MANAGEMENT REPORT
OAO GAZPROM
2011

CONTENTS

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 2011, 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 2011, prepared in accordance with IFRS.

Among other things the report discloses information on the future production and economic activities of the Gazprom Group, based on the forecasts and estimations of the management, on the basis reasoning from the current situation. Actual performance may differ from forecasts and estimations under the influence of various objective factors.

THE GAZPROM GROUP

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

Gazprom is a global leader in terms of reserves (approximately 18%) and natural gas production volumes (approximately 15%). In Russia Gazprom provides for above 70% of gas production and approximately 9% of oil and gas condensate production.

The Group owns the world's largest gas transportation network with length of more than 160 thousand kilometers, which ensures distribution of natural gas to customers within Russia and to the European markets.

A half of gas processing and 15% of oil refining in Russia is attributable to Gazprom.

Gazprom is the dominant gas supplier to Russian consumers (Gazprom's share in the Russian gas market is above 70%) and to former Soviet Union (FSU) countries. Besides the Group is the major supplier of natural gas to Europe (Gazprom's share on the European market is 27%). The Group has branched network more than 1,600 of fuel stations in Russia, FSU and on Balkans.

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

Major operational and financial parameters of Gazprom Group for 2011 and 2010 are presented in the table below:

	As of and for the year ended 31 December		Change
	2011	2010	
Reserves of hydrocarbons under PRMS Standards			
Proved and probable gas reserves, tcm	22.8	22.5	1.3%
Proved and probable crude oil and gas condensate reserves, million tons	1,973.9	1,901.2	3.8%
Proved and probable reserves of hydrocarbons, bboe	149.7	147.2	1.7%
Operating indicators			
Gas production, billion cm	513.2	508.6	0.9%
Crude oil and gas condensate production, million tons	44.4	43.3	2.5%
Hydrocarbon production, million boe	3,358.5	3,322.6	1.1%
Nature and associated gas refining, bcm	33.2	33.6	-1.2%
Oil and gas condensate refining, million tons	53.5	50.2	6.6%
Electricity generation, billion kWh	173.2	175.1	-1.1%
Statement of Comprehensive Income highlights (RR million)			
Sales	4,637,090	3,597,054	28.9%
Operating profit	1,656,843	1,113,822	48.8%
Profit of the year attributable to owners of OAO Gazprom	1,307,018	968,557	34.9%
Adjusted EBITDA	1,930,533	1,363,778	41.6%
Balance Sheet highlights (RR million)			
Cash and cash equivalents	501,344	440,786	13.7%
Total debt	1,540,162	1,315,447	17.1%
Net debt	1,034,941	870,993	18.8%
Equity, including non-contolling interest	7,760,991	6,536,361	18.7%
Ratios			
Earnings per share for profit attributable to owners of OAO Gazprom, RR	56.95	42.20	35.0%
Total debt to equity, including non-controlling interest	0.20	0.20	0.0%
Adjusted EBITDA to interest expense	60.33	35.23	71.2%
Return on average capital employed	16.1%	14.0%	15.0%

PROSPECTS FOR THE DEVELOPMENT

Global energy market: current situation and development trends

Despite the global economic crisis the population will continue to grow and the living standard will continue to improve, especially in the developing countries. This trend will promote the demand for energy in the long-term perspective. According to international energy agencies and organizations, by 2030 the global energy consumption will grow by 40% as compared with the current level. And fossil fuels will account for 80% of the total energy consumption. Oil will continue to dominate among fossil fuels accounting for 30% of the energy consumption mix. The share of renewables may raise up to 15%. Gas consumption will grow rapidly: its share in the global energy balance may exceed 25%.

By 2030 the global demand for gas is expected to grow by 50% as compared with the 2010 level. And the gas consumption is expected to grow in all target markets of Gazprom.

Gas consumption in Gazprom's top-priority Russian market was 473.0 bcm in 2011 and in accordance with the Russian Energy Strategy for the period up to 2030 it may grow up to 539-564 bcm in 2020 and up to 605-641 bcm in 2030.

Gas consumption in Europe, Gazprom's main export market, will grow gradually. In the long-term perspective uncertainty will remain about the level of demand for natural gas in the region due to continued economic crisis in the Eurozone, increased regulatory pressure on the energy sector in EC countries, increased competition between the gas industry and renewables as well as adjustments to nuclear power development plans. Nevertheless, international organizations expect that after the crisis the annual demand for natural gas will be 1.0% on the average. And in the long-term perspective the main demand for natural gas in Europe will come from the power sector. The demand for natural gas in Europe in 2030 is predicted in the range of 670 - 730 bcm.

CIS markets start to use energy efficiency arrangements. But, given the growth of economy in the region the demand for gas is expected to raise. According to expert estimates, in 2020 gas consumption in CIS countries (excluding Russia) may reach 240 bcm and in 2030 - 260 bcm.

Gazprom has already started to supply liquefied natural gas (LNG) to the Asian-Pacific Region (APR) and views it as a perspective export market for expanded LNG supplies and pipeline gas exports. In the last decade gas consumption in the region increased almost two times and reached half a trillion cubic meters in 2010. Main ATR consumers include: the People's Republic of China, Japan, Thailand, the Republic of Korea, Indonesia. Major gas consumers in the Asian market also include India and Pakistan. According to international organizations, the future growth rate of gas consumption in this region is expected to be the highest in the world. By 2030 gas consumption in ATR may increase by more than two times.

Development of LNG will allow Gazprom to deliver gas to other perspective regions of the world.

Major development areas of the Gazprom Group

In gas business

The Gazprom Group's goal is to retain its leading position in the global gas industry in the long-term perspective. Therefore it is necessary to retain the Group's share in the domestic market, ensure meeting one third of the European demand for gas and obtain 10-15% of the ATR market. The Gazprom Group plans to produce up to 15% of the global LNG volume.

In order to achieve these goals Gazprom plans to complete a number of strategic tasks.

The goals in the area of gas production include not only maintenance of production at existing fields but an active development of new gas production centres in the Yamal peninsula, offshore areas of northern seas, in Eastern Siberia and Far East.

In the gas transportation area further development and modernization of the Unified Gas Supply System (the UGSS) will be executed in line with the gas production growth. The existing infrastructure is expected to be used to the maximum extent possible in order to ensure efficiency of supplies. The UGSS will continue to expand to the east of the country, it is planned to increase gas storage and LNG production capacities.

In the area of gas marketing the Group plans to expand its presence in the perspective gas markets including ATR markets and to increase the share of LNG in Gazprom's export portfolio.

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; upgrade the existing and build new gas processing and gas chemistry facilities, in particular in Eastern Siberia and Far East.

In oil business

The Gazprom Group intends to increase oil production, including results of its subsidiaries and its share in associated companies. The production and reserves balance is to be maintained at the current level. The number of fields is expected to grow through acquisition of plots from the non-licensed stock of areas and by buying assets in the Russian market. It is planned to expand the Gazprom Group’s activities in the development of hydrocarbon reserves abroad.

In the area of oil refinery the Group plans to increase volumes and improve efficiency of oil refinery. To meet these goals Gazprom plans to expand its own refinery capacities both in Russia and abroad.

Improvement of oil refinery efficiency abroad is expected to be achieved through equity participation in refinery assets and long-term processing contracts. The growth of refinery abroad will depend on how quick oil production will increase. At the same time it is planned to implement the program of improving the quality of motor fuels, the depth of refining and equipment level of the Group’s oil refinery plants in Russia.

In the area of oil product marketing the Group's strategic goal is to increase premium sales through small-scale wholesale and retail networks including by expanding the network of filling stations in Russia and abroad.

In electric power business

Gazprom targets to increase operating efficiency of the Gazprom Group's generating entities by modernizing existing capacities and building new effective combined steamgas capacities that will increase production of electric power and heat. The Group is considering participation in potential electric power projects in a number of European and North-East Asia countries.

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	
	2011	**2010**
Gas production		
Assets, million RUB	1,725,762	1,466,058
Share in total assets of the Group	15.0%	15.1%
Oil and Gas Condensate Production		
Assets, million RUB	1,272,339	1,094,309
Share in total assets of the Group	11.0%	11.2%

	Year ended 31 December	
	2011	**2010**
Gas production		
Capital additions, million RUB	246,635	215,236
Share in capital additions of the Group	18.2%	23.4%
Oil and Gas Condensate Production		
Capital additions, million RUB	79,102	95,289
Share in capital additions of the Group	5.9%	10.4%

Reserves

According to the audit of the Gazprom Group's hydrocarbon reserves under PRMS Standards performed by DeGolyer and McNoton, as of 31 December 2011 proved and probable reserves of the Gazprom Group were as follows: 22.8 tcm of gas, 757.8 million tons of condensate, 1,216.1 million tons of oil, which in the aggregate makes 149.7 bboe. Net present value (at 10% discount rate)of the Gazprom Group's hydrocarbon reserves is assessed at USD 299.2 billion, which is USD 29.6 billion or 11% higher than as of 31 December 2010. The assessment covered 90% of natural gas, 83% of gas condensate and 89% crude oil reserves of the Group under the ABC_1 classification accepted in Russia.

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

		As of 31 December	
		2011	**2010**
Gas			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)]		90%	93%
Proved			
	tcm	19.2	19.0
	tcf	677.9	671.0
Probable			
	tcm	3.6	3.5
	tcf	127.8	123.6
Proved and probable			
	tcm	22.8	22.5
	tcf	805.8	794.6
Condensate			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)]		83%	86%
Proved			
	million tons	605.2	572.1
	billion barrels	5.0	4.7

		As of 31 December 2011	As of 31 December 2010
Probable			
	million tons	152.6	147.2
	billion barrels	1.2	1.2
Proved and probable			
	million tons	757.8	719.3
	billion barrels	6.2	5.9
Oil			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)]		89%	90%
Proved			
	million tons	723.9	717.4
	billion barrels	5.3	5.3
Probable			
	million tons	492.2	464.5
	billion barrels	3.6	3.4
Proved and probable			
	million tons	1,216.1	1,181.9
	billion barrels	8.9	8.7
Total			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)]		90%	92%
Proved			
	billion tons of fuel equivalent	24.1	23.8
	bboe	123.4	121.8
Probable			
	billion tons of fuel equivalent	5.1	4.9
	bboe	26.3	25.4
Proved and probable			
	billion tons of fuel equivalent	29.2	28.7
	bboe	149.7	147.2

Note.

(1) The ABC_1 classification accepted in Russia is based on analysis of geological parameters of reserves and evaluates the actual hydrocarbon reserves in geological formations. PRMS Standards take into account not only the probability of hydrocarbon deposition in geological formations but also the economic feasibility of reserves extraction, 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 2010, the Group's proved and probable reserves increased by 2.5 bboe, this is mainly explained by the inclusion into the estimate under PRMS Standards of new fields (Malyginskoye, West-Tambeiskoe and Tasijskoe) and the update of geological models of the Chayandinskoye, Mal'dzhinskoye, Yuzhno-Russkoye, Gubkinskoye, Kamennomysskoye-more fields as well as the update of development parameters of the Orenburgskoye field.

As of 31 December 2011 the Group had licenses for ABC_1 hydrocarbon reserves development in the following volumes: 35,046.9 bcm of natural gas, 1,395.5 million tons of gas condensate and 1,767.3 million tons of crude oil, for a total of 230.8 bboe.

As of 31 December 2011 the Group's share in the ABC_1 reserves of associated companies was 717.4 bcm of natural gas, 60.1 million tons of gas condensate and 728.6 million tons of crude oil, for a total of 10.1 bboe.

The following table sets forth changes to the Group's ABC_1 reserves of natural gas, gas condensate and oil in the licensed areas in the Russian Federation in 2011:

	Gas bcm	Condensate million tons	Crude oil, million tons	Total, million boe
Reserves as of 31 December 2010	**33,052.3**	**1,284.8**	**1,732.9**	**217,889.9**
including share of non-controlling shareholders	**535.0**	**1.3**	**52.3**	**3,545.2**
Additions to reserves as a result of exploration	719.8	38.4	58.0	4,978.8
Transfer of reserves discovered in 2010 to the Undistributed Subsoil Fund of Russia [(1)], acquisition from other companies	(16.9)	(1.6)	(0.8)	(118.5)
Receipt of licenses	1,803.7	82.5	3.6	11,325.1
Return of licenses	-	-	-	-
Acquisition of assets	-	-	9.1	66.7
Disposal of assets	(0.02)	-	(3.1)	(22.7)
Revaluation	0.5	0.1	0.1	4.4
Production (including losses)	(512.5) [(2)]	(8.7) [(3)]	(32.5)	(3,328.0)
Reserves as of 31 December, 2011	**35,046.9**	**1,395.5**	**1,767.3**	**230,795.7**
including share of non-controlling shareholders	**595.9**	**0.3**	**53.4**	**3,903.8**

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) Excluding dissolved gas

(3) Any changes in gas condensate reserves due to production are recognized as converted into stable gas condensate (C_{5+}). The production volume of unstable gas condensate of the Gazprom Group in 2011 was 12.1 million tons.

As compared to 2010 the ABC_1 hydrocarbon reserves of Gazprom Group increased by 1,994.6 bcm of natural gas, 110.7 million tons of gas condensate and 34.4 million tons of oil which is the equivalent of 12,905.8 million boe in 2011, primarily as a result of licensing work and re-registration to OAO Gazprom of the license for the right to use subsurface mineral resources of the Kovykta gas condensate field. In addition the year 2011 demonstrated the record increase of reserves as a result of exploration.

As of 31 December 2011 and 2010, ABC_1 hydrocarbon reserves of the Group abroad were considered insignificant and accounted for less than 1% of the Group's ABC_1 reserves in Russia as of the dates above.

Exploration

In 2011, exploration was carried out in all oil and gas provinces of Russia: West and Eastern Siberia, Far East, the Orenburg Region, the Krasnodar Territory, the Republic of Komi, offshore areas of the Kara Sea and the Sea of Okhotsk.

In compliance with corresponding contractual obligations the Gazprom Group continued to carry out exploration projects in various countries of the world, including Algeria, Bolivia, United Kingdom, Venezuela, Vietnam, Iraq, Cuba, Serbia, Equatorial Guinea and countries of Central Asia. Major exploration works in FSU countries were concentrated in Uzbekistan and Tadzhikistan and in the far abroad countries - in Vietnam, Algeria and Equatorial Guinea.

The following table shows summary information on exploration work at licensed areas of Gazprom Group:

	Year ended 31 December 2011	
	In Russia	**Abroad**
Total financing of exploration, RUB billion	50.7	8.2
Exploration drilling, thousand meters	157.7	21.8
Completed exploration wells, units	60	6
including successful wells	45	6
Seismic exploration 2D, thousand line km	2.8	1.3
Seismic exploration 3D, thousand km^2	8.8	0.7

The exploration work in Russia resulted in the increase of reserves by 719.8 bcm of natural gas and 96.5 million tons of crude oil and gas condensate. Recovery of natural gas reserves was 140%, of crude oil and gas condensate – 234%.

In 2011 exploration activities led to the discovery of five new fields, including: the Mynginskoe field in the Sea of Okhotsk offshore area, the Novotatischevskoe field in the Orenburg region, the Severo-Trassovoe and the Myginskoe in the Tomsk region as well as the Ignyalinskoe in the Irkutsk region.

The main increase of hydrocarbon reserves relates to the earlier discovered fields, including: the Yuzhno-Kirinskoye and the Kirinskoye fields of the Sakhalin shelf, the Chayandinskoye field in the Republic of Sakha (Yakutia) and the Yuzhno-Russkoye field in YaNAO.

In the framework of exploration projects carried out abroad, in 2011 a well was drilled in the Akio block in Bolivia that proved the discovery of a commercial reserve.

In February 2011 due to the marked aggravation of the situation in Lybia and the announcement of force majeure, the pre-drilling studies were suspended in licensed areas No.19 and No.64.

Innovations in field exploration

The Gazprom Group has implemented the below methods for improving the accuracy of reservoir development forecasting:

- methods of identifying and optimizing exploration scope at first priority gas bearing areas of deep drilling in the regions of Eastern Siberia and Far East;
- method for differential calculatingexploration efficiency by regions of OAO Gazprom's production operations, including foreign projects, aimed at ensuring compliance with corporate requirements to return on project investments;
- methods of forecasting high output plots in tight and deep-lying collectors;
- methods for analyzing geological-field description of of coal beds for the purpose of methane production.

Licensing

In 2011, by order of the Russian Government, the Gazprom Group received four licenses for the use of subsoil plots in the Republic of Sakha (Yakutia) with total C_1+C_2 gas reserves of 550.6 bcm. Costs of licensed plots acquisition totalled RUB 7.3 billion.

In addition, in connection with OAO Gazprom's acquisition of the assets owned by OAO RUSIA Petroleum Company that was recognized as insolvent in accordance with the procedureprescribed by the federal law "On Insolvency (Bankruptcy)", OAO Gazprom re-registered in its own name the license for the right to use subsoil mineral resources of the Kovykta gas condensate field that was earlier held by the insolvent company. As of 31 December 2011, the Kovykta field reserves are estimated at 1.5 tcm of gas and 77 million tons of C_1+C_2 gas condensate.

In 2011, sixteen licenses for subsoil use were returned: seven licenses were expired, nine licenses were terminated due to inexpediency of any work continuation. Licenses for eighteen areas (fields) have been extended.

Transactions with assets that changed the controlled reserves and production capacities

The Gazprom Neft Group started to consolidate business in Orenburg region – a new region for the company. The Company acquired ZAO Tsentr Naukoemkih Tehnologiy (High Technology Centre) which holds the license for exploration and production of hydrocarbon reserves in Tsarichanskoye field with C_1+C_2 oil reserves of 12.7 million tons, and the 86.38% interest in ZAO Yuzhuralneftegas, which holds the license for the Kapitonovskoye field located 30 km from Tsarichanskoye field. The C_1+C_2 oil reserves of the field are estimated at 5.2 million tons.

Revaluation

In 2011 gas reserves were revalued due to changes in the volumetric parameters in the calculation of reserves in Taldinskoye coal methane field and Gubkinskoye gas field. The 2011 revaluation resulted in the increase of gas reserves by 0.5 bcm and oil reserves by 0.1 million tons in the territory of Russia. Gas condensate reserves decreased by 0.05 million tons as a result of the revaluation.

Production

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

	Natural and associated gas, bcm	Unstable condensate, million tons	Crude oil, million tons	Total million boe
Year ended 31 December 2011				
Production of the Gazprom Group	513.2	12.1	32.3	3,358.5
Share of the Gazprom Group in the production of associated companies	11.3	1.0	20.5	225.0
Year ended 31 December 2010				
Production of the Gazprom Group	508.6	11.3	32.0	3,322.6
Share of the Gazprom Group in the production of associated companies	17.6	1.6	20.7	268.5

The natural decline of production at Cenomanian deposits of the Gazprom Group's gas fields (Urengoyskoe, Yamburgskoe, Medvezhiye) was compensated by introduction of new capacities. Gazprom has been introducing new production capacities in YaNAO in accordance with the plan. At the same time the potential of gas producing fields in Nadym-Pur-Tazovsky region has been utilized more efficiently by developing deeper deposits than the traditional Cenomanian deposits.

In 2011, in the Nydinsky section of Medvezhiye field, the Group commenced the production of gas and gas condensate from Aptian - Albian deposits, test production of gas from the Turonian deposits in Yuzhno-Russkoye oil-gas condensate field, production of gas and gas condensate from Valanginian deposits in Zapoliarnoye oil-gas condensate field. In addition, two Cenomanian gas deposits were put into operation in Muravlenkovskoye and Novogodneye fields of Gazprom Neft.

In order to enhance the resource base of the gas transportation system Sakhalin – Khabarovsk – Vladivostok, in 2011 Gazprom commenced the development of Kirinskoye gas condensate field on the shelf of Sakhalin.

The Gazprom Group continued to develop fields on the west coast of Kamchatka: Nizhne-Kvakchinskoye field was put into operation and Kshukskoye field was brought to the designed production levels.

In 2011 the Gazprom Group's production of gas condensate was 12.1 million tons (or 7% higher than in 2010); crude oil production totalled 32.3 million tons (or 1% higher than in 2010).

In 2011, the offshore ice-resistant fixed platform was installed in Prirazlomnoye oil filed in Pechora Sea. This is the first time such a platform has been designed and built in Russia. The C_1+C_2 oil reserves of the field are estimated at 72 million tons, maximum level of oil production will exceed 6 million tons per year.

In 2011, the Group's Serbian concern NIS produced 1.1 million tons of oil and 0.6 bcm of gas.

In October 2011, Gazprom commenced the production of gas at the Wingate field in the offshore area of the North Sea (blocks 44/24b and 44/19f), in which Gazprom owns a 20% interest. From the start of gas production to 2011 the share attributable to the Group amounted to 23.8 million cm of gas and 38.6 tons of gas condensate.

In February 2011 Wintershall AG, an associated entity of the Group, (the operator) stopped hydrocarbon production in the C96 and C97 concessions in Lybia due to unrest in the country. In October 2011 after completion of the military operations the production was renewed. In 2011 the Group's share in hydrocarbon production in Lybia was 0.7 million tons of oil and 67 million cm of gas.

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

	As of 31 December 2011	
	In Russia	**Abroad**
Developed producing fields	124	50
Gas production wells	7,504	225
including active	6,988	104
Oil production wells	6,647	900
including active	6,151	603

Main areas of capital investments

Main investments in the Group's gas production segment in 2011 were allocated to the development of Bovanenkovskoye field on the Yamal peninsula and construction of the railway Obskaya – Bovanenkovo, development of Kirinskoye and Zapolyarnoye fields, maintenance of current production levels at Medvezhiye, Urengoyskoye and Yamburgskoye fields, development of Nadinsky section of Medvezhiye field, and Kshukskoye and Nizhne-Kvakchinskoye fields in the Far East of Russia.

In 2011, the Gazprom Group put into operation 187 new gas production wells in Russia.

The Gazprom Group's capital expenditures for oil and gas condensate exploration and production primarily included Priobskoye and Prirazlomnoye fields as well as implementation of Messoyakhinsky project and the development of the Badra field in Iraq. In total in 2011 the Group put into operation 755 new oil production wells in Russia.

Sale of oil and gas condensate

In 2011 the Group sold 20.6 million tons of oil and stable gas condensate (decrease by 8.8% as compared to prior year).

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

(million tons)	Year ended 31 December		Changes
	2011[(1)]	**2010**[(1)]	
Russia	4.1	3.3	24.2%
including active the Gazprom Neft Group	0.2	0.01	
FSU	3.0	3.0	0.0%
including the Gazprom Neft Group	3.0	3.0	

(million tons)	Year ended 31 December 2011[1]	2010 [1]	Changes
Europe and other countries	13.5	16.3	-17.2%
including Gazprom Neft Group	13.1	15.9	
Total	**20.6**	**22.6**	**-8.8%**

Note.

(1) The volumes of oil and gas condensate sold to indicated markets do not include intra-group sales. The total volume of hydrocarbon sold by the Gazprom Group is included, both own production and purchased from third parties.

Decrease of oil and gas condensate export sales in 2011 as compared to 2010 is explained by the increase of oil refining at Gazprom refineries.

Prices for crude oil both in international and domestic markets have a significant influence on the Group'soperations. Crude oil prices have historically been highly volatile, dependent upon the balance between supply and demand, economic and political development 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 2011 the price for BRENT crude oil was stable enough especially if compared with the movement of prices for other commodities. The average annual price was about US$ 111 per barrel (compared to USD 79.5 per barrel in 2010). The following table shows average monthly prices for BRENT and URALS crude oil in 2011 as per Platt's agency:

Oil grade	January	February	March	April	May	June
			USD per barrel			
BRENT[1]	96.54	103.76	114.60	123.49	114.55	114.04
URALS[2]	93.79	101.47	111.28	119.15	111.22	111.60
Spread URALS to BRENT	2.74	2.29	3.32	4.34	3.34	2.44

Oil grade	July	August	September	October	November	December
			USD per barrel			
BRENT[1]	116.88	110.37	113.12	109.43	110.66	107.83
URALS[2]	115.01	109.20	110.38	108.21	110.47	107.33
Spread URALS to BRENT	1.87	1.17	2.75	1.22	0.19	0.50

Notes.

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

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

Innovations in field development and production

For the purposes of improving the efficiency of fields development including new gas production regions and offshore areas of northern seas the Group has developed the following unparalleled technical solutions:

- engineering solutions for ice production of gas worked out in the course of development of Rusanovskoye and Leningradskoye fields in the offshore areas of the Kara sea;
- a technology for a joint treatment of Cenomanian, Valanginian and oil gas at the final stage of field development;
- a technology for developing helium-rich gas fields under which helium concentrate is pumped back into developed deposits;

- automated systems of remote control and management of wells in electrified and non-electrified clusters, systems managing vital infrastructure of gas fields on the principles of minimal manned technology.

Completed research and development projects allowed to start in 2011 the project of managing waterflooding and maintaining formation pressure in a test section of Sugmutskoye field for the purposes of extracting difficult oil from depleted reservoir sections.

The Gazprom Group implemented projects aimed at a complex protection of downhole equipment from corrosion and introduced the regulatory system that would optimize the inhibitory protection of wells. The works performed in 2011 resulted in the decrease of the corrosion related breakdowns multiple of the active assets from 0.37 to 0.16.

The research performed to develop the software for generating a list of idle wells ranked by economic and technical features for bringing them back into operation resulted in a 15-fold increase in the speed of analyzing idle wells.

Reporting year and subsequent events

In 2011 OAO Gazprom's Management Committee approved the Comprehensive program of technical re-equipment and reconstruction of gas transportation facilities for 2011–2015. In the 10-year perspective the Program will allow to prevent a 414.5 bcm reduction of gas production at selected fields. In addition, operating costs can reduce by RUB 29.9 billion. The total amount of investments under the Program is RUB 265.2 billion.

In July 2011 OAO Gazprom Neft joined the project of developing four hydrocarbon blocks in the exclusive economic zone of the Republic of Cuba in the Gulf of Mexico after signing with Petronas the deed on acceptance of the share in the project (30%) and the agreement on cooperation.

In October 2011, OAO Gazprom and Petroleos de Venezuela S.A. (PdVSA) signed a Memorandum of Understanding with regard to a potential establishment of a joint venture for the development of the Robalo gas field in the Gulf of Venezuela. In addition, a framework agreement between OAO Gazprom and Wintershall was signed in Germany with regard to a swap of assets. This agreement provides for a potential joint development of two Achim deposits in the Urengoyskoye field as well as Gazprom's participation in Wintershall's oil and gas exploration and production projects in the North Sea.

In November 2011, OAO Gazprom's Management Committee made a decision to start gas delivery from the Bovanenkovskoye field to the Unified Gas Supply System ahead of schedule, in the second quarter 2012. Earlier gas production in the Yamal peninsular was expected to start in the third quarter of 2012.

In April 2012 Gazprom signed the agreement on entering the project of a joint development of licensed blocks 05.2 and 05.3 in the offshore areas of Vietnam in the South China Sea water zone. Under this agreement Gazprom shall receive the 49% interest in the Product Sharing Agreement on the terms and conditions on which the project is implemented.

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

The Gazprom Group's target is to ensure efficient and extended reproduction of commercial reserves. The basic document that defines the strategy of raw materials base development in the Russian Federation is the Program on developing the raw-materials base for gas industry for the period up to 2035, under which the production will be compensated with additions to reserves in the contemporary gas producing regions or regions adjacent to the territory of the Unified Gas Supply System, new centres will be organized in Eastern Siberia and Far East, the raw materials base of offshore areas will be formed and extended. In the period from 2011 through 2035 as a

result of the above Program implementation the expected increase in hydrocarbon reserves will be 20.3 billion tons of fuel equivalent.

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 Nadym-Pur-Tazovsky region, the Yamal peninsula and Sakhalin-3 project.

In the long-term perspective strategic gas production regions include the Yamal peninsula, water zones of northern seas and Far East seas of Russia, the fields of Eastern Siberia and Far East.

Gazprom Neft is the base for the development of the Group's oil business. The company intends to increase hydrocarbon production by developing the following priority areas: establishing a new production centre in the north of YaNAO by developing fields of its subsidiary OOO SeverEnergia, Novoportovskoye field and fields of Messoyakha group; improving business processes and procedures for managing major projects; increasing the reserve base, including through new acquisitions.

It is planned to continue implementing exploration projects abroad for increasing the Group's raw material base outside Russia and expending the Group's operations into new markets for ensuring the long-term presence and stable position of the Group in global oil and gas markets.

Transportation of gas

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

	As of 31 December	
	2011	**2010**
Assets, million RUB	4,972,244	4,000,952
Share in total assets of the Group	43.2%	41.1%

	Year ended 31 December	
	2011	**2010**
Capital additions, million RUB	740,910	407,571
Share in the Group's total capital additions	54.8%	44.3%

Gas transportation system

OAO Gazprom owns the largest gas transportation system (the GTS) in the world, over 160 thousand km long, which is located in Russia and forms part of the Unified Gas Supply System (the UGSS) and can provide an uninterrupted long distances gas supply to customers in the Russian Federation and abroad. 211 compressor stations on the GTS and UGSS pipelines, with a total capacity of about 42 thousand MW, provided for transportation of gas through the system.

In Russia apart from gas transportation assets that form the UGSS the Group also owns gas transportation assets in the Russian Far East. The largest of these assets is the trunk pipeline Sakhalin - Khabarovsk – Vladivostok of 1,354 km long.

As of 31 December 2011, the total length of trunk pipelines and branch connections in Russia was 164.7 thousand km.

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

	As of 31 December 2011	
Age of trunk pipelines	**Length, km**	**Share**
Up to 10 years	19,569	11.9%
11 - 20	21,745	13.2%
21 - 30	64,629	39.3%
31 - 40	31,832	19.3%
41 - 50	19,647	11.9%
Over 50	7,259	4.4%
Total	**164,681**	**100.0%**

The Group is continually working to improve the GTS reliability and efficiency. There were no major interruptions of gas supplies over the last ten 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 2011 twelve technical faults of the GTS were registered (0.07 faults per 1,000 km) as compared with seven faults in 2010 (0.04 faults per 1,000 km).

In 2011, the gas transportation system in Russia transported 683.2 bcm of natural gas (661.2 bcm in 2010). Gas volumes transported for gas suppliers outside the Gazprom Group totaled 81.5 bcm and major gas suppliers were OAO NOVATEK (36%) and OOO NGK Itera (27%).

Volumes of natural gas used for own technical needs of the GTS and UGSF were 45.8 bcm of natural gas in 2011 (43.6 bcm of natural gas – in 2010). The Group assesses the level of gas losses as low and consumption of fuel gas as satisfactory.

The main foreign gas transportation asset of the Group is OAO Beltransgaz, control over which was obtained in December 2011. As of 31 December 2011 the Group's gas transportation assets outside Russia included 10 thousand km of trunk gas pipelines and ten compressor stations with a total capacity of about 734 MW.

Main areas of capital investments

In 2011, the main capital investments in the Group's gas transportation segment are allocated to the construction of the trunk pipelines: Bovanenkovo-Ukhta, Sakhalin – Khabarovsk – Vladivostok, Gryazovets-Vyborg, Ukhta-Torzhok, Pochinki-Gryazovets, SRTO-Torzhok, and, Dzhubga-Lazarevskoye – Sochi as well as reconstruction and re-equipment of active gas transportation assets.

In 2011, 2,469.5 km of gas pipelines and nine compressor stations with a total capacity of 1 thousand MW were put into operation in Russia.

In September 2011, the first stage of the first start-up complex of the pipeline Sakhalin – Khabarovsk – Vladivostok was put into operation. The first stage is 1,354 km long, including a CS of 32 MW and its annual flow rate is 5.5 bcm.

The final 344.5 km section of the pipeline Pochinki-Gryazovets was put into operation in 2011. As of the end of 2011 645 km of the pipeline and three compressor stations with the total capacity of 272 MW were put into operation. In 2012, it is planned to commission a compressor station with the capacity of 64 MW.

In June 2011, the pipeline Dzhubga-Lazarevskoye-Sochi was put into operation. The pipeline length is 171.6 km, 90% of which is an offshore part. The volume of transported gas will reach 3.8 bcm per year.

Along with the construction of new gas transportation capacities in Russia Gazprom is also involved in the reconstruction and re-equipment of gas transportation facilities. 432 km of trunk pipelines were reconstructed in 2011.

Main areas of long-term investments in the gas transportation segment related to OAO Gazprom's involvement in the construction of Nord Stream and South Stream pipelines. The first line of the Nord Stream gas pipeline was put into operation in November 2011. Commissioning of the second line is planned for the fourth quarter of 2012.

Innovations in gas transportation

For the purposes of ensuring the reliability and safety of gas transportation, OAO Gazprom has been developing and consistently implementing a system that will manage technical condition and integrity of the linear part of the trunk pipelines and compressor stations of the UGSS.

In the process of gas compressor stations reconstruction engineering solutions have been worked out that enhance the efficiency of compressor equipment and reduce pollutant emissions from its operation. The solutions provide for the use of gas-turbine units with the capacity of 32-35 MW. At the same time modernization of combusters by using low emission burners has been continued.

The development of a modern device for internal survey of trunk pipelines is in its final stage. The survey will be based on a non-contact electro-magnetic acoustic system of defect control. This device has no parallel in terms of the ability to maintain the target speed of movement in the gas pipeline, including pipelines of "composite topography" or in terms of having no effect on technological parameters of gas transportation.

Reporting year and subsequent events

In March 2011, the Group finalized the transaction on raising to finance the second stage of the Nord Stream project.

In September 2011, shareholders of South Stream Transport AG signed the Shareholders Agreement with regard to construction of the offshore section of the South Stream project. In accordance with the Agreement the share of OAO Gazprom in the offshore gas pipeline project is 50%, the Italian company ENI S.p.a owns 20%, the German company Wintershall Holding and the French company EFD own 15% each. Besides, as part of South Stream project a consolidated technical and economic feasibility study was completed in October 2011 and in December 2011, the construction of gas pipeline through exclusive economic zone in Turkey was authorized. In addition, a detailed implementation plan thatenabled to start the construction works in the end of 2012 was approved.

In September 2011, OAO Gazprom and the Ministry of Oil Industry of the Democratic People's Republic of Korea (DPRK) signed the Memorandum of Understanding with regard to the project of gas pipeline construction to the Republic of Korea via DPRK. Also in September 2011 OAO Gazprom and South Korean Kogas signed the "road map" to the project of pipeline gas supply from Russia to the Republic of Korea via DPRK.

In November 2011, OAO Gazprom signed the agreement to buy a 50% interest in OAO Beltransgaz owned by the Republic of Belarus. As a result of this transaction OAO Gazprom's share in the OAO Beltransgaz equity reached 100%.

Development plans for the Transportation of Gas segment

To ensure reliable gas supply to the domestic market and fulfil its contractual 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 Russia: 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; and the pipeline Pochinki – Gryazovets. In addition perspective projects are being considered such as the UGSS expansion to ensure supply of gas to the South Stream pipeline.

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

Apart from construction of new gas transportation facilities in Russia, OAO Gazprom reconstructs and modernizes gas transportation system.

In 2011, OAO Gazprom Management Committee approved the Comprehensive program of technical re-equipment and reconstruction of gas transportation facilities for 2011–2015. The

program shall help to improve efficiency by using modern gas compressor equipment, reduce emissions of oxides of nitrogen and carbon, and reduce transportation process losses of gas.

Key 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.

Underground gas storage

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

	As of 31 December	
	2011	**2010**
Assets, million RUB	206,126	169,146
Share in total assets of the Group	1.8%	1.7%

	Year ended 31 December	
	2011	**2010**
Capital additions, million RUB	19,978	17,355
Share in the Group's total capital additions	1.5%	1.9%

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 2011, the Group owns and operates twenty five underground gas storage facilities (the UGSF) in Russia with total volume of active gas amounting to 66.7 bcm. By the season of gas withdrawal from the UGS in 2010/2011 operating reserves of gas in the volume of 64 bcm were accumulated, a potential daily capacity – in the volume of 620 mcm – was provided, the average daily capacity in December –February was 500 mcm. The above actions enabled to provide the withdrawal capacity of 553.9 mcm in the UGS in Russia on 20 January 2011 with total withdrawal of gas from the UGS amounting to 21.0 bcm as of this date. During the period of peak load, Underground Gas Storage facilities (UGSF) in the territory of Russia ensure about 20% of gas supply to Russian consumers and for export, and in the days of quick freeze this figure reaches 30%.

After acquisition of OAO Beltransgaz OAO Gazprom became the owner of three UGSF in the Republic of Belarus - Pribugsky, Osipovichsky and Mozyrsky - with total active capacity amounting to 960 million cm. The Group also controls one UGSF in the Republic of Armenia, active capacity of which amounts to 0.1 bcm as of 31 December 2011.

For increasing export sales reliability, the Group uses gas underground storage facilities in Austria - UGSF Haidach, in UK - UGSF of the company Vitol, in Germany - UGSF Reden and capacity of Verbundnetz Gas AG, in Serbia - UGSF Banatsky Dvor, in Latvia Inchukalnskoye UGSF, it also participates in the construction of new gas underground storage facilities in Europe.

In 2011, 48.2 bcm of gas were pumped into the UGSFs in Russia and 47.1 bcm were withdrawn. Outside Russia 4.9 bcm of gas was pumped into UGSFs, the total withdrawal was 3.7 bcm of gas.

Main areas of capital investments

The main area of capital investments in underground gas storage system in 2011 was channeled to reconstruction of Sovkhoznoye, Peschano-Umetskoye and Bednodem'yanovskoye UGS's.

In 2011 the Group was working on expanding the capacity of the following UGSFs in Russia: Stepnovsky UGSF (active capacity increase is 0.5 bcm), Sovkhozny UGSF (active capacity increase is 0.8 bcm), Nevsky (twelve operating wells were connected) and other UGSFs. Pre-investment studies were performed with respect to expansion of a number of existing UGSFs and construction of new facilities. The Group commenced the construction of the Bednodemyanovsky UGSF.

In 2011 the following UGSFs abroad were put into operation (the Group participated in their construction): the second stage of UGSF Haidach (Austria), UGSF Catarina (Germany), UGSF Banatsky Dvor (Serbia).

In addition, the Group made injections of buffer gas into UGSF Bergermeer (Netherlands) in exchange for the access to 1.9 bcm of active capacity and 26.4 million cm of the UGSF's daily capacity; UGSF Bergermeer is expected to start its commercial operations in 2014.

Development plans for the Gas Storage segment

Gazprom's strategy tasks include technical re-equipment, reconstruction and expansion of existing storage facilities as well as development of new UGSFs. Seventeen compressor stations and 17.9 bcm of active storage capacity are to be put into operation in Russia by 2015.

The Program of the UGSF development in Russia for 2011 - 2020, including expansion of daily capacity up to 1.0 bcm, was approved in 2011.

The Gazprom Group is performing technical and economic assessment of its potential participation in joint projects in Great Britain (Saltfleetby), Czech Republic, France, Romania, Turkey. In Czech Republic consideration is given to the project of a new UGSF with the total capacity of about 450 million cm near Damborjice. Gazprom plans to increase gas storage capacity in Europe and bring it to the level of 4.8 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	
	2011	**2010**
Assets, million RUB	1,223,035	1,048,594
Share in total assets of the Group	10.6%	10.8%

	Year ended 31 December	
	2011	**2010**
Capital additions, million RUB	48,802	37,578
Share in the Group's total capital additions	3.6%	4.1%

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

(bcm)	Year ended 31 December		Change
	2011	**2010**	
Russia	280.7	277.3	1.2%
FSU[(1)]	81.7	70.2	16.4%
Europe and other countries[(1)]	156.6	148.1	5.7%
Total	**519.0**	**495.6**	**4.7%**

Note:

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

In 2011, gas consumption in Russia totaled 473.0 bcm which is a 2.8% increase as compared to 2010. Main customers, as before, are electric-power industry, metallurgy, agricultural chemistry. Joint consumption of these companies is 50% of total gas volumes. The Gazprom Group accounts for 70% of total gas supplies and is the largest supplier in the domestic market.

According to preliminary estimates, in 2011 the overall sale of gas on Gazprom's key export market - in Europe - decreased to 551 bcm (or by more than 9%). Own production of gas in Europe an countries also decreased and according to preliminary estimates amounted to approximately 288 bcm, which is 23 bcm (or 7.4%) less than in 2010.

Under long-term contracts with OAO Gazprom, in 2011 European customers bought 150 bcm of natural gas which is 8.2% higher than in the prior year. The increase is explained by the implementation in 2010-2011 of actions aimed at improving competitiveness of the Russian gas.

In 2011 the overall sale of gas to final customers in Europe by the Group's subsidiaries totalled 3.7 bcm.

In 2011 the Gazprom Group sold 2.3 million tons or 3.06 bcm of LNG (as compared to LNG sales of 1.85 million tons or 2.47 bcm in 2010). Out of 34 LNG lots supplied by the Group in 2011 thirty lots were delivered to the Asian-Pacific Region, including 6 lots to Japan. The geography of supplies also expanded: in 2011 for the first time LNG was dispatched to the terminals in Kuwait and Thailand.

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

The Group's performance is heavily dependent on natural gas sales prices in Europe and other countries.

In 2011, just like in prior years, prices for gas in the Group's export contracts primarily depended on changes in global prices for liquid fuel. Generally in 2011 the prices grew as compared to 2010. In 2011 European prices for oil products, that compete with gas, increased by 37-39%%; the annual average price for BRENT crude oil increased by 40% as compared to 2010.

Given the trends in the global oil market and European gas spot market, export prices for Russian natural gas in 2011 had the tendency towards growing. Particular characteristics of gas pricing such as availability of reference periods in the indexation formula of contracts linked to oil prices (generally 9 months) or introduction of gas indexation for a part of volumes supplied under long-term contracts, made it possible to significantly smooth out the growth of export prices for Russian gas as compared with prices for liquid fuels.

In the reporting year agreements on adaptation of price conditions were reached with Edison, Sinergie Italiane, GDF-SUEZ, WIEH, Wingas and SPP. Pricing formulas in contracts with indexation to oil product prices were updated in accordance with these agreements. These adjustments significantly contributed to ensuring competitiveness of Russian gas in European markets.

Nevertheless contracts with indexation to oil product prices remain operative. Oil price indexation is an essential tool of the long-term business-planning that meets interests of the buyer and the seller of gas. It ensures top-down continuity and stability of the industry investment cycle - from a well to the final customer. The use of oil price indexation has been verified by more than 40 years of the global gas market development. Today oil products in the gas formula play the role of a universal deflator. Their presence does not allow the price of gas to break away from prices of other commodities.

The following table shows the average prices of natural gas sales to FSU, Europe and other countries in 2011 and 2010:

	Year ended 31 December	
	2011	2010
	(including customs duties, net of VAT)	
Natural gas sales to Europe and other countries		
US$/ thousand cm [1]	383.0	301.8
US$/ thousand cf[1]	10.8	8.6
average price in nominal RUB / thousand cm	11,259.1	9,166.6
Natural gas sales to FSU		
US$/ thousand cm[1]	289.5	231.7
US$/ thousand cf [1]	8.2	6.6
RUB / thousand cm	8,509.3	7,039.0

Note.

(1) Calculated based on annual average currency exchange rate between RUB 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 2011 the average price of gas sold by the Group in the domestic market remained lower than export prices (less export duties and transportation costs) that is explained by regulation of gas wholesale prices in Russia by the Russian Government.

From 1 January 2011 the regulated wholesale gas prices for industrial consumers increased by 15%. For residential consumers gas prices increased by 5% from 1 January 2011 and by 9.5% from 1 April 2011. Average regulated wholesale gas prices for all Russian consumers increased by 15.8% as compared to 2010.

The following table shows the average prices for natural gas sold in domestic market:

	Year ended 31 December	
	2011	2010
	(net of VAT)	
RUB per mcm	2,631.7	2,296.8
RUB per thousand cf	74.5	65.1
U.S.$ per mcm [1]	89.5	75.6
U.S.$ per thousand cf [1]	2.5	2.1

Note:

(1) Calculated based on annual average currency exchange rate between RUB 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 Russian Federation regions. The construction of 244 gasification facilities with total length of 2.5 thousand km was completed. It provided gas supply to 390 centres of population in 49 territorial subjects of the Russian Federation. In 2011 investments in gasification of the Russian Federation regions totalled RUB 29.07 billion.

Reporting year and subsequent events

In 2011 OAO Gazprom and Chinese company CNPC continued intensively to negotiate the conditions of the Russian gas supplies to China. In May 2011 the Deputy Chairman of the Russian Government, Igor Sechin and Vice Prime Minister of State Council of the People's Republic of China, Wang Qishan signed a protocol to Memorandum of Understanding on cooperation in the Russian gas supplies of 24 June 2009.

In 2011 Gazprom continued activities to arrange pipeline supplies up to 10 billion cm per year to Republic of Korea. To synchronize actions on implementing the above project OAO Gazprom cooperates with North Korean party involved in accordance with the Memorandum of Understanding signed in September 2011 by OAO Gazprom and Ministry of Oil Industry of

Democratic People's Republic of Korea and decisions taken at the first meeting of the joint working group of OAO Gazprom and Ministry of Oil Industry of Democratic People's Republic of Korea.

In addition, Gazprom worked over the possibility of increasing gas supplies to Japan. In January 2011 OAO Gazprom and Agency of Natural Resources and Energy of the Japanese Ministry of Economy, Trade and Industry signed the agreement on cooperation to perform feasibility studies with regard to options of using natural gas in Vladivostok region, transportation and sale of natural gas and gas chemical products from Vladivostok region to the potential buyers in Asian-Pacific Region.

In May - June 2011 OAO Gazprom signed Memorandum of Understanding with four Indian companies for supplies of up to 10 million tons of LNG per year from Gazprom Group portfolio during 25 years.

In November 2011 the documents regulating the relationship between the parties regarding the acquisition of the remaining state-owned 50% of OAO Beltransgas shares and further operating of the entity, principles of pricing, volumes of gas supplies and its transit starting from 2012 were signed. OAO Gazprom and OAO Beltransgas signed contracts for gas supplies to Belarus Republic and gas transportation via Belarus Republic in 2012-2014.

In December 2011 OAO Gazprom and NAK Naftogas of Ukraine signed supplements to the contracts for gas supply and transit that provided for possibility of making payments for the gas supplied and gas transit via Ukraine in Russian roubles and US dollars.

In January 2012 OAO Gazporm and State Oil Company of Azerbaijan signed supplement to the current contract for gas sales. According to the mentioned document the volume of gas purchases in Azerbaijan will increase from 1.5 to 3 bcm per year and from 2013 it will exceed 3 bcm.

In March 2012 OAO Gazprom and AO Moldovagas extended the current contracts for gas supplies and transit until the end of the second quarter of 2012. Earlier, in December 2011 the contracts for gas supplies and transit were extended until the end of the first quarter of 2012.

Development plans for Gas Distribution segment

The Group’s strategy in the Russian domestic market includes 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 tariffs related to gas transportation through trunk pipelines that is viewed as natural monopoly operations for all suppliers.

In 2010 the Russian Federation Government adopted Resolution No.1205 “On improvement of gas prices state regulation” under which in 2011-2014 the regulation of wholesale gas prices for industrial customers is based on gas price formula considering the principle of equal profitability of export and domestic supplies of gas during transition period and considering the balance of prices for alternative fuels prices.

The Scenario of Economic Performance of the Russian Federation and the Key Parameters of Forecasting Social and Economic Development of the Russian Federation for 2012 and planned period of 2013-2014 developed by the Russian Ministry of Economic Development and Trade provide for the following maximum changes in the regulated gas prices in 2012-2014:

	2012	**2013**	**2014**

Regulated wholesale prices, average for all categories of customers, annual average versus the previous year, %[(1)]	7.5	15.0	15.0

Note:

(1) Maximum annual average rise in wholesale gas prices with annual price indexation starting from the second quarter.

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 cooperates with Central Asian and other countries.

Marketing strategy provides for diversification of the export sales geography by expanding presence in prospective gas markets. In particular, the Group's priorities include increasing LNG volumes in the Group's export portfolio and, within geographical diversification – access to the markets in North-East Asia and other Asia-Pacific Region countries.

Refining

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

	As of 31 December	
	2011	**2010**
Assets, million RUB	1,086,188	819,440
Share in total assets of the Group	9.4%	8.4%

	As of 31 December	
	2011	**2010**
Capital additions, million RUB	115,642	78,712
Share in total capital additions of the Group	8.6%	8.6%

Processing of hydrocarbons and production of refined products

In 2011 natural gas and gas condensate were 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 neft Group - at Omsky refinery, Moscow refinery, 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			
	2011 [(1)]		**2010 [(1)]**	
	Total	**including abroad**	**Total**	**including abroad**
Natural and petroleum gas, bcm	33.2	–	33.6	–
Crude oil and unstable gas condensate, million tons	53.5	2.4	50.2	2.9
including the Gazprom neft Group	40.5	2.4	37.9	2.9

Notes:

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

As of 31 December 2011 the Group's total processing and refining capacity 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			
	2011 (1)		2010 (1)	
	Total	including abroad	Total	including abroad
Dry gas, bcm	25.7	-	26.2	-
Liquefied oil gas, million tons	3.0	0.1	3.1	0.1
including the Gazprom neft Group	0.7	0.1	0.8	0.1
Broad fractions of light hydrocarbons, million tons	0.7	-	0.5	-
Stable gas condensate and crude oil, million tons	4.6	-	3.8	-
Oil products, million tons	42.6	2.1	39.7	2.3
including the Gazprom neft Group	37.5	2.1	34.7	2.3
Helium, million cm	3.5	-	4.9	-
Sulfur, million tons	5.4	0.003	5.3	0.002
including the Gazprom neft Group	0.1	0.003	0.1	0.002

Notes:

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

Insignificant decrease (by 1.2%) in gas processing is explained by decrease in gas production in the fields being the raw material bases for Orenburgsky and Sosnogorsky refineries.

The increase in oil and unstable gas condensate refining volumes is explained by commencement of gas and gas condensate production in Valanginian deposit of Zapolyarnoye NGKM and use of all refining capacities at 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
	2011 (1,2)	2010 (1,2)	
Russia	32.4	28.7	12.9%
including the Gazprom neft Group	24.2	20.6	
FSU	2.5	3.8	-34.2%
including the Gazprom neft Group	2.1	2.6	
Europe and other countries	20.5	19.7	4.1%
including the Gazprom neft Group	15.0	14.1	
Total	**55.4**	**52.2**	**6.1%**

Notes:

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

(2) The volumes do not include helium.

High refinery margin maintained in 2011 outlined main trends of marketing policy: oil products sales in a more profitable domestic market as compared to export increased by 3.4 million tons or 14.5% and totaled 26.8 million tons.

Gazprom continued to develop business units engaged in retail product segments - plane-fuelling, coaling, lubricants production and sale.

In 2011 the number of operating fuel stations increased to 1,670 (including 627 fuel stations located abroad) due to expansion of the retail network in Russia and FSU. In 2011 oil products of Gazprom Group that are sold via the network of fuel stations achieved 6.2 million tons.

In 2011 sales of helium decreased to 3.5 million cm (in 2010 4.9 million cm) that is explained by unscheduled repairs of infrastructure facilities used to storage helium concentrate.

Main areas of capital investments

The major portion of capital expenditure in refining in 2011 was channeled to ongoing on the basis of project financing construction of Novourengoisky gas chemical facility, reconstruction of Astrakhansky gas processing complex, modernization and reconstruction of Omsky and Moskovsky refinaries.

In 2011 the Comprehensive program of reconstruction and re-equipment of gas and liquid hydrocarbons processing assets for 2011-2015 was approved. Under the program Gazprom implemented the investment projects for reconstruction and expansion of production capacities of gas processing and gas producing subsidiaries (Astrakhansky and Orenburgsky refineries and Surgut Stable Condensate Plant). Implementation of the program will enable to reach the compliance of products' quality with the European standards and current industrial and environmental safety requirements. In refinery segment Gazprom is implementing the program on upgrading and reconstructing capacities and construction of new facilities that is aimed at improvement of environmental characteristics of fuels produced by the plants, increase in the depth of processing, increase in volumes and expansion of products range. In 2011 Gasprom upgraded and reconstructed the refining capacities in Omsky refinery, Moscow refinery and Yaroslavsky refinery, an associated company of OAO NGK Slavneft.

As a result of upgrading refining capacities since 2011 Moscow refinery commenced production of gasoline and diesel fuel of ecological class 4.

In July 2011 Omsky refinery commenced production of Super Euro-98 gasoline that corresponds to ecological class 5.

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 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 at Astrakhansky gas processing complex and Surgut Stable Condensate Plant.

In addition, other projects are being carried out:

- developing the technology of HSFO processing at Astrakhansky gas processing plant;
- implementation of sulphur bituminous for the purposes of construction and repairing the highways.

In 2011 OAO Gazprom implemented large-scale innovation project on development and commissioning a bizeolite catalytic cracking catalyzer in OAO Gazpromneft-ONPZ. Implementation of the new catalyzer enabled Omsky refinery to increase light oil products yield, depth of processing and decrease sulphur content in the products while decreasing operating costs. Currently, Gazprom neft is the only producer of catalytic cracking catalyzers in Russia.

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; upgrading of current gas processing and gas chemistry facilities and building new ones, including in Eastern Siberia and Far East.

To improve the quality of the produced motor fuels it is planned to commission a gasoline hydrotreating unit and an isomerisation unit at Astrakhansky refinery in 2012. In 2015 it is planned to commission an isomerisation unit at Surgutsky refinery.

To ensure transportation of increased volumes of gas and gas condensate from new gas production and processing sites put into operation in Western Siberia Gazprom is performing works to expand and reconstruct Urengoysky gas condensate treatment plant so as to increase its capacity, to create treatment and transportation facilities for gas condensate and oil from the Achimov formation and to finalize construction of the condensate pipeline Urengoy – Surgut and to expand and reconstruct Surgutsky Stable Condensate Plant.

Based on project financing principles Gazprom continues to implement the project on Novourengoisky gas chemical complex construction.

Program on Gazprom neft's oil refining development in Russia covers periods through 2020 and a major part of projects on increasing efficiency of oil refinery operations are planned to be implemented by 2015. Gazprom is reviewing projects on developing petrochemistry and studying the perspective of increasing the aromatic hydrocarbons production at Omsky refinery.

In 2012 hydrocracking and hydrotreating units based on Chevron Lummus Global technology are planned to be commissioned at refinery in Pancevo.

Implementation of the investment project on financing Serbian NIS upgrading will provide technical capability of producing all motor fuels of NIS in accordance with EU requirements, increase the efficiency of oil refining and decrease the environmental hazard inflicted by refinery.

Strategic goals set by Gazprom in refinery include production of goods that comply with the Technical regulations, i.e. class 5, increase the yield of light fractions and upgrade the production to existing and projected standards of safety. Strategic goals in the area of oil products marketing include: increased sales of oil products through small-scale wholesalers and retailers in Russia and abroad, expanding the network of filling stations.

Electric Power

The following table shows assets and capital investments related Electricity and Heat Generation and Sale segment:

	As of 31 December	
	2011	**2010**
Assets, million RUB	560,182	487,046
Share in total assets of the Group	4.9%	5.0%

	Year ended 31 December	
	2011	**2010**
Capital expenditures, million RUB	69,447	46,239
Share in the Group's total capital additions	5.1%	5.0%

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) is about 37 GW, or 17% of the total installed capacity of the Russian energy system. In November 2011 OAO WGC-2 and OAO WGC-6

merged into OAO WGC-2. The merger resulted in creation of the largest heat generation company in Russia with the established capacity of 17.9 GW.

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 2011, GW	Power generation, year ended 31 December 2011, billion kWh	Heat capacity as of 31 December 2011, thousand Gcal/h	Heat production, year ended 31 December 2011, million Gcal
OAO Mosenergo	12.3	64.7	35.0	66.4
OAO WGC-2	17.9	79.7	4.3	6.3
OAO TGC-1	6.9	28.4	14.6	26.1
Total(1)	**37.0**	**172.8**	**53.9**	**98.8**

Note:

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

The Group includes ZAO Kaunasskaya TES that owns Kaunassky thermal power plant in Lithuania. As of 31 December 2011 electric capacity of Kaunassky thermal power plant was 170 MW and heating capacity – 894 Gcal per hour. In September 2011 Board of Directors of OAO Gazprom made the decision to sell the company's shares and started negotiations with the potential buyer.

In 2011 the Group's power generation decreased by 1.1% to 172.8 billion kWh as compared with 2010.

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

In 2011 heat production totalled 98.8 million Gcal that is 6.3% lower than in 2010.

Over the last three years average rate of increase in electricity generation was 3.8%, heat generation – 0.3%. Insignificant decrease in these figures is explained by anomalously low temperatures in prior heating season.

In 2011 Kaunassky thermal power plant produced 0.4 bln kW of electric and 1.4 mln Gcal of heating power. In 2011 the Gazprom Group produced the total of 173.2 bln kW of electric and 100.2 mln Gcal of heating power.

Main areas of capital investments

Major capital investments in the power industry in 2011 were allocated to the construction of the Adler TPS, power unit No.2 of Pravoberezhny TPP-5, modernization of Kirishsky SDPP, construction of two power units of Pervomaysky TPP-14 as well as power unit of the Troitsky SDPP.

In 2011 as part of the investment program of the Gazprom Group new power generating capacities in the volume of 1.9 GW were constructed in Russia, which is 40% of the total new generating capacities put into operation in Russia for the stated period.

In 2011, the following items were put into operation: power generating unit of Combined Cycle Plant-800 MW at Kirishskaya GRES (OAO WGC-2), first power generating unit of Combined Cycle Plant-180 MW at Pervomaysky TPP (OAO TGC-1), power generating unit of Combined Cycle Plant-450 MW at Yuzhny TPP (OAO TGC-1), power generating unit of Combined Cycle Plant-420 MW at TPP-26 (OAO Mosenergo) and hydro turbine unit No. 2 at Lesogorsky HPP with the capacity of 29.5 MW (OAO TGC-1). In 2012, it is planned to commission Adlersky TPP with the capacity of 360 MW.

Outside Russia, the Group continued its activity related to the construction and modernisation of the fifth power generating unit of Razdansky TPP (Armenia). In December 2011, complex testing of the power generating unit was performed. 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.

Innovations in electric power

The Gazprom Group is implementing a number of large-scale projects which are unique for the Russian electric power:

- the construction of a carbon block with CFB-330 at Novocherkassaya TPP continued in 2011 which will enable to use several different coal types including those of low quality for boiler equipment operation;

- large-scale modernisation of the existing power generating unit at Kirishi GRES is being completed as part of the Combined Cycle Plant-800 construction project. During the modernisation, two single-turbine units with two boilers and capacity of 279 MW each are built up on the currently operating K-300 steam turbine. This conceptually new scheme helps increase the performance of the power generating unit from 38% to 55%, reduce the specific fuel consumption at normal capacity from 324 g/kWh to 221.5 g/kWh, and significantly enhance environmental characteristics.

Development plans for electric and heat energy generation and sales segment

In 2010, the Group and regulators agreed upon energy companies' obligations related to the scope and terms of construction of new power generating capacities under capacity supply contracts which provide for a special capacity tariff that guarantees the return of investments. Implementation of the investment program under capacity supply contracts is also a priority in the development of the Group's energy companies. Group companies are to put into operation approximately 9GW of new capacities in Russia by 2016.

Launch of the long-term capacity market and market liberalisation will guarantee that new power generation units commissioned under capacity supply contracts will pay off. The Gazprom Group continues to enhance the efficiency and reliability of electricity generation. Investment projects for reconstruction and renovation of the existing capacities will help increase the efficiency of power plants and reliability of equipment operation.

In addition, Gazprom is analysing opportunities to invest in construction and acquire power assets in Europe and North-East Asia to increase efficiency and strengthen its position in energy markets of these regions. The Group also expands its collaboration with European energy suppliers who have a client base and technology complex which will help expand Gazprom's presence in the global energy market.

INNOVATIVE DEVELOPMENT

The Gazprom Group views innovative activity and technological upgrade among its priority areas of work. Gazprom significantly invests in research and development. In 2011 research and development costs financed by Gazprom Group totaled RUB 7.9 billion (RUB 7.0 billion in 2010). In this area the Group is the leader among Russian energy companies and is among the top ten global energy companies.

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

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 2011 entities of the Gazprom Group held 1,608 patents.

Long-term Planning of Innovative Activities

The Program of OAO Gazprom's Innovative Development for the period up to 2020 was developed and approved in 2011 to define and systematize main directions and tasks of OAO Gazprom's activity in the area of resources innovation and optimization as well as to set up innovative development indicators.

The Program will cover a set of interdependent actions aimed at the development and implementation of new technologies, innovative products and services of the global level, as well as creation of favorable conditions for the development of innovative activity in OAO Gazprom and adjacent industries of the Russian Federation.

The distinctive feature of OAO Gazprom's Program of Innovative Development for the period until 2020 is the system of priorities in gas, oil and electric power businesses. The system has been formed on the basis of forecasts of OAO Gazprom's science and technology development until 2020 prepared with account for OAO Gazprom's 10-year Development Program and the General Gas Industry Development Scheme until 2030.

Each business process has been analyzed in the terms of potential improvement of its economic indicators for the plan period provided that existing technologies are replaced by the most advanced ones. Basic directions of technology improvement or technology priorities have been identified following the analysis results. Investments into these areas will allow Gazprom to obtain the maximum economic benefit.

Integral performance indices as well as key innovation technologies have been determined for each technology priority.

Annually approved OAO Gazprom’s R&D Program as wells R&D plans developed for each key technology are aimed at implementing technology priorities established in the Program.

Substantial funds are to be allocated for the Innovative Development Program. R&D costs are the key element. By 2020 the planned amount may increase 4.2 times and reach RUB 34 billion and their share in revenue can grow three times and exceed the average global level. The economic benefit expected from technological projects is RUB 450 billion for the period until 2020.

ENVIRONMENT PROTECTION

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

In October 2011, the Board of Directors approved the effective version of OAO Gazprom's Ecological Policy and recommended that Gazprom Group's companies should use this document. In the reporting year OAO Gazprom's Complex Ecological Programme was approved for the period from 2011 to 2015 aimed at the sustainable environment-oriented gas industry.

Gazprom places high emphasis on environmental security upon implementation of its key projects. Project solutions are designed to reduce the impact of business and other activities on the environment, both at the construction and operation stages.

In 2011, as a result of governmental inspections, no significant violations of Russian environmental legislation by Gazprom Group entities were identified. Penalties paid for the violation of the environmental legislation by Gazprom Group in 2011 were RUB 4.6 million. Penalties which are insignificant in proportion to the Group's size demonstrate the high level of compliance with the environmental legislation.

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

Main indicators	Year ended 31 December		Change
	2011	2010	
Pollutant emissions into the air, thousand tons	3,124.2	3,225.3	-3.1%
carbonic oxide	687.2	666.8	3.1%
nitrogen oxide	372.6	377.4	-1.3%
sulfur dioxide	260.9	296.1	-11.9%
hydrocarbons (methane)	1,491.1	1,589.1	-6.2%
Discharge of waste water, million cm	5,300.7	5,701.0	-7.1%
including in surface-water bodies	5,257.7	5,364.1	-2.0%
including clean and cleaned as per standard norms	5,096.2	5,348.9	-4.7%
Generation of waste, thousand tons	4,973.8	5,600.3	-11.2%
Recultivated lands, thousand ha	11.6	9.8	18.4%

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 97% of taken and 99% of discharge water. At the same time 96.5% 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:

(RUB million)	Year ended 31 December		Change
	2011	2010	
Current costs	11,232.7	10,289.8	9.2%
Costs of capital repairs of fixed assets used for environmental protection	2,571.8	1,243.2	106.9%
Pollution charges	1,017.2	1,234.4	-17.6%
Capital environmental costs	9,785.7	7,744.4	26.4%
Total	**24,607.4**	**20,511.8**	**20.0%**

In 2011, CO2 emissions of the main Gazprom's subsidiaries in production, transportation and underground gas storage operations decreased by 3% as compared to the prior year and amounted to 133 million tons of CO2 – equivalent.

In line with the Energy Strategy of Russia up to 2030, the Climate and Ecology Doctrines of the Russian Federation, OAO Gazprom strictly adheres to the corporate policy of Earth climate protection. The main components of Gazprom's policy for climate protection are: participation in international organisations' activities, working out environmental standards in accordance with the international agreements, conducting research related to greenhouse gas emissions, and implementation of target projects to reduce greenhouse gas emissions, and the efficient usage of associated gases.

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 2011 the number of employees in Gazprom Group's subsidiaries was 404.4 thousand people, including 25.9 thousand employees of Gazprom Group's entities registered abroad.

The structure of Gazprom Group's employees as of 31 December 2011 is provided in the following table:

(share)	**As of 31 December 2011**
Managers	12.8%
Specialists	25.4%
Other employees	4.2%
Workers	57.6%

The table below shows the level of education of Gazprom Group staff as of 31 December 2011.

(share)	**As of 31 December 2011**
Post-graduate	1.4%
Higher professional	41.0%
Secondary-level professional	23.9%
Secondary	33.7%

Professional training of workers is carried out in training divisions of subsidiaries, training of graduates – in corporate and governmental educational institutions. In total 207.7 thousand employees were covered by professional training in 2011.

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 of the achieved level of material protection of employees and their families, maintaining social stability and attractiveness of Gazprom Group entities in the labour market.

Social welfare of employees is carried out by providing incentives, guarantees and compensations, medical and health resort services, various types of personal insurance, creating a comfortable and safe working conditions, assisting in solution of housing questions through the basic mechanism of bank mortgage, as well as supplementary pension coverage.

In 2011 social and labour relations between employees and employers in the Group 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 2011-2013, 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 Inter-Regional Trade-Union Organization of OAO Gazprom represents interests of more than 270 thousand employees.

ANALYSIS OF FINANCIAL RESULTS OF OPERATIONS

Results of operations

(RUB million)

	Year ended 31 December	
	2011	**2010**
Sales	4,637,090	3,597,054
Net gain from trading activity	2,791	6,256
Operating expenses	(2,942,181)	(2,440,777)
Impairment provision and other provisions	(40,857)	(48,711)
Operating profit	**1,656,843**	**1,113,822**
Finance income	190,488	171,841
Finance expense	(267,823)	(169,147)
Share of net income of associated undertakings and jointly controlled entities	99,049	76,520
Gains on disposal of available-for-sale financial assets	1,379	3,292
Gain from disposal of interest in OAO NOVATEK	-	77,375
Profit before profit tax	**1,679,936**	**1,273,703**
Current profit tax expense	(279,216)	(249,387)
Deferred profit tax expense	(58,278)	(26,323)
Profit tax expense	(337,494)	(275,710)
Profit for the year	**1,342,442**	**997,993**
Other comprehensive income		
(Losses) gains arising from change in fair value of available-for-sale financial assets, net of tax	(7,669)	18,904
Share of other comprehensive (loss) income of associated undertakings and jointly controlled entities	(19,302)	4,100
Translation differences	19,342	(9,407)
Other comprehensive (loss) income for the year, net of tax	**(7,629)**	**13,597**
Total comprehensive income for the year	**1,334,813**	**1,011,590**
Profit attributable to:		
owners of OAO Gazprom	1,307,018	968,557
non-controlling interest	35,424	29,436
	1,342,442	**997,993**
Total comprehensive income attributable to:		
owners of OAO Gazprom	1,297,891	981,280
non-controlling interest	36,922	30,310
	1,334,813	**1,011,590**

Sales

The following table sets out our volumes and realized prices

(RUB million unless indicated otherwise)	Year ended 31 December 2011	2010
Sales of gas		
Europe and other countries		
Gross sales [1]	1,763,716	1,357,852
Customs duties	(324,647)	(258,627)
Net sales	1,439,069	1,099,225
Volumes in bcm	156.6	148.1
Gross average price, U.S.$ per mcm (including customs duties) [2]	383.0	301.8
Gross average price, RUB per mcm (including customs duties)	11,259.1	9,166.6
FSU (Former Soviet Union)		
Gross sales (net of value added tax (VAT))	694,937	493,806
Customs duties	(57,759)	(43,669)
Net sales	637,178	450,137
Volumes in bcm	81.7	70.2
Gross average price, U.S.$ per mcm (including customs duties, net of VAT) [2]	289.5	231.7
Gross average price, RUB per mcm (including customs duties, net of VAT)	8,509.3	7,039.0
Russian Federation		
Gross sales (net of VAT)	738,601	636,843
Net sales	738,601	636,843
Volumes in bcm	280.7	277.3
Gross average price, RUB per mcm (net of VAT)	2,631.7	2,296.8
Total sales of gas		
Gross sales (net of VAT)	3,197,254	2,488,501
Customs duties	(382,406)	(302,296)
Net sales	2,814,848	2,186,205
Volumes in bcm	519.0	495.6
Net sales of refined products (net of VAT and customs duties)	973,026	709,062
Net sales of electric and heat energy (net of VAT)	344,551	288,655
Net sales of crude oil and gas condensate (net of VAT and customs duties)	235,432	196,074
Gas transportation net sales (net of VAT)	112,995	92,631
Other revenues (net of VAT)	156,238	124,427
Total sales (net of VAT and customs duties)	**4,637,090**	**3,597,054**

Notes:

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

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

Total sales (net of VAT and customs duties) increased by RUB 1,040,036 million, or 29%, to RUB 4,637,090 million in the year ended 31 December 2011 compared to the year ended 31 December 2010.

Net sales of gas accounted for 61% of total net sales in the years ended 31 December 2011 and 2010.

Net sales of gas increased from RUB 2,186,205 million in the year ended 31 December 2010 to RUB 2,814,848 million in the year ended 31 December 2011, or by 29%.

Net sales of gas to Europe and other countries increased by RUB 339,844 million, or 31%, to RUB 1,439,069 million in the year ended 31 December 2011 as compared to the year ended 31 December 2010. This mainly results from the increase in gross average RUB price (including customs duties) by 23%. Besides the volume of gas sold increased by 6% in the year ended 31 December 2011 as compared to the year ended 31 December 2010.

Net sales of gas to FSU countries increased by RUB 187,041 million, or 42%, to RUB 637,178 million in the year ended 31 December 2011 as compared to the year ended 31 December 2010. This increase was mainly due to increase in gross average RUB price (including customs duties, net of VAT) by 21% in the year ended 31 December 2011 compared to the year ended 31 December 2010 and increase in volumes of gas sold to FSU countries by 16% in the year ended 31 December 2011 compared to the year ended 31 December 2010.

Net sales of gas in the Russian Federation increased in the year ended 31 December 2011 compared to the year ended 31 December 2010, by RUB 101,758 million, or 16%, to RUB 738,601 million. This increase was mainly due to 15% increase in the gross average price for domestic gas sales price regulated by the Federal Tariffs Service (FTS), and 1% increase in the volumes of gas sold in the year ended 31 December 2011 compared to the year ended 31 December 2010.

Net sales of refined products (net of VAT and customs duties) increased by RUB 263,964 million, or 37%, to RUB 973,026 million in the year ended 31 December 2011 in comparison with RUB 709,062 million in the year ended 31 December 2010. The increase mainly resulted from increase of world prices for refined products and increase in volumes sold in the year ended 31 December 2011 compared to the year ended 31 December 2010. In the years ended 31 December 2011 and 2010 the Gazprom neft Group's sales comprised 84% of the total amount of our net sales of refined products, respectively.

Net sales of electric and heat energy (net of VAT) increased by RUB 55,896 million, or 19%, to RUB 344,551 million in the year ended 31 December 2011 as compared to the year ended 31 December 2010. The increase in net sales of electric and heat energy was mainly due to the increase in tariffs and volumes of electric and heat energy sold to customers.

Net sales of crude oil and gas condensate (net of VAT and customs duties) increased by RUB 39,358 million, or 20%, to RUB 235,432 million in the year ended 31 December 2011 as compared to RUB 196,074 million in the year ended 31 December 2010. The increase was mainly caused by the increase in oil and gas condensate prices as well as by increase in volumes of gas condensate sold in the year ended 31 December 2011 as compared to the year ended 31 December 2010. Sales of crude oil included in net sales of crude oil and gas condensate (net of VAT and customs duties), amounted to RUB 189,945 million and RUB 169,193 million in the years ended 31 December 2011 and 2010, respectively.

Gas transportation net sales (net of VAT) increased by RUB 20,364 million, or 22%, to RUB 112,995 million in the year ended 31 December 2011 from RUB 92,631 million in the year ended 31 December 2010. The increase was mainly caused by the increase in gas transportation tariffs and volumes of gas transported for independent gas suppliers in the year ended 31 December 2011 as compared to the year ended 31 December 2010.

Other revenues increased by RUB 31,811 million, or 26%, to RUB 156,238 million in the year ended 31 December 2011 compared to RUB 124,427 million in the year ended 31 December 2010.

Net gain from trading activity decreased by RUB 3,465 million, or 55%, to RUB 2,791 million in the year ended 31 December 2011 in comparison with the year ended 31 December 2010.

Operating expenses

Operating expenses increased by 21% in the year ended 31 December 2011 to RUB 2,942,181 million from RUB 2,440,777 million in the year ended 31 December 2010. Operating expenses as a percentage of sales decreased from 68% in the year ended 31 December 2010 to 63% in the year ended 31 December 2011. The table below presents a breakdown of operating expenses in each year:

	Year ended 31 December	
(RUB million)	**2011**	**2010**
Purchased gas and oil	828,551	605,836
Taxes other than on income	418,134	291,712
Staff costs	374,731	354,501
Transit of gas, oil and refined products	280,770	273,469
Depreciation	275,184	249,693
Repairs and maintenance	189,865	178,296
Cost of goods for resale, including refined products	125,520	54,145
Materials	104,349	96,287
Electricity and heating expenses	70,356	60,961
Transportation services	33,753	27,603
Research and development expenses	29,489	24,300
Rental expenses	26,787	20,827
Heat transmission	26,465	24,469
Insurance expenses	20,384	16,088
Social expenses	18,811	25,635
Processing services	10,935	8,450
Exchange rate differences on operating items	(6,386)	12,876
Other	178,896	166,765
	3,006,594	**2,491,913**
Changes in inventories of finished goods, work in progress and other effects	(64,413)	(51,136)
Total operating expenses	**2,942,181**	**2,440,777**

Purchased gas and oil

Cost of purchased gas and oil increased by 37% to RUB 828,551 million in the year ended 31 December 2011 from RUB 605,836 million in the year ended 31 December 2010. Cost of purchased gas increased by RUB 176,281 million, or 44%, and amounted to RUB 578,006 million in the year ended 31 December 2011. This increase relates mainly to the increase in volumes and prices of gas purchased from third parties within Russian Federation and abroad. The cost of purchased oil included in the cost of purchased gas and oil increased by RUB 46,434 million, or 23%, and amounted to RUB 250,545 million in the year ended 31 December 2011 in comparison with RUB 204,111 million in the year ended 31 December 2010 due to the increase in world oil prices.

Taxes other than on income

Taxes other than on income consist of:

	Year ended 31 December	
(RUB million)	**2011**	**2010**
Natural resources production tax	265,742	175,789
Excise tax	95,752	62,350
Property tax	46,699	42,034
Other taxes	9,941	11,539
Taxes other than on income	**418,134**	**291,712**

The natural resources production tax increased by 51% to RUB 265,742 million in the year ended 31 December 2011 from RUB 175,789 million in the year ended 31 December 2010. The increase mainly resulted from the general increase of natural resources production tax rate for gas from RUB 147 to RUB 237 per thousand cubic meters since 1 January 2011 as well as from the increase of natural resources production tax rate for oil due to the increase in world oil prices.

Staff costs

Staff costs increased by 6% to RUB 374,731 million in the year ended 31 December 2011 from RUB 354,501 million in the year ended 31 December 2010. Staff costs include expenses associated with pension obligations, which amounted to RUB 35,471 million in the year ended 31 December 2011 and RUB 64,990 million in the year ended 31 December 2010. The increase in staff costs (excluding expenses associated with pension obligations) mainly resulted from the salary indexation.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 3% to RUB 280,770 million in the year ended 31 December 2011 from RUB 273,469 million in the year ended 31 December 2010. This increase mainly relates to the increase in costs of transportation through Eastern Europe.

Depreciation

Depreciation increased by 10%, or RUB 25,491 million, to RUB 275,184 million in the year ended 31 December 2011 from RUB 249,693 million in the year ended 31 December 2010. The increase primarily relates to the growth in fixed asset base.

Repairs and maintenance

Cost of repairs and maintenance increased by 6% to RUB 189,865 million in the year ended 31 December 2011 from RUB 178,296 million in the year ended 31 December 2010. This increase was caused by the increase in volume of repair services rendered by third parties to the Group in the year ended 31 December 2011.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased by 132% to RUB 125,520 million in the year ended 31 December 2011 from RUB 54,145 million in the year ended 31 December 2010. The increase in cost of goods for resale, including refined products, mainly results from the increase in volumes of refined products purchased by the Gazprom neft Group and the increase in prices for refined products.

Materials

Cost of materials increased by 8% to RUB 104,349 million in the year ended 31 December 2011 from RUB 96,287 million in the year ended 31 December 2010. The increase mainly resulted from the increase in prices for purchased materials.

Electricity and heating expenses

Electricity and heating expenses increased by 15% to RUB 70,356 million in the year ended 31 December 2011 from RUB 60,961 million in the year ended 31 December 2010. The increase mainly resulted from the increase in consumption of electricity and increase in electricity tariffs.

Exchange rate differences on operating items

Exchange rate differences on operating items in the year ended 31 December 2011 amounted to a net gain of RUB 6,386 million compared to a net loss of RUB 12,876 million in the year ended 31 December 2010. The change was primarily driven by depreciation of RUB against U.S.$ by 6% and EUR by 3% in the year ended 31 December 2011, compared to depreciation of RUB

against U.S.$ by 1% and appreciation of RUB against EUR by 7% in the year ended 31 December 2010.

Other operating expenses

Other operating expenses increased by 7% to RUB 178,896 million in the year ended 31 December 2011 from RUB 166,765 million in the year ended 31 December 2010. Other expenses include bank charges, security services, legal and consulting services, gas storage, charity and finance aid, advertising services.

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

Changes in inventories of finished goods, work in progress and other effects increased by 26% to RUB 64,413 million in the year ended 31 December 2011. The negative amount of changes in inventories of finished goods, work in progress and other effects in the year ended 31 December 2011 relates mainly to the increase in the balances of finished goods as of 31 December 2011 in comparison with those as of 31 December 2010.

Impairment provision and other provisions

In the years ended 31 December 2011 and 2010 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 RUB 42,351 million and RUB 48,448 million for the years ended 31 December 2011 and 2010, respectively.

Operating profit

As a result of the factors discussed above, our operating profit increased by RUB 543,021 million, or 49%, to RUB 1,656,843 million in the year ended 31 December 2011 from RUB 1,113,822 million in the year ended 31 December 2010. Operating profit margin increased from 31% in the year ended 31 December 2010 to 36% in the year ended 31 December 2011.

Finance (expense) income

(RUB million)	Year ended 31 December 2011	2010
Exchange gains	171,570	150,384
Exchange losses	(235,825)	(130,433)
Net exchange (loss) gain	(64,255)	19,951
Interest income	18,685	20,692
Interest expense	(31,998)	(38,714)
Gains on extinguishment of restructured liabilities	233	765
Net finance (expense) income	**(77,335)**	**2,694**

Exchange gains increased by RUB 21,186 million to RUB 171,570 million in the year ended 31 December 2011, compared to RUB 150,384 million in the year ended 31 December 2010. Exchange losses increased by RUB 105,392 million to RUB 235,825 million in the year ended 31 December 2011 from RUB 130,433 million in the year ended 31 December 2010. The net exchange loss of RUB 64,255 million in the year ended 31 December 2011 in comparison with net exchange gain of RUB 19,951 million in the year ended 31 December 2010 is explained by depreciation of RUB against U.S.$ and Euro in the year ended 31 December 2011 in comparison with the prior year.

Interest income decreased by 10% to RUB 18,685 million in the year ended 31 December 2011 from RUB 20,692 million in the year ended 31 December 2010, mainly due to deconsolidation of ZAO Gazenergoprombank in the second quarter 2010.

Interest expense decreased by 17% to RUB 31,998 million in the year ended 31 December 2011 from RUB 38,714 million in the year ended 31 December 2010, mainly due to decrease in average borrowings balance during the year ended 31 December 2011 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 RUB 22,529 million, or 29%, to RUB 99,049 million in the year ended 31 December 2011 compared to RUB 76,520 million in the year ended 31 December 2010. The increase of the Group's share of net income of associated undertakings and jointly controlled entities in the year ended 31 December 2011 relates mainly to the increase of net income of Sakhalin Energy Investment Company Ltd. by RUB 27,878 million due to increase of sales of hydrocarbons, partly offset by change in presentation of OAO NOVATEK and decrease of net income of Gazprombank Group in the year ended 31 December 2011 compared to the year ended 31 December 2010.

Disposal of interest in OAO NOVATEK

In December 2010 the Group sold a portion of the associated undertaking (total carrying value of RUB 84,978 million as of the date sold) representing a 9.4% interest in OAO NOVATEK to a party unrelated to the Group for RUB 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 RUB 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 RUB 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.

Profit tax

Total profit tax expense increased by RUB 61,784 million, or 22%, to RUB 337,494 million in the year ended 31 December 2011 compared to RUB 275,710 million in the year ended 31 December 2010. The effective profit tax rate was 20.1% and 21.6% in the years ended 31 December 2011 and 2010, respectively. The change in the effective tax rate results mainly from the effect of decrease of non-deductible expenses associated with pension obligations and impairment provision in the year ended 31 December 2011 and the effect of one-time non-taxable income related to the disposal of interest in OAO NOVATEK in the year ended 31 December 2010.

Profit for the year attributable to owners of OAO Gazprom

As a result of the factors discussed above, our profit for the year attributable to owners of OAO Gazprom increased by RUB 338,461 million, or 35%, from RUB 968,557 million in the year ended 31 December 2010 to RUB 1,307,018 million in the year ended 31 December 2011.

Profit for the year attributable to non-controlling interest

Profit for the year attributable to non-controlling interest increased by RUB 5,988 million, or 20%, to RUB 35,424 million in the year ended 31 December 2011 compared to RUB 29,436 million in the year ended 31 December 2010. The increase is mainly related to the increase in profit of the Gazprom neft Group in the year ended 31 December 2011 compared to the year ended 31 December 2010.

Liquidity and capital recourses

The following table summarizes our statement of cash flows:

	Year ended 31 December	
(RUB million)	**2011**	**2010**
Net cash provided by operating activities	1,637,450	1,460,116
Net cash used for investing activities	(1,605,245)	(1,050,307)
Net cash provided by (used for) financing activities	31,814	(212,384)

Net cash provided by operating activities

Net cash provided by operating activities increased by RUB 177,334 million, or 12%, and amounted to RUB 1,637,450 million in the year ended 31 December 2011 compared to RUB 1,460,116 million in the year ended 31 December 2010. The increase was primarily due to the growth of our operating profit in the year ended 31 December 2011 in comparison with the year ended 31 December 2010, which was partially offset by negative dynamics of changes in working capital.

Net cash used for investing activities

Net cash used for investing activities increased by RUB 554,938 million, or 53%, to RUB 1,605,245 million in the year ended 31 December 2011 compared to RUB 1,050,307 million in the year ended 31 December 2010. This increase relates mainly to the increase in cash used for capital expenditures in development of fields and transport infrastructure, as well as, acquisition of 50% shares of OAO Betransgaz in the year ended 31 December 2011 and proceeds from disposal of interest in OAO NOVATEK in the year ended 31 December 2010.

Net cash provided by (used for) financing activities

Net cash provided by financing activities amounted to RUB 31,814 million in the year ended 31 December 2011 compared to net cash used for financing activities in the amount of RUB 212,384 million in the year ended 31 December 2010. This change was due to the fact that in the year ended 31 December 2011 cash proceeds from loans obtained were higher than redemption of loans and in the year ended 31 December 2010 cash transferred for repayment of loans was higher than proceeds from loans.

Working capital

The working capital surplus (current assets less current liabilities) was RUB 931,038 million as of 31 December 2011 and RUB 854,634 million as of 31 December 2010. The RUB 76,404 million increase in our working capital in the year ended 31 December 2011 was primarily due to the increase in VAT recoverable, increase in inventories and increase in cash and cash equivalents. The increase was partially offset by the increase in short-term borrowings, current portion of long-term borrowings and increase in accounts payable.

The increase in VAT recoverable by RUB 145,064 million was caused by the completion of constructions under the investment agreement in December 2011.

The increase in inventories by RUB 81,791 million was caused by the growth of prices for gas in pipelines and storages and for refined products.

The increase in cash and cash equivalents by RUB 60,558 million was caused by the increase in cash on Group accounts.

The increase in short-term borrowings and current portion of long-term borrowings by RUB 175,816 million was caused mainly by recognition of long-term borrowings with maturity in the year ended 31 December 2012 in current portion.

The increase in accounts payable by RUB 102,004 million was caused mainly by the 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 2011 and 2010 in nominal RUB terms, amounted to the following:

	Year ended 31 December	
(RUB million)	**2011**[(1)]	**2010**[(1)]
Transport	905,010	503,487
Production of gas	288,409	281,540
Refining	139,670	92,271
Production of crude oil and gas condensate	97,359	91,805
Electric and heat energy generation and sales	85,463	53,929
Distribution	51,270	44,633
Gas storage	24,585	21,016
All other segments	36,343	22,153
Total	**1,628,109**	**1,110,834**

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 RUB 517,275 million, or 47%, from RUB 1,110,834 million in the year ended 31 December 2010 to RUB 1,628,109 million in the year ended 31 December 2011.

The increase of our capital expenditures in the Transport segment was primarily due to increased capital expenditures on the construction of major transportation projects, including Pipeline Bovanenkovo-Ukhta, Pochinki-Gryazovets, Pipeline Ukhta-Torzhok, and also Sakhalin-Khabarovsk-Vladivostok and Nord Stream. The increase of our capital expenditures in the Refining segment was primarily due to increased capital expenditures of Gazprom neft Group and OOO Novourengoysky GCC. The increase of our capital expenditures in the Electric and heat energy generation and sales segment was primarily due to increased capital expenditures on the OOO Gazprom investproekt construction of Adlerskaya TPS and increased capital expenditures of OAO Mosenergo.

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) increased by RUB 163,948 million, or 19%, from RUB 870,993 million as of 31 December 2010 to RUB 1,034,941 million as of 31 December 2011. This growth resulted from raising of new long-term and short-term loans and borrowings and depreciation of RUB against USD and Euro.

(RUB million)	As of 31 December	
	2011	**2010**
Long-term borrowings		
Fixed interest rate borrowings	1,191,984	1,065,435
Weighted average interest rates for fixed rate borrowings	7.38%	7.66%
Variable interest rate borrowings	283,252	186,531
Weighted average interest rates for variable rate borrowings	2.91%	3.01%
Total long-term borrowings	**1,475,236**	**1,251,966**
RUB denominated borrowings	203,742	129,071
Foreign currency denominated borrowings	1,271,494	1,122,895
Total long-term borrowings	**1,475,236**	**1,251,966**
Less: current portion of long-term borrowings	(301,942)	(127,571)
Total long-term debt obligations	**1,173,294**	**1,124,395**
Short-term borrowings		
Fixed interest rate borrowings	54,098	21,375
Weighted average interest rates for fixed rate borrowings	5.11%	4.81%
Variable interest rate borrowings	10,777	41,899
Weighted average interest rates for variable rate borrowings	6.25%	3.11%
Total short-term borrowings	**64,875**	**63,274**
RUB denominated borrowings	28,465	16,111
Foreign currency denominated borrowings	36,410	47,163
Total short-term borrowings	**64,875**	**63,274**
Plus: current portion of long-term borrowings	301,942	127,571
Short-term promissory notes	51	207
Total short-term debt obligations	**366,868**	**191,052**
Total borrowings	**1,540,162**	**1,315,447**

The following table shows our actual foreign currency denominated long-term borrowings (expressed in millions of U.S.$) as of 31 December 2011 and 2010 as well as the same balances expressed in RUB:

	As of 31 December	
	2011	**2010**
U.S.$ denominated (expressed in millions of U.S.$)	28,708	26,140
Euro denominated (expressed in millions of U.S.$) [(1)]	10,498	9,849
Other currencies denominated (expressed in millions of U.S.$)	286	855
Total long-term foreign currency denominated borrowings expressed in millions of U.S.$	**39,492**	**36,844**
Total long-term foreign currency denominated borrowings expressed in millions of RUB [(2)]	**1,271,494**	**1,122,895**

Notes:

(1) Converted at Euro to U.S.$ exchange rate of 1.29 and 1.32 as of 31 December 2011 and 2010, 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 2011 and 2010, borrowings of RUB 18,838 million and RUB 22,747 million, respectively, inclusive of current

portion of long-term borrowings, were secured by revenues from export supplies of gas to Western Europe.

As of 31 December 2011 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoe oil and gas field with the group of international financial institutions with UniCredit Bank AG acting as a bank agent, ordinary shares of OAO Severneftegazprom with the pledge value of RUB 16,968 million and fixed assets with the pledge value of RUB 26,666 million were pledged to ING Bank N.V. (London branch) up to the date of full redemption of the liabilities on this agreement. Management of the Group does not expect any substantial consequences to occur which relate to respective pledge agreement.

The following table shows the schedule of repayments for long-term borrowings (excluding long-term promissory notes) as of 31 December 2011 and 2010:

(RUB million)	As of 31 December	
	2011	**2010**
Between one and two years	264,547	166,853
Between two and five years	586,574	551,310
After five years	322,173	406,232
Total	**1,173,294**	**1,124,395**

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 ordinary registered shares with a nominal value of RR 5 each. As of 31 December 2011 there were 45,741 registered shareholders of OAO Gazprom, including 10 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 tradable 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 ordinary shares underlying ADR may not exceed 35% of Gazprom's charter capital.

The following table summarises shareholder structure of OAO Gazprom as of the last working days of 2011 and 2010:

	As of 31 December	
	2011	**2010**
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	28.350 %	27.570%
Other entities	21.648 %	22.428%

In 2011 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 (10.740% and 0.889%, respectively), the state controls 50.002%.

The share of ADR holders in OAO Gazprom equity increased to 28.35% as of 31 December 2011 (as of 31 December 2010 – 27.57%).

Based on the 2011 results, the quotation of OAO Gazprom shares decreased by 11% on the Russian Stock Exchange MICEX and ADR for OAO Gazprom ordinary shares decreased by 16% on LSE.

Changes in the price of OAO Gazprom shares and ADRs and trading volumes on major trading floors in 2011 and 2010 are presented in the table below.

	As of 31 December		Changes
	2011	**2010**	
MICEX			
Closing price for share, RR			
Year end	171.37	193.62	-11%
Minimum	143.03	142.84	0%
Maximum	243.93	197.3	24%
Average daily trading volume, mln. shares	74.58	56.4	32%
Average daily trading volume, RR bln.	14.35	9.6	49%

	As of 31 December 2011	As of 31 December 2010	Changes
LSE			
Closing price for ADR[1], U.S.$ dollars			
Year end	10.66	12.63	-16%
Minimum	8.74	9.03	-3%
Maximum	17.40	13.32	31%
Average daily trading volume, mln. shares	43.20	27.46	58%
Average daily trading volume, mln. U.S.$ dollars	569.30	308.42	85%

Note:

(1) Before April 2011 onwards 1 ADR provided a right for 4 ordinary shares of OAO Gazprom. Since April 2011 onwards 1 ADR provides a right for 2 ordinary shares of OAO Gazprom. The 2010 comparatives have been restated accordingly.

The average daily trading volume on MICEX in 2011 was RR 14.35 billion or approximately 26% of total average daily volume of the MICEX's secondary trades.

At the end of 2011 the market capitalization of OAO Gazprom was U.S.$122.6 billion. In 2011 the average market capitalization of OAO Gazprom increased by 18 % and totaled U.S.$155.2 billion as compared with 2010.

Dividends paid in 2011 based on OAO Gazprom performance results for 2010 are as follows:

	As of 31 December 2011			
	Accrued, RR thousand	**Paid, RR. thousand**	**Unpaid dividends, RR thousand[1]**	**Proportion of unpaid and accrued dividends**
Total	91,143,024	90,983,996	159,028	0.17%
including dividends on shares:				
owned by the state	34,974,450	34,974,450	-	-
owned by state-controlled legal entities: OAO Rosneftegaz and OAO Rosgazifikatsiya	10,598,698	10,598,698	-	-
owned by individuals and legal entities (apart from state-controlled)	45,564,890	45,410,849	154,041	0.34%
owned by undefined holders	4,987	-	4,987	100%

Note:

(1) Dividends are not paid to 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 shall be paid upon establishment of the shareholders’ rights for securities.

MANAGEMENT STRUCTURE OF OAO GAZPROM

The rights of OAO Gazprom shareholders and regulation of OAO Gazprom management activity are determined by and carried out in accordance with the 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 30 December 2011:

Name	Year of Birth	Position
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
Andrey I. Akimov	1953	Chairman of OAO Gazprombank's Management Committee (open joint stock company)
Alexander G. Ananenkov	1952	Deputy Chairman of OAO Gazprom's Management Committee
Farit R. Gazizullin	1946	Member of OAO Gazprom's Board of Directors
Elena E. Karpel	1944	Head of the Economic Appraisal and Pricing Department of OAO Gazprom
Timur A. Kulibayev	1966	Chairman of the Management Board of AO "National Welfare Fund "Samruk-Kazyna"
Vladimir A. Mau	1959	Rector of the Russian Presidential Academy of National Economy and Public Administration
Valery A. Musin	1939	Head of Department for Civil Process of Legal Faculty, St. Petersburg State University
Mikhail L. Sereda	1970	Deputy Chairman of OAO Gazprom's Management Committee and Head of Administration of OAO Gazprom's Management Committee
Igor H. Yusufov	1956	Member of OAO Gazprom's Board of Directors

Changes in the Board of Directors in 2011:

Name	Changes
Andrey I. Akimov	elected on 30 June 2011
Timur A. Kulibayev	elected on 30 June 2011

Name	Changes
Vladimir A. Mau	elected on 30 June 2011
Burckhard Bergmann	termination of powers on 30 June 2011
Elvira S. Nabiullina	termination of powers on 30 June 2011
Sergey I. Shmatko	termination of powers on 30 June 2011

In 2011, 101 sessions of the Board of Directors of OAO Gazprom (12 – in person, 89 - vote in absentia) were held, 214 decisions were made (54- in person, 160 – vote in absentia).

Information on members of the Management Committee as of 30 December 2011:

Name	Year of Birth	Position
Alexey B. Miller	1962	Chairman of 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
Sergei 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
Victor 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 and General Director of OOO Gazprom mezhregiongaz
Igor Y. Fedorov	1965	General Director of OOO Gazprom komplektatsiya
Vsevolod V. Cherepanov	1966	Head of the Gas, Gas Condensate and Oil Production Department

The term of office of Alexander G. Annanenkov, Deputy Chairman of the Management Committee, terminated in line with the decision of the Board of Directors dated 19 December 2006.

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 approximately RUB 1,795 million and RUB 1,561 million for the years ended 31 December 2011 and 2010, respectively. Such amounts include personal income tax and

insurance contributions to non-budget funds. 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 the 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 provides 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 (failure 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 2011 is US $1.57 million.

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

As of 31 December 2011 the total share of the members of the Board of Directors and the Management Committee in OAO Gazprom equity was 0.01243823%.

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 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 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.

In particular, in the framework of corporate governance improvement process internal stakeholders of OAO Gazprom have been developing, discussing and coordinating OAO Gazprom's Code of Corporate Ethics. The work is aimed at identifying and describing key ethical rules that should be followed by company employees, members of the Board of Directors, Management Committee and Audit Commission. The Code of Corporate Ethics shall address, inter alia, such issues as conflict of interests, accounting and reporting system, confidentiality and insider information. The draft document is expected to be submitted for consideration of the Board of Directors in 2012.

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 standing 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 Commission at the General Meeting of Shareholders on 30 June 2011:

Name	Year of Birth	Position as of 31 December 2011
Mariya G. Tikhonova	1980	Director of Department for Economic Relations and Property relations in Fuel and Energy Industry of the Russian Ministry of Energy, Chairman of the Audit Commission
Dmitry A. Arkhipov	1975	First Deputy Head of Management Committee Administration, Head of Internal Audit Department
Vadim K. Bikulov	1957	Head of Division of the Internal Audit Deprtment of OAO Gazprom's Management Committee Administration
Alexei B. Mironov	1976	Head of Division for Innovative Corporate Technology and Industrial Complex Entities of the Federal Agency for State Property Management
Lidya V. Morozova	1965	Head of Income and Expenses Accounting and Reporting Division of OAO Gazprom's Accounting Department
Anna B. Nesterova	1982	Deputy Director of a Department in the Russian Ministry for Economic Development

Name	Year of Birth	Position as of 31 December 2011
Yury S. Nosov	1963	Deputy Head of Management Committee Administration, Head of OAO Gazprom's Affairs Department
Kostantin V. Pesotsky	1977	Deputy Director of Moscow Government Property Department
Alexander S. Yugov	1981	Head of Division for Infrastructure and Military Industrial Complex Entities 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 2011 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 Federations 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 2011 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 OAO Gazprom's Board of Directors dated 28 October 2008 No1292 the functional and centralized model of internal audit is being created in Gazprom. The model allows to enhance control over business activities of OAO Gazprom subsidiaries and apply the unified internal audit methodology within the Group.

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

KEY RISK FACTORS

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.

To ensure the sustainable development and improved quality of decision-making process in OAO Gazprom the Company is taking measures to improve the corporate risk management system. In 2011 the Chairman of OAO Gazprom Management Board approved the updated action plan aimed at developing the corporate risk management system of OAO Gazprom. In 2012 the Company plans to develop the unified approaches to arranging the risk management system of Gazprom Group including organizational structure, unified classifier of key risks and methodology and regulation base (policy and risk management rules of procedure). By the end of 2013 the Company plans to create an interaction scheme under which OAO Gazprom will interact with its subsidiary and associated undertakings on risk management.

Strategic and country-specific risks

Risks relating to the global credit crunch developments

Description	Management / influence on the risk level
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.	Gazprom pursues the policy that ensures the financial stability, improvement of financial standing and optimisation of debt portfolio that will enable to respond adequately if macroeconomic situation worsens.

Risks relating to operations in the European gas market

Description	Management / influence on the risk level
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 partial refusal from a long-term contract system. Liberalization policy also provides for separation of gas production assets from transportation networks within EU. Lack of exemption from the above provision means that the Group is not able to own or exercise control over transport business that will impede the implementation of the investments projects in EU. In addition, the EU energy sector strategy is focused on the diversification of sources of energy resources supplies, development	Gazprom is maintaining the system of long-term contracts as the basis of its business which maximises its returns and provides guaranteed supplies to its customers. The Group is actively negotiating with its customers on finding mutually beneficial solutions depending on the market situation development. 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 key new markets.

Description	Management / influence on the risk level
of alternative energy sources. Disparity of prices under long-term contracts and gas prices at spot markets represent a certain risk for Gazprom.	

Risks of state regulation in the sector

Description	Management / influence on the risk level
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.	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 No1205 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 considering the price of alternative fuels sources.

Risks relating to natural gas transit

Description	Management / influence on the risk level
Major volumes of natural gas sold in Europe transit FSU territories, in particular Ukraine, Belarus and Moldova. Unstable political and social situation in transit countries may result in violations of contracted transit arrangements and 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	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 transit services; • is implementing gas transportation projects aimed at diversifying export routes (the first thread of Nord Stream gas pipeline

Description	Management / influence on the risk level
the wrong destinations and in early 2009 Ukraine suspended Russian gas transit via its transportation system.	was put into operation; works under South Stream project are under way); • is expanding the use of UGSF abroad; • is developing the LNG trading.

Risks associated with entering new regions and new markets

Description	Management / influence on the risk level
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 FSU countries, South America, South-East Asia, Africa and Middle East. Potential for entering gas markets of Asia, Africa, South and North America is being considered.	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 and provide information and analytical support to managing the international projects. As of 31 December 2011 twelve representative offices of OAO Gazprom are registered abroad, including Algeria, Brazil, Belarus, Iran, Qatar, Kazakstan, Kyrgyzstan, the People's Republic of China, Latvia, Moldova, Turkmenia and Ukraine.

Risks associated with the development of gas production from unconventional sources

Description	Management / influence on the risk level
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 markets in Europe and Northeast Asia and consequently, increased competition in these markets. Projects on gas production from unconventional sources being implemented in various countries, in particular in China, may decrease the demand in imported gas in these countries.	To support competitiveness of natural gas production and supply 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 unconventional gas reserves and Gazprom develops technology of their development. 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 and it's also associated with significant environmental risks.

Geographical and climatic risks

Description	Management / influence on the risk level
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 and it is characterized by challenging environmental conditions and high costs. The fields in the Yamal Peninsula and resources of the Russian continental shelf will be developed in even more harsh climates. Gazprom's gas sales and revenues may be significantly affected by climatic conditions of short-term nature. 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.	The Group successfully implements the efficient technological processes developed for harsh climate conditions. The Group also develops and implements programs of improving efficiency of gas production and transportation, including efficiency of gas transportation network. The Group also actively participates in the development and implementation of governmental programs aimed at improving the use of energy resources in Russia.

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	Management / influence on the risk level
Gazprom is involved in international transactions, it has foreign currency denominated assets and liabilities and 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 undertook measures to increase control over transactions denominated in foreign currency. Russian tax legislation is subject to frequent changes. Each year, laws are approved to amend the Russian Tax Code and modify procedures to calculate and settle specific taxes. Currently, there is a high risk of increase in MET rate. Considering the responsibility of Gazprom for reliable gas supply and ensuring construction, operation,	The Group monitors changes in currency and tax legislation and makes every effort to comply with the requirements following the best law application practice and is also focused on mutually beneficial cooperation with the government so as to ensure the energy security of the country and stable development of the company. Building the effective tax risk management system in Gazprom Group as a whole is one of the key objectives for medium-term period. Centralised database in place and permanent monitoring of crucial risks in the Group's entities will enable to identify them timely at an early stage and minimize their adverse impact in advance. In 2012 Gazprom Group established a consolidated group of taxpayers where OAO Gazprom acts as a responsible participant, in order to minimize tax risks

Description	Management / influence on the risk level
reconstruction and development of UGSS facilities, further increase in fiscal burden may have a significant impact not only on income and building the sources of capital expenditure financing but in prospect, on reliability of gas supplies. In addition, changes in regulatory framework related to pricing for tax purposes may result in additional risks associated with application of internal settlement prices between OAO Gazprom and Gazprom Group entities.	associated with transfer pricing. To restrict further increase in MET rate OAO Gazprom continues to cooperate with governmental agencies to maintain the balance between fiscal burden and necessity of significant investments in the nearest future to ensure reliable gas supplies. In addition, OAO Gazprom is preparing economically justified proposals to differentiate MET depending on field development conditions in order to commission complex fields in hard-to-access regions.

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

Description	Management / influence on the risk level
Operations of the Group relating to export of hydrocarbons are subject to customs regulations. Some 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, applying exchange rates when calculating customs value and its adjusting if prices for the natural gas supplied to counterparties retroactively change. A number of disputes were challenged by OAO Gazprom / OOO Gazprom Export in court. The actions of customs agencies were invalidated. However, current procedure for paying export customs duty on exported natural gas prior to its transportation based on approximate data about the supplies details is complicated to determine the export customs duty payable due to potential adjusting the custom value of natural gas by customs authorities.	The Group makes every effort to comply with the customs legislation requirements, control and propose the respective amendments to the current customs clearance considering the gas industry interests; interacts with regulators regarding disputable issues, including the Russian Government. As a result of the work performed the issue related to documenting the actually dispatched amount of natural gas was regulated in the effective Customs Union Code. The Federal Law "On Customs Regulation in the Russian Federation" of 27 November 2010 took into account the proposals of OAO Gazprom on guaranteeing the customs duties payment, customs duties payment procedure when declaring natural gas over the period exceeding one calendar month. The legislation provided for a zero rate of interest accrued on customs duties when putting natural gas that was temporarily taken out to foreign gas storages under the customs export procedure. Meanwhile, any uncertainties related to adjusting the customs value of natural gas by customs authorities prior to its supplies should be eliminated. Therefore, it's necessary to continue activities jointly with federal government bodies on amending the Federal law "On Customs Regulation in the Russian Federation" of 27 November 2010 to improve the customs duty payment procedure.

Financial risks

Foreign exchange risks, interest rate and inflation risks

Description	Management / influence on the risk level
Gazprom's sales revenue is largely denominated in US dollars and Euro, while most of our costs are denominated in rubles. 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.	OAO Gazprom is developing a methodology and contractual base for using hedging instruments in accordance with the requirements of the Russian legislation. Regulation on tax accounting policies of OAO Gazporm for 2011 includes provisions related to tax accounting for transactions with financial instruments of forward-type deals (FIFD) including hedging currency and other risks. 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.

Credit and liquidity risks

Description	Management / influence on the risk level
Untimely or partial fulfillment by some counterparties of their contractual obligations to the Company may have an adverse impact on Gazprom operations. Up to date, the receivables from a part of customers from Russia and FSU countries for natural gas previously supplied are not settled in full, and Gazprom does not have guarantees that the above-noted receivables will be fully paid in cash. Recently, the situation with payments for the gas supplied improved significantly. 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. In addition, the customers' failure to perform their payment obligations for the gas supplied may result in a risk of bringing OAO Gazprom to administrative responsibility by the Russian currency	The Group pursues a transparent policy requiring fulfillment of contractual obligations regarding payments for supplies and non-payers. 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 assessment of the counterparties' creditworthiness and Monte Carlo modelling 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 changes in the internal credit ratings of these counterparties on a daily basis and if they significantly decline, the respective contracts

Description	Management / influence on the risk level
regulation authorities for breaching currency legislation.	may be amended to mitigate non-payment risks. Gazprom Group cooperates with credit institutions based on credit risk limits established on a regular basis.

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

Description	Management / influence on the risk level
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 (oil products, coal, gas). Therefore, risks of failure to receive the planned revenue (export price of commercial gas) or adverse change in the portfolio cost due to market factors effects arise. Price risks associated with fluctuations 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.	Price and volume risks represent key risks for OAO Gazprom. The Group is taking measures to mitigate these risks, namely: • As the pricing policy that is pursued by the state and aimed at transferring from the regulating the wholesale gas prices to the regulating the gas transportation tariffs improves, a share in the revenue from Gazprom supplies at the domestic market will increase mitigating the effects of export sales risks. • Gazprom is entering new markets, including Asian-Pacific Region, LNG global market that will enable to mitigate the volume risk and, partially price risk. • For the purposes of internal optimization 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. • Earnings at Risk (EaR) assessment that measures the maximum potential decrease in revenue on a designated planning horizon with high probability level and performed on a regular basis is the basic method applied for quantitative assessment of price risks associated with gas sales to far abroad countries. For these purposes the probable scenarios of the portfolio are modelled considering the current

Description	Management / influence on the risk level
	contractual conditions and history of changes in risk factors related to prices, currency and volumes. In addition, predominantly diverging trends in movements of prices for oil, oil products and Russian rouble exchange rate partially provide for natural hedging of Gazprom currency revenue denominated in roubles.

Operating risks

Risks relating to non-extension of subsoil licenses

Description	Management / influence on the risk level
The Group operates 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.	Gazprom satisfies license requirements and takes all required steps to minimize the probability of license withdrawal, suspension or amendment.

Cost escalation risks

Description	Management / influence on the risk level
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.	Gazprom organizes tenders to select suppliers and directly works with its suppliers. In 2011 Gazprom Group successfully performed actions related to OAO Gazprom cash flow management, Gazprom Group entities' debt portfolio management and the Group's operations transparency in accordance with the plan of actions aimed at improving the efficiency of some lines of Gazprom Group activities. In 2012 Gazprom Group will continue its activities in this sphere.

Risks relating to exploitation of operating facilities

Description	Management / influence on the risk level
OAO Gazprom upstream, midstream and downstream operations are exposed to a wide range of technological, technical and natural and climatic character risks and	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

Description	Management / influence on the risk level
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.	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 sustainable operations of OAO Gazprom and its subsidiaries and minimize the financial resources directed to 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 including property insurance program (including off-shore facilities), insurance against production breaks at gas processing plants, insurance of hazardous facility operator's liability.

Risks associated with assessment of hydrocarbon reserves

Description	Management / influence on the risk level
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. 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.	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 is implementing the procedures for reserves assessment in accordance with international standards PRMS engaging an independent appraiser. The accuracy of reserves assessment is based on a unique experience accumulated by Gazprom over many years of activities in this sphere.

Risks associated with vertical integration and diversification of operations

Description	Management / influence on the risk level
Over recent five years Gazprom significantly expanded oil business through acquisition of OAO Gazprom neft, joined electricity generation and sales business. The Company also expands its activities on	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.

Description	Management / influence on the risk level
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.	The Group also performs actions to bring the organizational structures of its subsidiaries engaged in gas production, transportation and processing in 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. Gazprom has successfully developed, approved and is implementing the strategies in electric power and oil businesses aimed at increasing Gazprom's market value and establishing itself as a leader in electric power and oil businesses. In accordance with the strategy on information system development the Group takes actions to create a unified information space. 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 management system and computerized consolidated accounting reporting system of OAO Gazprom are actively implementing. The above-noted work will enable to improve the transparency of corporate reporting preparation from the primary data sources to key performance indicators and risks.

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

Description	Management / influence on the risk level
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. 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. Intensive development of town-planning activities in the Russian	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

Description	Management / influence on the risk level
Federation regions identified the necessity to minimize the risk of violating the protected zones of UGSS and power supply network.	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. Gazprom Group is extensively working over prevention and elimination of the protected zones violations by preparing the maps (plans) of protective zones and including the information about these protected zones in the State Immovable Property Cadastre.

Environmental risks

Description	Management / influence on the risk level
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.	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. Environmental Management System of OAO Gasprom was successfully certified for compliance with ISO 14001:2004. Gazprom Group continues improving its Environmental Management System. OAO Gasprom performs predesigned environmental researches, assessment of environmental effects of the planned operations, environmental assessments of projects. At all stages of construction, operation and decommissioning of assets the company exercises a 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. 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

Description	Management / influence on the risk level
	the damage incurred to environment and minimizes a risk of adverse financial consequences 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 2011:

Name	Location
Branch Avtopredpriyatie of OAO Gazprom	Moscow
Branch Corporate Premises Management of OAO Gazprom	Moscow
Branch Bogorodskoye Reception House	Moscow Region
Branch Souyz Holiday Hotel	Moscow Region
Branch Morozovka Holiday Hotel	Moscow Region
Branch Corporate Security Services of OAO Gazprom	Moscow
Central Interregional Security Division of OAO Gazprom	Moscow Region
North-Western Interregional Security Division of OAO Gazprom	St. Petersburg
Southern Interregional Security Division of OAO Gazprom	Krasnodar
Volga Interregional Security Division of OAO Gazprom	Samara
North Urals Interregional Security Division of OAO Gazprom	Novy Urengoi
South Urals Interregional Security Division of OAO Gazprom	Yekaterinburg
Siberian Interregional Security Division of OAO Gazprom	Tomsk
Far Eastern Interregional Security Division of OAO Gazprom	Khabarovsk
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 the Federative Republic of Brazil	Rio de Janeiro
Representation in Qatar	Doha
Representation in Turkmenistan	Ashgabat
Representation in Republic of Latvia	Riga
Representation in the Republic of Kazakhstan	Astana
Representation in Republic of Moldova	Kishinev
Representation in the Kyrgyz Republic	Bishkek
Representation in the Republic of Belarus	Minsk

CONVERSION TABLE

Metric measure	U.S. measure
1 bcm of natural gas	35.316 billion cubic feet (bcf) of natural gas
1 bcf of natural gas	0.028 bcm of natural gas
1 metric ton of crude oil	1,000 kilos, 2,204.6 pounds
	7.33 barrels of crude oil
	8.18 barrels of gas condensate
	1.43 ton of fuel equivalent
1 barrel of crude oil	0.1364 metric ton of crude oil
1 barrel of gas condensate	0.1222 metric ton of gas condensate
1 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	Before April 2011 onwards 1 ADR provided a right for four ordinary shares of OAO Gazprom. Since April 2011 onwards 1 ADR provides a right for two ordinary shares of OAO Gazprom
APG	Associated petroleum gas
APR	Asia-Pacific Region, which includes inland countries of Asia, America and Pacific Ocean Area
Associated undertaking	Associated undertaking is a company over which the Gazprom Group has significant influence – significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies
Baltic countries	Latvia, Lithuania, Estonia
bcm	Billion cubic meters
boe	Barrel of oil equivalent
bboe	Billion barrels of oil equivalent
Category ABC_1 hydrocarbon reserves	Explored reserves, according to the Russian reserves system. Gas reserves in categories ABC_1 are considered to be fully extractable. For reserves of crude oil and gas condensate, a predicted coefficient of extraction is calculated based on geological and technical factors.
Category C_2 hydrocarbon reserves	Category C_2 represents reserves of a deposit the crude oil or gas content of which is calculated on the basis of geological and geophysical data within the known gas areas. Category C_2 reserves are preliminary estimated reserves and represent a basis for exploration work at a particular field.
Central Asia	Kazakstan, Kyrgyzstan, Tadjikistan, Turkmenistan, Uzbekistan
Central Europe	Bulgaria, Bosnia-Herzegovina, Hungary, Macedonia, Poland, Romania, Serbia, Montenegro, Slovakia, Slovenia, Croatia, Czech Republic
cf	Cubic feet
CIS	Commonwealth of independent states – former Soviet Union republics except for Latvia, Lithuania and Estonia
cm	Cubic meter of natural gas measured under pressure of 1 bar at the temperature of 20°C
CS	Compressor station
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Europe	For the purposes of the Report includes Western and Central Europe
Europe and other countries	Countries other than Russia and the FSU countries.
Far abroad	Foreign countries, except for 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

Terms and abbreviations	Description
G&G	Geological exploration works
Gazprom Group, Group, Gazprom	An aggregate of entities which includes OAO Gazprom (Head Office) 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

Terms and abbreviations	Description
	Ireland, Iceland, Spain, Italy, Cyprus, Liechtenstein, Luxembourg, Malta, Monaco, The Netherlands, Norway, Portugal, San Marino, the United Kingdom and Republic of Ireland, Turkey, Finland, France, Switzerland, Sweden
YaNAO	Yamal-Nenets Autonomous District

ADDRESSES AND CONTACTS

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Abbreviated name: OAO Gazprom

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