Gazprom Charter and the regulations of these governing bodies which were approved by the General Meeting of Shareholders of OAO Gazprom.

### Board of Directors and Management Committee

Information on members of the Board of Directors as of 31 December, 2010

<b>Name</b>	<b>Year of Birth</b>	<b>Position</b>
Viktor A. Zubkov	1941	Chairman of OAO Gazprom’s Board of Directors and First Deputy Prime Minister of the Russian Federation
Alexey B. Miller	1962	Deputy Chairman of OAO Gazprom’s Board of Directors and Chairman of OAO Gazprom’s Management Committee
Alexander G. Ananenkov	1952	Deputy Chairman of OAO Gazprom’s Management Committee
Burckhard Bergmann	1943	Member of Board of Directors of OAO Gazprom
Farit R. Gazizullin	1946	Member of Board of Directors of OAO Gazprom
Elena E. Karpel	1944	Head of the Economic Appraisal and Pricing Department of OAO Gazprom
Valery A. Musin	1939	Head of Department for Civil Process of Legal Faculty, St. Petersburg State University
Elvira S. Nabiullina	1963	Minister for Economic Development of the Russian Federation
Mikhail L. Sereda	1970	Deputy Chairman of OAO Gazprom’s Management Committee and Head of Administration of OAO Gazprom’s Management Committee
Sergey I. Shmatko	1966	Minister for Energy of the Russian Federation
Igor H. Yusufov	1956	Special Representative of the President of the Russian Federation for International Energy Cooperation and Ambassador-at-large of the Ministry of Foreign Affairs of the Russian Federation

There were no changes in the Board of Directors in 2010.

In 2010 104 sessions of the Board of Directors of OAO Gazprom (12 – in person, 92 – vote in absentia) were held, 175 decisions were made (47 – in person, 128 – vote in absentia).

## Information on members of the Management Committee as of 31 December, 2010.

<b>Name</b>	<b>Year of birth</b>	<b>Position</b>
Alexey B. Miller	1962	Chairman of OAO Gazprom's Management Committee
Alexander G. Ananenkov	1952	Deputy Chairman of OAO Gazprom's Management Committee
Elena A. Vasilieva	1959	Deputy Chairman of Gazprom's Management Committee and Gazprom's Chief Accountant»
Valery A. Golubev	1952	Deputy Chairman of Gazprom's Management Committee
Alexander N. Kozlov	1952	Deputy Chairman of Gazprom's Management Committee
Andrey V. Kruglov	1969	Deputy Chairman of Gazprom's Management Committee and Head of the Finance and Economics Department
Alexander I. Medvedev	1955	Deputy Chairman of Gazprom's Management Committee and General Director of OOO Gazprom Export
Sergey F. Khomyakov	1953	Deputy Chairman of Gazprom's Management Committee and General Director of Gazprom's Corporate Security Service Branch in Moscow
Oleg E. Aksyutin	1967	Head of the Gas Transportation, Underground Storage and Utilization Department
Yaroslav Ya. Golko	1961	Head of the Department of Investment and Construction
Nikolay N. Dubik	1971	Head of the Legal Department
Viktor V. Ilyushin	1947	Head of the Department for Relations with Regional Authorities of the Russian Federation
Olga P. Pavlova	1953	Head of the Asset Management and Corporate Relations Department
Vlada V. Rusakova	1953	Head of the Strategic Development Department
Kirill G. Seleznev	1974	Head of the Gas and Liquid Hydrocarbons Processing and Marketing Department of OAO Gazprom and General Director of OOO Gazprom Mezhhregiongaz
Igor Y. Fedorov	1965	General Director of OOO Gazprom Komplektatsiya
Vsevolod V. Cherepanov	1966	Head of Oil, Gas Condensate, Gas Production Department

In March 2010 the Board of Directors of OAO Gazprom decided to elect Vsevolod V. Cherepanov as a member of OAO Gazprom Management Committee for a five-year period. Simultaneously, the authority of Vasiliy G. Podyuk as a member of Management Committee was terminated.

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

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of Group companies, amounted to about RR 1,561 million and RR 1,382 million for the years ended 31 December 2010 and 2009, respectively. Such amounts include personal income tax and unified social tax. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

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

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

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

Starting from 2008 OAO Gazprom provides liability insurance for the members of the Board of Directors and Management Committee of OAO Gazprom that ensures the compensation of damage to the shareholders, creditors and other persons incurred as a result of indeliberate erroneous actions (failures to act) of the insured persons when performing management functions.

Liability insurance for key personnel is a generally accepted practice for international companies which can face extraordinary expenses due to third parties' claims, court proceedings that in their turn can have an adverse impact on the financial performance indicators, damage the company's business reputation and image. Relevance of the above insurance for OAO Gazprom is associated with the existing probability of claims that can be made against OAO Gazprom members of the Board of Directors and Management Committee under the conditions of increasing integration of the company into the world economy, liberalization of OAO Gazprom stock market, changes in the Russian and international law and corporate governance.

Insurance coverage under the liability insurance contract for the members of the Board of Directors and Management Committee of OAO Gazprom is in compliance with the international standards of insurance in terms of the insured risks and indemnity limits. The amount of insurance is US \$100 million and the amount of premium under the insurance contract concluded in 2010 is US \$1.75 million.

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

As of 31 December 2010 the total share of the members of the Board of Directors and the Management Committee in OAO Gazprom equity was 0.0128203%.

#### Corporate governance

Basic corporate governance principles are set out in the Corporate Governance (Conduct) Charter of OAO Gazprom approved by the company's shareholders at the General Shareholders' Meeting on 28 June 2002.

The Charter determines key principles of OAO Gazprom's corporate governance; participation of shareholders in OAO Gazprom management and their right to dividends; the system of corporate governance and control bodies; insider's information and control over "interested party" transactions, as well as OAO Gazprom's information transparency.

Major provisions of the Charter are detailed in OAO Gazprom's internal documents:

- Provision on OAO Gazprom's General Meeting of Shareholders;
- Provision on OAO Gazprom's Board of Directors;
- Provision on OAO Gazprom's Management Committee;
- Provision on the Chairman of OAO Gazprom's Management Committee;
- Provision on OAO Gazprom's Audit Commission;
- Procedure for documenting the shareholders' proposals and requirements related to the calling of OAO Gazprom's General Meeting of Shareholders;
- OAO Gazprom's dividend policy;

- OAO Gazprom's provision on information disclosures;
- Procedure for informing shareholders on OAO Gazprom

All the above documents and OAO Gazprom's Charter can be found on OAO Gazprom's official web-site [www.gazprom.ru](http://www.gazprom.ru), or in the shareholders' affairs division the contacts of which are included in the Addresses and Contacts section of the Report.

Improvement of corporate governance is focused on increasing the information transparency of OAO Gazprom for the benefit of shareholders, increasing the efficiency of internal controls over its operations.

#### Internal controls

The internal controls in place in OAO Gazprom are focused on ensuring the efficient business operations and obtaining the objective and fair information about the company's financial performance by the shareholders. For the purposes of control over OAO Gazprom business operations the General Meeting of Shareholders elects the Audit Commission that exercises control over preparation of fair financial statements and accounting reports of OAO Gazprom.

Information on the persons elected to the Audit Committee at the General Meeting of Shareholders on 25 June 2010:

<b>Name</b>	<b>Year of Birth</b>	<b>Position as of 31 December 2010</b>
Dmitry A. Arkhipov	1975	First Deputy Head of Management Committee Administration, Head of Internal Audit department, Chairman of the Audit Committee
Vadim K. Bikulov	1957	Head of Department for Internal Audit of OAO Gazprom Management Committee Administration, Secretary of Audit Committee
Andrey N. Kobzev	1971	Head of Expert and Analytical Department of Federal Agency for State Property Management
Nina V. Lobanova	1955	
Dmitry S. Logunov	1979	Deputy Head of Department for Economics and Analysis of the Russian Ministry of Agriculture
Yury S. Nosov	1963	Deputy Head of Management Committee Administration – Head of Department for OAO Gazprom Administration
Kostantin V. Pesotsky	1977	Acting Directory for Department for State Regulations of Tariffs, Infrastructure Reforms and Energy Efficiency of the Russian Ministry of Economic Development
Mariya G. Tikhonova	1980	Director of Department for Economic Regulation and Property Relations in Fuel and Energy Industry of the Russian Ministry of Energy
Alexander S. Yugov	1981	Head of Control Division of the Federal Agency for State Property Management

The Board of Directors elects the Audit Committee of the Board of Directors whose functions include: assessment of OAO Gazprom internal controls efficiency and preparation of recommendations for their improvement, assessment of candidates for the auditors, assessment of the auditor's opinion.

In 2010 the Audit Committee included 3 members of OAO Gazprom Board of Directors: Valery A. Musin (Chairman), Farit R. Gazizullin, Mikhail L. Sereda.

The auditor of OAO Gazprom performs the audits of OAO Gazprom business operations in accordance with the legal acts of the Russian Federation based on the concluded contract. The auditor is elected by means of tender held in accordance with the Russian legislation. The General Meeting of Shareholders approves the auditor. The Company's Board of Directors specifies the auditor's fees.

In 2010 the General Meeting of Shareholders approved ZAO PricewaterhouseCoopers as the auditor of OAO Gazprom.

The efficiency of control over OAO Gazprom business operations is achieved through cooperation between the internal audit function and the company's external regulatory bodies. The organizational structure of OAO Gazprom includes the Department for Internal Audit.

According to the decision of the Board of Directors dated 28 October 2008 No1292 the functional and centralized model of internal audit is being created. The advantages of this approach as compared with the decentralized model (considering the specifics of the Group as vertically integrated company with broad geographic reach) is the enhancing the control over business activities of OAO Gazprom subsidiaries, achieving greater independence of internal audit departments of executives and ability to apply the unified methodology of internal audit within the Group.

Within the framework of implementing the functional and centralized model of internal audit system with the participation of Department for Internal Audit the Audit Committees were created in subsidiaries and associated companies of OAO Gazprom which included the department's representatives and heads of internal audit departments of subsidiaries and associated companies.

## KEY RISK FACTORS

Currently, in order to ensure the sustainable development of OAO Gazprom and improve the quality of decision making process the Group is improving the corporate risk management system.

Risk management within the framework of the unified corporate system is defined as continuous cycle of making and implementing management decisions consisted of identification, assessment and measurement of risks, response to risks, efficient control, planning for management and monitoring of risks. This cycle is an integral part of the Group's general management system and focuses on risk optimization that serves OAO Gazprom's interests in all areas of the Group's operations.

### Strategic and country-specific risks

#### *Risks relating to the global crisis developments*

##### **Description**

Despite the recent positive trends, there is still a wide spread uncertainty about how and at what rate the world economy will recover from the deep global recession.

Unfavourable economic conditions may have an adverse impact on the Group's operations.

##### **Management / influence on the risk level**

To ensure the sustainable financial position in 2010 Gazprom has successfully implemented a comprehensive action plan on financial strategy.

The Group is acting in accordance with the plan on improving the efficiency of some lines of the Gazprom Group's activities. The above plan considers various scenarios of development of commodity and financial markets and, according to OAO Gazprom management, will enable the Group to respond adequately if situation worsens.

#### *Risks relating to operations on the European gas market*

##### **Description**

Gazprom is the largest natural gas supplier in Europe. EU countries are actively pursuing the policy of gas market liberalization that contributes in the improvement of competition and increase in spot sales.

The aforementioned liberalization can entail the refusal of a long-term contracts system.

Liberalization policy also provides for separation of gas production assets from transportation networks within the EU.

Lack of exemption from the above provision means that the Group is unable to own or exercise control over transport business that will impede the implementation of the investments projects

##### **Management / influence on the risk level**

Gazprom develops new forms of trading in the European market utilizing the additional opportunities to generate profit.

The Group participates in finding solutions to disputable issues related to the development of the European energy sector; in such a way, it supports the system of long-term contracts as the basis of business which provides guarantees to suppliers and customers. Refusal from the system of long-term contracts may disrupt the balance of demand and supply in the European gas market and result in unpredictable consequences, including threat to energy security of importing countries.

For the purpose of diversifying its operations Gazprom considers the Asia-Pacific countries as new markets.

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in EU.

In addition, the EU energy sector strategy is focused on the diversification of sources of energy resources supplies, development of alternative energy sources.

Disparity of prices under long-term contracts and gas prices at spot markets represent a certain risk for Gazprom.

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*Risks of state regulation in the sector*

**Description**

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The Russian Federation controls 50.002% of OAO Gazprom's shares. The governmental representatives are the members of Gazprom's Board of Directors whose powers include the approval of the financial plan and the investment program; in this way the government exercises the control over financial flows of OAO Gazprom.

In accordance with the Federal Law 'On Natural Monopolies' the Gazprom's gas transportation via pipelines is regulated as natural monopoly operations.

The government regulates the wholesale prices for gas which Gazprom applies to the major portion of domestic sales; tariffs for trunk pipeline transportation services provided to independent producers; tariffs for trunk pipeline transportation services via gas distribution networks; charges for procurement and sale services as well as retail prices for gas. At the same time the government is interested in the company's effective development because Gazprom is one of the largest Russian taxpayers and supplies a half of primary energy sources in the country.

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*Risks relating to natural gas transit*

**Description**

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Major volumes of natural gas sold in Europe transit the FSU territories, in particular Ukraine, Belarus and Moldova.

Unstable political and social situation in transit countries may result in violations of the contracted transit arrangements and

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**Management / influence on the risk level**

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Gazprom's strategy is aimed at mutually beneficial cooperation with the government so as to ensure the energy security of the country and stable development of the company. The development strategy of OAO Gazprom has been designed and implemented in cooperation with governmental agencies and is an integral part of the Russian Energy Strategy.

OAO Gazprom is engaged in an active dialogue with the Russian Government with regard to improving its pricing policy. On 31 December 2010 the Russian Government adopted the Resolution No.1025 providing for regulation of gas wholesale prices in 2011-2014 by applying the price formula and gradual achieving equal profitability of export gas supplies and supplies at domestic market during the period.

It's supposed that starting from 2015 the transition from governmental regulation of the wholesale prices for natural gas to governmental regulation of tariffs for gas transportation services by trunk gas pipelines will be implemented.

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**Management / influence on the risk level**

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To mitigate its dependence on transit countries the Group:

- is gradually shifting to principles and procedures generally accepted in the global gas business for market pricing of gas imported by FSU and of related gas
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failure to supply gas under export contracts of OAO Gazprom. Thus, cases were noted when part of Gazprom's natural gas transited through Ukraine was directed to the wrong destinations and in early 2009 Ukraine suspended Russian gas transit via its transportation system.

transit services;

- is implementing gas transportation projects aimed at diversifying export routes (Nord Stream and South Stream projects);
- is expanding the use of UGSF abroad, is developing the LNG trading.

In addition, the Group seeks to develop cooperation in the framework of joint entities involved in operating local gas transportation networks.

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*Risks associated with entering new regions and new markets*

**Description**

A key direction of Gazprom Group's development strategy is the expansion of regions of its operations. Gazprom implements projects related to exploration and production of hydrocarbons in South America, South-East Asia, Africa and Middle East. Potential for entering gas markets of North America is being considered.

OAO Gazprom and its subsidiaries shall consider the specifics of energy business development when approaching new regions.

**Management / influence on the risk level**

The regional specifics are additionally reviewed at the feasibility study stage of the respective projects.

Subsidiary undertakings and joint companies with foreign partners are established in the new regions for the purpose of obtaining the necessary business experience.

Gazprom's representative offices abroad are operating to enhance efficiency of Gazprom's interaction with governmental agencies, enterprises, companies and organizations of the respective countries and regions. As of 31 December, 2010 13 representative offices of Gazprom are registered abroad, including the People's Republic of China, India, Algeria, Iran as well as Latin American countries.

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*Risks associated with the development of gas production from unconventional sources*

**Description**

Higher prices of natural gas and the progress in science and technology in the last decades supported the increasing interest to unconventional resources of natural gas. In North American countries the share of gas produced from unconventional sources is expected to grow in the long-term perspective. This may result in reduced volumes of LNG imported by the United States and redistribution of released LNG volumes to

**Management / influence on risk level**

To support competitiveness of natural gas production and delivery by applying the traditional methods, Gazprom:

- controls investment and running costs of production;
- improves and implements new technologies that enhance efficiency of traditional gas production.

Russia has large gas unconventional reserves and Gazprom develops technology of their

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markets in Europe and Northeast Asia and consequently, increased competition in these markets.

At the same time perspectives of unconventional gas production are still uncertain as such a production is economically viable only when prices are stably high and continued investments are required to maintain the formation productivity.

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*Geographical and climatic risks*

**Description**

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Climate specifics and geographical location of principal regions where Gazprom operates significantly impact the Group's performance. Gazprom's production in West Siberia accounts for a substantial portion of the overall natural gas production. Harsh climate impedes the production and increases the cost of natural gas. The fields in the Yamal Peninsula and resources of the Russian continental shelf will be developed in even more harsh climates. Climatic conditions of short-term nature may have certain impact on Gazprom's gas sales and revenues.

Due to warm winters of recent years gas sales to Europe were decreasing. However, the influence of this factor of a probabilistic nature on Gazprom's gas sale volumes and revenues for the last several years is not significant as the alteration of cold and warm winters compensate the impact.

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Risks relating to customs, foreign currency and tax regulation

*Risks associated with the changes in currency regulation and tax legislation in the Russian Federation*

**Description**

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Gazprom is involved in international transactions, a part of its assets and liabilities is denominated in foreign currency and it has foreign currency accounts opened with foreign banks. At the background of ongoing liberalization of foreign currency legislation, the Russian Government and Central Bank of Russia

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development.

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**Management / influence on risk level**

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The Group performs research and implements technological processes developed for harsh climate conditions. The Group also develops and implements programs of improving the efficiency of gas production, transportation and gas transportation network operation.

The Group also actively participates in the development and implementation of governmental programs aimed at improving the use of energy resources in Russia.

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**Management / influence on risk level**

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The Group monitors changes in currency and tax legislation and makes every effort to comply with the requirements following the best law application practice.

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undertook measures to increase control over transactions denominated in foreign currency.

One of the specifics of the Russian tax legislation is its subjection to frequent changes. Each year, laws are approved to amend the Russian Tax Code and modify the procedures to calculate and pay specific taxes.

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*Risks relating to changes in rules of customs control and payments in the Russian Federation*

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**Description**

The Group's operations relating to export of hydrocarbons are subject to customs regulations. Certain of key issues relating to export supply of natural gas are disputed by the Group and the customs agencies, in particular, the determination of the approach to declaring and collecting customs duties. A number of disputes were challenged by OAO Gazprom/ OOO Gazprom Export in court. The actions of customs agencies were invalidated. In addition, the most disputable matters were submitted by Gazprom for consideration to the Russian Government. Having analyzed the matter in January 2010 the Government called off the decision of the Russian Federal Tariff Service regarding the procedure of documentary support of exported gas. The duty-free treatment of Blue Stream volumes was rehabilitated as well as the procedure of deducting price discounts from the customs amount.

To avoid the risk of similar claims from customs agencies in future and outflow of significant financial resources from the Group, it is necessary that the Customs Code of the Customs Union consider the effective Russian customs legislation.

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**Management /influence on risk level**

The Group monitors changes in the customs legislation and makes every effort to comply with the requirements following the best law application practice; interacts with regulators regarding disputable issues, including the Russian Government. The issue related to documenting the actually dispatched amount of natural gas was regulated in the effective Customs Union Code.

By the date of the Customs Union Code effectiveness, i.e on 1 July 2010, for the purposes of avoiding risks associated with export operations and related to the requirements of customs agencies OAO Gazprom / OOO Gazprom Export agreed the respective proposals on amending the Customs Union Code and draft Federal law "On Customs Regulation in the Russian Federation" considering the gas industry interests with the Ministry of Economic Development, Russian Ministry of Energy, Federal Customs Service and sent them to the Customs Union Committee and the State Duma.

The Federal Law "On Customs Regulation in the Russian Federation" dated 29 December 2010 took into account the proposal of OAO Gazprom on guaranteeing the customs duties payment. Apart from the former procedure the strict criteria under which the guarantee should be provided when transporting the commodity by pipelines have been specified. Some provisions of new customs legislation are continued to be updated.

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## Financial risks

### *Foreign exchange risks, interest rate and inflation risks*

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#### **Description**

More than half of Gazprom's sales revenue is denominated in US dollars and euro, while most of the costs are denominated in Russian Roubles.

A part of OAO Gazprom debt portfolio is represented by syndicated loans from Western banks. The interest rate on many of these loans is based on LIBOR/EURIBOR rates. Therefore, changes in inflation rates and exchange rates significantly affect the Group's performance results.

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#### **Management / influence on risk level**

Developing a methodology and contractual base for using hedging instruments in accordance with the requirements of the Russian legislation. Natural hedging of risks associated with market changes in the foreign exchange rates and interest-bearing payments by:

- calculating net currency position of Gazprom Group and balancing the cash flows of OAO Gazprom in terms of currency, volumes and period of receipt/payment;
- maintaining the currency balance in OAO Gazprom debt portfolio similar to the proportion of currency in the company's revenue.

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### *Credit and liquidity risks*

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#### **Description**

The limited ability of certain customers in Russia and abroad to provide cash payments for natural gas supplied by the Group and untimely or partial fulfillment by the counterparties of other obligations to the Company can have an adverse impact on Gazprom operations.

In particular, up to date, the receivables from a part of customers from Russia and FSU countries for natural gas previously supplied have not been settled in full, and Gazprom does not have guarantees that the above receivables will be fully paid in cash.

Recently, there have been an improvement in collection of payment for gas deliveries; however, the deterioration in the business environment can result in failure of a number of customers to make payments for the gas supplied in cash and on the due date.

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#### **Management/ influence on risk level**

The Group pursues a transparent policy requiring fulfillment of contractual obligations regarding payments for supplies and non-payers.

With regard to the major non-payers in a number of FSU countries the mutually acceptable financial vehicles related to outstanding receivables settlement including those by means of government securities have been developed.

All counterparties engaged in gas supplies to far abroad countries are assigned with an internal credit rating (according to the adopted methodology of credit risks assessments). Based on the evaluation of counterparties' creditworthiness and Monte Carlo modeling the credit risks are quantitatively assessed by applying CreditVaR method.

The basic tools to manage credit risks associated with gas supplies to far abroad countries include preparation of a list of authorized counterparties, with which the deals can be concluded and the requirement to provide the guarantees from the counterparties with low credit rating. The Group monitors the

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changes in the internal credit rating of these counterparties on a daily basis and if they significantly decline, the respective contracts may be amended to mitigate non-payment risks.

Within the framework of managing market and credit risks on a daily basis, the cash flow at risk is calculated considering the impact of currency, price risks and volume risk on export revenue. OAO Gazprom has a system of the centralized management of intragroup liquidity based on a virtual pool of cash funds of Gazprom. In addition, the Group is implementing a project on creating international cash pools in partnership with foreign subsidiaries of OAO Gazprom.

A system of operational control over cash flows on Gazprom Group accounts considering the adopted restricted card lists related to the credit agencies has been developed.

A system of monitoring the financial positions of banks that provide services to Gazprom Group has been developed. Bank accounts and bill portfolio of the Group's companies are being monitored.

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*Market risks including risks associated with decrease in volumes and cost of gas sold at foreign markets*

**Description**

Export sales of gas generate a major portion of the Group's revenue. Gas is exported under long-term contracts at prices linked to the world prices for major core products. Therefore, there arise risks of failure to receive the planned revenue (export price of commercial gas) or adverse change in the portfolio value due to market factors effects.

Price risks associated with volatility of prices for oil products and gas indices which are the basis for prices calculation under export contracts and risks of volume associated with the fact that the buyers are provided with certain flexibility in gas withdrawal are the basic factors of market risk.

**Management /influence on the risk level**

Earnings at Risk (EaR) assessment is the basic method applied for quantitative assessment of market risks associated with gas sales to far abroad countries. For these purposes the probable scenarios of the portfolio are modeled considering the current contractual conditions and history of changes in risk factors related to prices and volumes.

For the purposes of risk management the changes in the contractual conditions or conclusion of new contracts, identification of the affirmatively authorized deals and financial instruments and accordingly, counterparties with which these deals can be concluded, represent the main tool of the internal optimization. Currently, a major part of long-term contracts include "take-or-pay" conditions, which stipulate an advance payment against gas supply in subsequent period, even if the gas is not taken in the current year. In addition, the opportunities provided by the liberalized gas markets can be used as tools of operating optimization.

Operating risks

*Risks relating to non-extension of subsoil licenses*

**Description**

The Group performs exploration and production works in compliance with subsoil licenses for exploration and production of hydrocarbons. Most licenses provide for an opportunity to suspend, amend or withdraw them if the requirements of license agreements are not complied with.

Licenses for production at major Group fields cover the period to 2012-2028. The Russian legislation provides for an opportunity to extend the licenses but do not provide the license holder with vested right of extension.

**Management / influence on risk level**

Gazprom satisfies license requirements and takes all required steps to minimize the probability of license withdrawal, suspension or amending.

*Cost escalation risks***Description**

During the pre-crisis years growth rates related to unit costs of capital construction in petroleum industry exceeded the inflation rates due to increase in prices of raw materials, component parts, services including prices of metals, gas-compressor plants, drilling costs, etc. During the global crisis the costs of some items stabilized or even decreased but, as before, there is a probability of outrunning growth of costs in prospect.

**Management /influence on risk level**

Gazprom organizes tenders to select suppliers and directly works with its suppliers.

In 2010, Gazprom Group successfully implemented the Complex Action Plan on the Group's Financial Strategy; cost optimization strategy is one of the key directions of the plan. Currently, OAO Gazprom is performing actions in accordance with the plan of actions aimed at improving the efficiency of some lines of Gazprom Group activities.

*Risks relating to exploitation of operating facilities***Description**

OAO Gazprom upstream, midstream and downstream operations are exposed to a wide range of technological, technical and natural and climatic character risks and risks associated with negative actions of personnel and third parties, including risks of employees' errors, thefts, terrorist attacks, subversive activities.

The above risks may have an adverse impact on the property interests of Gazprom Group and entail the decrease in production and economic indicators of Gazprom operations.

At that, liquidation of effects of natural and technogenic accidents and other adverse events requires significant financial costs. When implementing the investment programs the priority is providing guarantees of completing the construction (reconstruction) of investee which, among other issues, is associated with the construction and assembly risks characterized by a high damage level.

**Management / influence on risk level**

The unified gas supply system ensures the system reliability of gas supplies assuming that in case of a failure at one of its sections gas can be supplied via other routes by means of technological and intersystem shunt pipes.

Stability of the system operation is ensured by implementation of the advanced diagnostic technique, reconstruction and upgrading.

OAO Gazprom has developed, approved and is implementing the policy on HSEA aimed at ensuring occupational safety, life and health safety of OAO Gazprom's and its subsidiaries' employees and operational reliability of hazardous production facilities.

To ensure the substantial operations of OAO Gazprom and its subsidiaries and minimize the financial resources directed to the mitigation of consequences resulting from natural and technogenic accidents and other unfavorable events (including terrorist attacks, subversive activities) the Group arranges a complex insurance coverage of the Group's companies property interests including property insurance program (including off-shore facilities), insurance against production breaks at gas processing plants, insurance of liability when constructing, repairing or operating the hazardous facilities.

*Risks associated with assessment of hydrocarbon reserves***Description**

The Group's development plans are based on the amount and location of hydrocarbon reserves that are assessed in accordance with scientifically grounded and generally accepted standards. However, these assessments are associated with significant uncertainties.

Accuracy of reserves assessments depends on the quality of available information and technological and geological interpretation. At the same time the regions where a significant part of the Group's reserves are located, are well explored that reduce these risks.

**Management / influence on risk level**

The results of Group Gazprom reserves assessment in accordance with the Russian classification of reserves are recorded on the balance sheet after annual consideration and approval by the State Reserves Commission. OAO Gazprom has developed and implements the procedures on reserves assessment in accordance with the international standards PRMS engaging an independent appraiser.

*Risks associated with vertical integration and diversification of operations***Description**

Over the recent five years Gazprom significantly expanded oil business through acquisition of OAO Gazprom neft, joined electricity generation and sales business. Gazprom also expands its activities at foreign markets of natural gas by applying new form of trading, develops business related to LNG production and sales.

Any failure in integration of past or future acquisitions may have an adverse impact on the Group's business, financial position and performance results.

**Management / influence on risk level**

The Group improves the internal corporate governance structure for the purposes of breaking down the financial flows by types of activities and enhancing the efficiency of Gazprom as a vertically integrated company. The Group also performs actions to bring the organizational structures of its subsidiaries engaged in gas production, transportation, underground storage and processing into compliance with the corporate requirements of OAO Gazprom including the adopted standards of personnel number and corporate span of control.

The effective management procedures and projects on enhancing the efficiency of OAO Gazprom and its subsidiaries operations management, which are currently being implemented by the Group will also cover the Group's entities that exercise a significant influence on the Gazprom's performance results.

In accordance with the strategy on development of its information system the Group takes actions to create a unified information environment. Currently, the projects on creating vertically integrated management systems based on the corporate data bank to support the managerial process related to gas business, computerized budget



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management system and computerized consolidated accounting reporting system of OAO Gazprom are actively implementing. The above work will enable to improve the transparency of corporate reporting preparation from the primary data sources to key performance indicators and risks.

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*Risks relating to registration of title to real estate and land plots of OAO Gazprom*

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**Description**

Under constant increase in property and land resources of OAO Gazprom the company may experience the claims made by the third parties, if the title to these assets is incorrectly or untimely registered.

In case of incorrect assessment of property tax base the Group may face the sanctions and penalties imposed by tax authorities.

Lack of registered title to the real estate items and land plots can have an adverse impact on attracting the investments in oil and gas industry.

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**Management and influence on risk level**

Gazprom Group is intensively and timely working over registering the title both to the land plots used to locate the production capacities and real estate items.

The Group is extensively applying all possible legal methods to defend the Group's interests including applications to the court regarding the confirmation and subsequent registration of title to the real estate items and land plots.

The Group arranged a system of monitoring the registration of the title to real estate items and providing the Head Office with the respective information from the regions by means of electronic database of the Unified register of title to the real estate items. In addition, according to the strategy on information system development OAO Gazprom is working over creation of the property and other assets management system which will be integrated in the information-management system of the Gazprom Group.

The Gazprom Group is monitoring tax legislation amendments, is aiming to comply with its requirements, and is cooperating with regulators (Russian Ministry of Economic Development, Russian Register, Federal Property Management Agency, Russian Forestry establishment) regarding disputable issues that may entail tax risks for the Group.

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*Environmental risks***Description**

Gazprom Group production activity is associated with the use of natural resources and accordingly, involves a potential risk of environmental disruption. Environmental damage or pollution may result in:

- legal consequence, including bringing to responsibility;
- finance costs associated with payments of fines and compensations of the incurred damage;
- damage to the company's business reputation.

**Management /Influence on risk level**

Gazprom Group pursues a consistent environmental policy, implements programs and actions to reduce environmental effect, provides the financing for environmental activity, implements advanced resource-conservative and energy-conservative and other environmental protection technology. The Company continues developing environmental management system of the Group and bringing it in compliance with ISO 14001.

OAo Gazprom also performs pre-design ecological research, assessment of the planned activities environmental effects, environment impact assessment of projects. At all stages of construction, operation and decommissioning of assets the Company exercises control over compliance with legislation and corporate environmental standards, implements environmental monitoring, develops and implements environmental protection measures.

The key component of environmental risks management is the use of the best available technologies when designing, re-equipping and upgrading the production process.

Due to preparation of amendments to the Russian legislation regarding natural environment damage accumulated in the past (NED) and for the purposes of mitigating the environmental risks, OAo Gazprom performed the analysis of data with breakdown by NED facilities within its area of responsibility and prepared measures to liquidate it.

Within the framework of comprehensive insurance coverage of the Group's entities the Group insures the third party liability when constructing and operating dangerous production facilities that enables to compensate the damage incurred to environment and minimizes a risk of adverse effects for the Group's entities.

The Gazprom Group maintains transparency of its ecological information.

## BRANCHES AND REPRESENTATIVE OFFICES OF OAO GAZPROM

Below is the information on branches and representations of OAO Gazprom as of 31 December, 2010.

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

**CONVERSION TABLE**

<b>Metric measure</b>	<b>U.S. measure</b>
1 bcm of natural gas	35.316 billion cubic feet (bcf) of natural gas
1 bcf of natural gas	0.028 bcm of natural gas
1 metric ton of crude oil	1,000 kilos, 2,204.6 pounds 7.33 barrels of crude oil, 8.18 barrels of gas condensate
1 barrel of crude oil	0.1364 metric ton of crude oil
1 barrel of gas condensate	0.1222 metric ton of gas condensate
1 kilometer	Approximately 0.62 miles
1 ton of fuel equivalent	867 cm of natural gas, 0.7 ton of gas condensate, 0.7 ton of crude oil
1 mcm of natural gas	1.154 ton of fuel equivalent
1 barrel of gas condensate	1 barrel of oil equivalent (boe)
1 mcm of natural gas	5.89 barrels of oil equivalent (boe)
1 million tons of LNG	1.36 bcm of natural gas

## GLOSSARY OF MAJOR TERMS AND ABBREVIATIONS

Terms and abbreviations	Description
Adjusted EBITDA	Earnings before interest, taxes, depreciation, and amortization adjusted by changes in impairment provisions
ADR of OAO Gazprom	American Depositary Receipt issued for OAO Gazprom shares. Equivalent of four ordinary shares of OAO Gazprom
Associated undertaking	Associated undertaking is a company over which the Gazprom Group has significant influence – significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies
Baltic countries	Latvia, Lithuania, Estonia
bcm	Billion cubic meters
boe	Barrel of oil equivalent
bboe	Billion barrels of oil equivalent
Category ABC <sub>1</sub> hydrocarbon reserves	Explored reserves, according to the Russian reserves system. Gas reserves in categories ABC <sub>1</sub> are considered to be fully extractable. For reserves of crude oil and gas condensate, a predicted coefficient of extraction is calculated based on geological and technical factors.
Category C <sub>2</sub> hydrocarbon reserves	Category C <sub>2</sub> represents reserves of a deposit the crude oil or gas content of which is calculated on the basis of geological and geophysical data within the known gas areas. Category C <sub>2</sub> reserves are preliminary estimated reserves and represent a basis for exploration work at a particular field.
Central Asia	Kazakhstan, Kyrgyzstan, Tadjikistan, Turkmenistan, Uzbekistan
Central Europe	Bulgaria, Bosnia-Herzegovina, Hungary, Macedonia, Poland, Romania, Serbia, Montenegro, Slovakia, Slovenia, Croatia, Czech Republic
cf	Cubic feet
CIS	Commonwealth of independent states – former Soviet Union republics except for Latvia, Lithuania and Estonia
cm	Cubic meter of natural gas measured under pressure of 1 bar at the temperature of 20°C
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Europe	For the purposes of the Report includes Western and Central Europe
Europe and other countries	Countries other than Russia and the FSU countries.
FSU	Former Soviet Union republics, except for the Russian Federation
FTS of Russia	Federal Tariff Service
Fuel equivalent	Natural equivalent measuring unit used to compare different types of fuel. Recalculation of certain type of fuel to fuel equivalent is made by the ratio of enthalpy of that fuel (1 kg) to enthalpy of fuel equivalent (1 kg); the latter equals to 29.3076 Mega joule
Gazprom Group, Group, Gazprom	An aggregate of entities which includes OAO Gazprom (Head Office) and its subsidiaries
Gazprombank Group	An aggregate of entities which includes OAO Gazprombank (Head Office), an associated undertaking to Gazprom Group as of 31 December 2010 and 2009, and its subsidiaries
Gazprom neft Group	An aggregate of entities which includes OAO Gazprom neft (Head Office) and its subsidiaries. Gazprom Group controls Gazprom neft Group.
GPC	Gas processing complex

GTS	Gas Transportation System
IFRS	International Financial Reporting Standards accepted in EU
Jointly-controlled company	Jointly controlled company is an entities which is jointly controlled by two or more parties
kWh	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LNG	Liquefied Natural Gas
LSE	London Stock Exchange
mboe	Million barrels of oil equivalent
mcm	Thousand cubic meters
MICEX	Moscow Interbank Currency Exchange
Net debt	The sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities, net of cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations
NPZ	Refinery
Return on capital employed	Calculated as operating and non-operating profit before interest, net of income tax to the average capital employed. Average capital employed is calculated as the average of total equity and total debt at the beginning and at the end of year.
RR	Russian Rouble
PRMS Standards	International classification and assessment of hydrocarbon reserves under PRMS (Petroleum Resources Management System). These standards do not only include the assessment of physical presence of hydrocarbons but also provide the economic viability of recovering the reserves and consider the period of commercial development of fields (term of development license).
SRTO-Torzhok	Gas pipeline from Nothern parts of Tyumen region to Torzhok
tcf	Trillion cubic feet
tcm	Trillion cubic meters
ton	Metric ton
Total debt	Long-term and short-term loans and borrowings, long-term and short-term promissory notes, restructured tax payable
TPP	Thermal Power Plant
UGSF	Underground Gas Storage Facility
UGSS	Unified Gas Supply System of Russia
U.S.\$	The United States Dollars
VAT	Value Added Tax
Western Europe	Austria, Andorra, Belgium, Germany, Greenland, Greece, Denmark, Republic of Ireland, Iceland, Spain, Italy, Cyprus, Liechtenstein, Luxembourg, Malta, Monaco, The Netherlands, Norway, Portugal, San Marino, the United Kingdom and Republic of Ireland, Turkey, Finland, France, Switzerland, Sweden

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**ADDRESSES AND CONTACTS****Full name:** Open Joint Stock Company Gazprom**Abbreviated name:** OAO Gazprom

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Certificate on entry in the Unified State Register of Legal Entities issued by the Interregional Inspectorate of the Russian Ministry of Taxes and Levies for the Moscow city on 2 August, 2002, OGRN - 1027700070518

Taxpayer's identification number (INN): 7736050003

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E-mail: [A.Baranov@adm.gazprom.ru](mailto:A.Baranov@adm.gazprom.ru)**Auditor of OAO Gazprom:** ZAO PricewaterhouseCoopers

Member of non-profit partnership «Audit Chamber of Russia» (NP ACR) being a self-regulatory organization of auditors – registration number 870 in the register of NP ACR members

Major registration record number (ORNZ) in the register of auditors and audit organizations 10201003683

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