Gazprom Sustainability Report

2010—2011

GAZPROM

Gazprom Sustainability Report 2010—2011

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Message from Alexey Miller, OAO Gazprom Management Committee Chairman

For the second time, OAO Gazprom is presenting its Sustainability Report. Considerable expansion of coverage is the main difference from our first report: now it covers not only the gas business of the *Gazprom Group*, but also operations in the field of oil production, refining and sales as well as the production of thermal and electrical power.

The two years that have passed since our first Report were full of events and achievements that reflect progressive movement toward our strategic goal – making *Gazprom* a leader among global energy companies. Industry leadership will ensure sustainable development in the long run that will meet the expectations of all stakeholders.

To provide reliable access to vital energy resources for our domestic and foreign customers, we focused on actively developing our resource base: a faster pace in developing Yamal resources, and further infrastructure development at the Sakhalin-3 fields. Commissioning Prirazlomnaya oil rig marked the beginning of practical development of oil reserves in the Arctic shelf. 2011 witnessed record growth in reserves thanks to geological exploration work – now this growth considerably exceeds our annual production, which is a good example of our efforts to increase the stability of our business.

In the reporting period, *Gazprom* made a number of important steps on the way to diversifying raw material sources and end products. The Sakhalin-2 LNG facility reached full capacity, the first coal bed methane production facility in Russia was launched in Kuzbass.

The *Group* companies increased hydrocarbon refining, raised the quality of automobile fuel, and expanded the range of lubricants.

Delivery of gas to end consumers – the most important of all stakeholders – is our continuing priority. Nord Stream, a unique export pipeline that directly connects Russian and European gas transmission systems, was launched over the reporting period. This pipeline considerably increased the availability of natural gas for households and corporate customers in Central and Western Europe and significantly enhanced European energy security. The success of Nord Stream will support the construction of South Stream, another export pipeline that will go through the Black Sea.

Industry leadership means innovation, and *Gazprom* is doing its best to comply with this requirement. We adopted a new Innovative Development Program that will help optimize our organizational and financial efforts to support our operations with cutting-edge equipment and technologies. For example, we employ innovative underwater production technologies on Sakhalin. Innovation in the field of seismic safety helped us lay the gas-main pipeline to Petropavlovsk-Kamchatsky. The coal bed methane production project in Kuzbass alone resulted in more than 30 patents for proprietary technologies developed by *Gazprom* talents.

The reporting period was marked by important events not only in the field of hydrocarbon production and transportation. *Gazprom* proved that it is able to achieve considerable success in the field of thermal and electric power generation: in 2011 alone, we constructed more CHP facilities in Russia than all our industry predecessors in the period from 1992 to 2008.

Achieving high performance results, *Gazprom* seeks to pursue a balanced regional policy, enhance the business and social environments in the regions of our operation, and contribute to improving human well-being. Developing the gas distribution network and expanding gas-engine fuel markets are among key projects in this field designed to provide the end consumer with readily accessible and environmentally friendly fuel.

Environmental conservation, reducing negative environmental effects, and energy efficiency are among

our continuing top priorities. The corporate Environmental Management System that was awarded international certification in 2011 allows for the effective management of measures to protect nature and continuous improvement of environmental performance.

Gazprom management is well aware that the *Company* will never succeed without a consolidated professional team. Therefore, we are involved in continuous recruitment, training and retention of human resources to develop employee potential. To say the least, *Gazprom* employees are our golden pool, and one of the key factors promoting successful achievement of the *Company's* global goals.

Gazprom has always been a leader in natural gas supply, and this is our core business. I want to emphasize: we are convinced that the *Company* will retain and strengthen its position despite rising competition. We estimate that Russian gas will be in high demand on European markets over the long term. To retain its competitiveness, we have sufficient strength to be able to afford a flexible approach to consumer demands, including pricing.

Our future stability will rest on the resource base of Yamal, the Far East and Eastern Siberia, which allows not only to compensate for natural reduction in gas production at old fields but to establish up new gas production centers capable of satisfying the demand from the Russian East and exporting supplies to the Asia-Pacific Region.

To achieve its business goals, *Gazprom* employs the entire range of technologies available in the industry ensuring their optimization to increase the efficiency of resource management. For example, LNG, a component of our operations, is developing along the lines of main gas flows.

We think that now and in the foreseeable future, conventional gas will remain the optimal energy source ensuring the reliable satisfaction of the needs of Russian and foreign consumers. Nevertheless, we are also interested in unconventional gas resources, such as shale gas and coal bed methane. We are carefully studying the potential of the shale gas market. We plan to start producing methane from biological sources and have taken a number of practical steps on this path. Today, however, our priority in the field of unconventional resources is coal bed methane since the conditions for production are more favorable in Russia, and developing this resource will helps solve a number of problems in the coal mining industry.

Looking ahead, we traditionally set ambitious goals and are fully aware that *Gazprom Group's* commitment to sustainable development is an essential component in retaining our competitive advantages and achieving leadership on the world energy markets.

Alexey Miller
Management Committee
Chairman


Газпром

2. About Report

2.1. Sustainability reporting principles and reporting procedures

The Sustainability Report of OAO Gazprom[1] and its subsidiaries ("Report") is issued every two years. This is the second Sustainability Report, and covers the period of 2010–2011. The previous Report covering the years 2008–2009 was published in 2010.

This Report is prepared in accordance with the Global Reporting Initiative Guidelines, version 3.1, and the oil & gas and electric utilities sector supplements. The Report complies with the GRI application level B (self-declaration).

Principles to define Report content

Materiality

To define material sections of the Report, we analyzed:

- gas industry development issues in Russia and around the world;
- *Gazprom Group's* cooperation with stakeholders in the course of regular business processes along the main functional lines of operation;
- *Group* stakeholder expectations and issues raised in the mass media;
- non-financial reporting by major oil & gas and energy companies in Russia and around the world.

This analysis identified a range of issues that with a high degree of probability may be deemed material for *Gazprom Group* stakeholders. The *Company* describes material issues in this Report.

Stakeholder inclusiveness

In the course of preparing the Report, the *Company* analyzed the general interests and expectations of *Gazprom Group* stakeholders. For details of interaction with key stakeholder groups, see section 4.2, titled Sustainability approach.

Completeness

Every effort was made to ensure that all meaningful information that could affect the understanding of the *Gazprom Group's* sustainability performance is included in this Report.

2.2. Report Boundary

The Report Boundary includes the *Group* companies that exert significant influence on the economic, social and natural environments in the regions of operation and are involved in the production, transmission, underground storage, processing and sale of natural gas as well as in the production, refining and sale of oil and oil products, and the production and distribution of thermal and electric power.

As compared to the previous report, this 2010/2011 Report expands reporting on various lines of operation and the list of subsidiaries included in the Report Boundary. For the first time, the Report represents the *Group* companies' performance in the oil and electric power segments, which is more consistent with the scale of diversification of *Gazprom* operations.

The Companies to be included in the Report Boundary were determined based on:

- control by OAO Gazprom
- significant influence on *Gazprom Group's* operating, social and environmental performance:
  - aggregate share in hydrocarbon production and processing;
  - aggregate share in total headcount;
  - share in gross environmental impact;
- significant role in implementing *Gazprom* prospective and strategically important projects.

1 Hereinafter, the names OAO Gazprom and the *Company* refer to the *Gazprom Group* parent company Open Joint Stock Company Gazprom (excluding representative offices and service branches). The names *Gazprom, Gazprom Group,* the *Group* refer to the group of companies comprising OAO Gazprom and its subsidiaries. For the purposes of this Report, lists of *Group* subsidiaries and affiliated companies are based on the principles for consolidating OAO Gazprom accounts prepared in accordance with Russian law.

Unless stated otherwise, the information and facts provided in the Report refer to OAO Gazprom (excluding representative offices and service branches) and the following wholly owned subsidiaries and corporate groups:

OOO Gazprom Dobycha Astrakhan
OOO Gazprom Dobycha Krasnodar
OOO Gazprom Dobycha Nadym
OOO Gazprom Dobycha Noyabrsk
OOO Gazprom Dobycha Orenburg
OOO Gazprom Dobycha Urengoy
OOO Gazprom Dobycha Yamburg
OOO Gazprom Transgaz Volgograd
OOO Gazprom Transgaz Yekaterinburg
OOO Gazprom Transgaz Kazan
OOO Gazprom Transgaz Krasnodar
OOO Gazprom Transgaz Makhachkala
OOO Gazprom Transgaz Moscow
OOO Gazprom Transgaz Nizhny Novgorod
OOO Gazprom Transgaz Samara
OOO Gazprom Transgaz St. Petersburg
OOO Gazprom Transgaz Saratov
OOO Gazprom Transgaz Stavropol
OOO Gazprom Transgaz Surgut
OOO Gazprom Transgaz Tomsk
OOO Gazprom Transgaz Ufa
OOO Gazprom Transgaz Ukhta
OOO Gazprom Transgaz Tchaikovsky
OOO Transgaz Yugorsk
Gazprom Neft Group[2]
Gazprom Energoholding[3]
OOO Gazprom UGS
OOO Gazprom Pererabotka
OOO Gazprom Mezhregiongaz
OOO Gazprom Neft Shelf
OOO Gazprom Dobycha Shelf
OOO Gazflot
OOO Gazprom Energo
OOO Gazprom Invest Vostok
OOO Gazprom Invest Zapad
OOO Gazprom Invest Yug
ZAO Yamalgazinvest
OOO Gazprom Export

The Report also includes a number of significant data on other subsidiaries and affiliated companies that may considerably influence the understanding of *Gazprom's* performance.

2 The terms Gazprom Neft Group and *Gazprom Neft* mean OAO Gazprom Neft and its subsidiaries. OAO Gazprom neft affiliated companies are not included in the Report Boundary.
3 The term Gazprom Energoholding means OOO Gazprom Energoholding and its consolidated companies (OAO Mosenergo, OAO TGK-1, and OAO OGK-2).


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GAZPROM

3. *Gazprom Group* Profile

3.1. About *Gazprom Group*

Gazprom Group is a global energy company that operates in exploration, production, transportation and the sale of gas, gas condensates, and oil as well as in the production and distribution of thermal and electric power.

Gazprom is a vertically integrated holding company. Managerial and financial control over its subsidiaries is exercised by the parent company OAO Gazprom.

***Gazprom Group* Structure**

* OOO Gazprom Pererabotka is also involved in gas and condensate production.
** OOO Gazprom Dobycha Urengoy, OOO Gazprom Dobycha Orenburg, OOO Gazprom Pererabotka, and OOO Gazprom Dobycha Krasnodar are also involved in oil production.
*** *Gazprom Neft Group* is also involved in natural and associated gas production
**** OOO Gazprom Dobycha Astrakhan, OOO Gazprom Dobycha Orenburg, OOO Gazprom Dobycha Krasnodar, and OOO Gazprom Dobycha Yamburg are also involved in gas and condensate processing.

OAO Gazprom is responsible for developing overall strategy, planning, organizing external financing, preparing *Gazprom* financial reports including the *Group's* consolidated IFRS reporting, distributing financial resources, and control over the core business of exploration, production, processing, transmission/transportation, underground storage and sale of gas, oil, gas condensates in Russia, exports to the states of the far and near abroad, and equipment procurement. The Russian unified gas supply system is managed from the OAO Gazprom Central Production Dispatching Department, which is responsible for reliable failsafe natural gas supplies to Russian and foreign consumers.

As of December 31, 2011, OAO Gazprom owns shares/interest in 156 companies.

Hydrocarbon exploration and production

In 2010–2011 geological exploration and geophysical work continued in Western and Eastern Siberia, the Far East, the Orenburg Region, Krasnoyarsk Territory, the Komi Republic, on the shelf of the Kara Sea and the Sea of Okhotsk, the Krasnodar Territory, the Republic of Dagestan, Kamchatka Territory, and in the Tomsk and Kemerovo Regions.

As of December 31, 2011, *Gazprom Group* and affiliated companies owned 399 licenses to use subsurface resource sites including licenses to develop the Kirinskiy, Vostochno-Odoptinsky and Ayashsky sites of the Sakhalin-3 project, and the Zapadno-Kamchatsky site; the Yuzhno-Russky field (the Yamalo-Nenetsky Autonomous District); the Kovyktinsky gas condensate field (Irkutsk Region), the Chayandinsky oil and gas condensate field, and the Tas-Yuryakhsky, Sobolokh-Nedzhelinsky, Strednetyungsky and Verkhnevilyuchansky fields (the Sakha (Yakutia) Republic).

The main gas production capacities are provided by Gazprom Dobycha Yamburg, Gazprom Dobycha Urengoy, Gazprom Dobycha Nadym, Gazprom Dobycha Orenburg, and a number of other wholly owned subsidiaries that are involved in developing and operating the *Group's* major hydrocarbon fields. The main oil production volume comes from *Gazprom Neft Group* companies.

Among *Gazprom's* priorities is infrastructure development at the Bovanenkovsky field, the first in the Yamal megaproject. Another important line of the *Group's* business is the development of the Arctic Sea shelf fields (among others, *Gazprom* and partner companies focused on the Shtokman gas and condensate field, the Prirazlomnoye oil deposit, etc). The license to develop the Shtokman and Prirazlomnoye fields with the right to sell the entire hydrocarbon production is held by Gazprom Neft Shelf. The operation of the Shtokman field is the responsibility of Shtokman Development AG, a joint venture with foreign partners.

Gazprom participates in the Sakhalin-2 project through its subsidiary Gazprom Sakhalin Holdings B.V.

Gazprom is also involved in a number of other hydrocarbon exploration and production projects both in Russia and abroad, including joint ventures with Russian and foreign partners. A detailed description of the *Group's* key projects in the field of hydrocarbon production is provided in section 3.4, titled Key projects.

Gas transmission and storage

Gas is transmitted across Russia by 17 gas transmission companies 100% owned by OAO Gazprom. In 2010, OAO Gazprom increased its share in Daltransgaz to 88% (the *Gazprom Group* owns 100%). In late 2011, *Gazprom* acquired a 100% interest in eltransgaz, which means obtaining total control over gas transmission across the Republic of Belarus.

In the reporting period, the *Gazprom Group* implemented a number of major gas transmission system development projects and joined its foreign partners in participating in joint natural gas transmission projects.

Following the upgrade of the OAO Gazprom corporate structure, the business units responsible for underground gas storage were separated from OAO Gazprom subsidiaries and merged into a newly established 100% owned company called Gazprom UGS, which now owns 25 underground gas storage facilities located in Russia with total active gas volume of 66.7bn m^3.

Gazprom utilizes UGS facilities located in European countries and capable of ensuring drawing of gas in the autumn and winter months in the volumes of up to 3bn m^3. Currently, *Gazprom* uses UGS facilities in Austria (Haidach), Serbia (Banatski Dvor), and Latvia (Incukalns), and rents them in the U.K. (Humbly Grove) and Germany (Reden). The *Group* also invests in building the Katarina UGS facility in Germany and Bergermeer in the Netherlands.

Gas conversion and condensate processing

Gas conversion and condensate processing is the responsibility of six gas processing plants: Astrkahan GPP, Orenburg GPP, Sosnogorsk GPP, the Orenburg Helium Refinery, the Surgut Condensate Stabilization Plant, and the Urengoi Condensate Transportation Preparation Plant. In addition, Gazprom Pererabotka owns 100% interest in Gazprom Neftekhim Salavat.

Oil refining

Crude oil is refined by *Gazprom Neft* companies. The main refinery is located in Omsk. *Gazprom Neft* also owns the Moscow Refinery and NIS refineries in Pancevo and Novy-Sad (Serbia), an oil and lubricant blending plant in Bari (Italy), and has access to Slavneft-Yaroslavnefteorgsintez capacity proportionate to its interest in NGK Slavneft.

In the reporting period, *Gazprom Group* was actively involved in increasing the hydrocarbon refining depth, raising quality and expanding the range of products.

Marketing and gas distribution

Hydrocarbon sales in Russia are the responsibility of Gazprom Mezhregiongaz, which owns interest in and controls over 50 regional companies that ensure gas supplies to a wide variety of end users in 65 Russian regions, keep records of gas consumption and collect payments.

The vertically integrated company Gazprom Gazoraspredeleniye operates all gas distribution networks owned by the *Gazprom Group*.

Among the largest *Gazprom* projects in Russia is the large-scale Russian Regions Gasification Program designed to ensure gas supplies to end users and achieve a maximum economically feasible level of gasification.

Exports of natural gas, stable gas condensate, oil and hydrocarbon products to European countries and former Soviet states is the responsibility of Gazprom Export.

Gazprom Neft supplies oil and oil products to the far and near abroad through its subsidiary Gazprom Neft Trading GmbH.

Gazprom Group is also an active participant in gas spot trading in Europe. Gazprom Marketing & Trading Ltd., a member company of the *Gazprom Group*, is involved in gas trading in the U.K., Belgium, the Netherlands and France, selling some Russian gas and some gas acquired in Europe on the spot market.

Energy

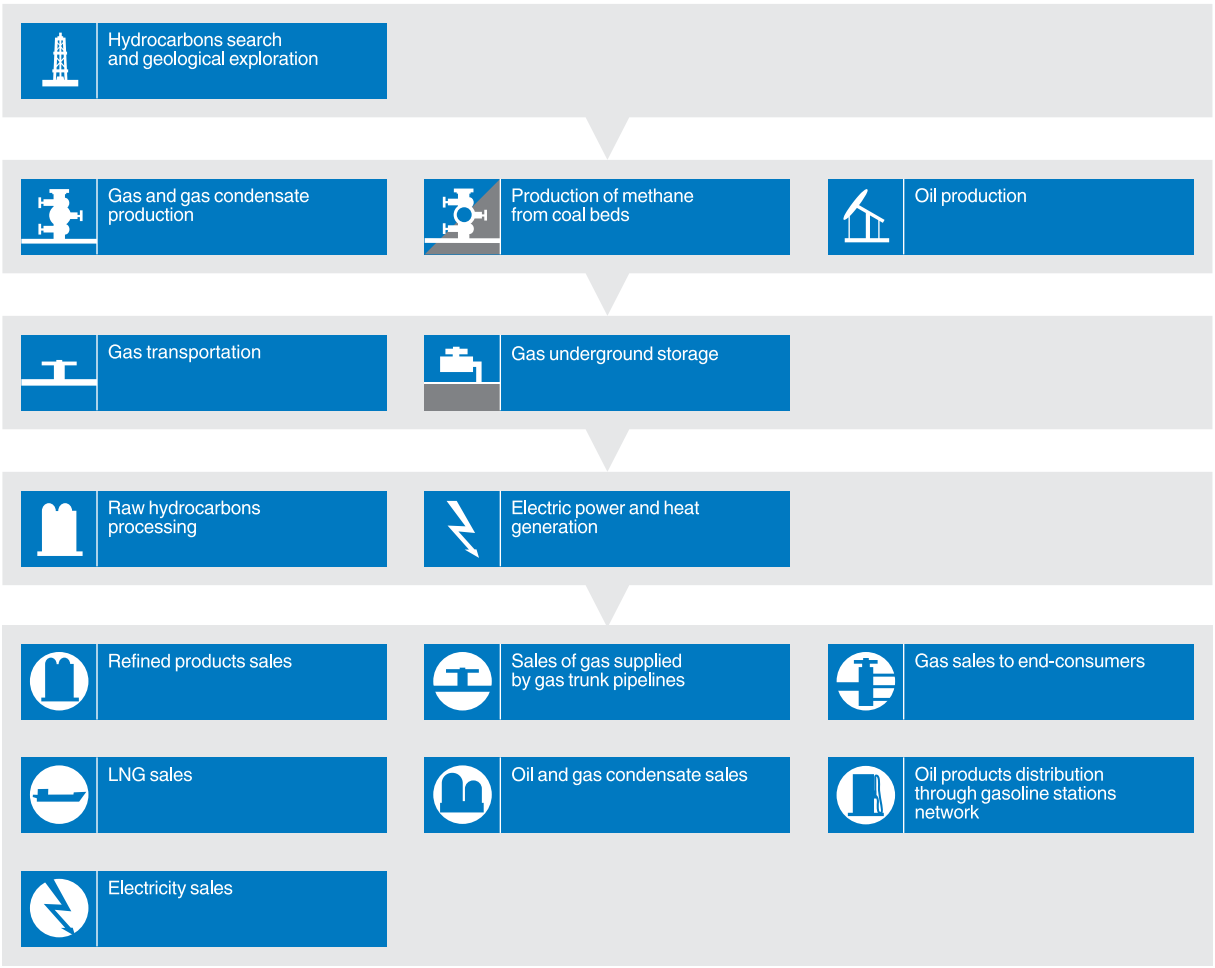
Gazprom Group's main energy assets are concentrated in OOO Gazprom Energoholding, which owns Mosenergo, OGK-2, TGK-1, and minority interests in RAO Energy System of the East, IDGC Holding, Inter RAO UES, and TGK-5.

In November 2011, OGK-2 and OGK-6 were merged into OGK-2. The merger resulted in the creation of the largest thermal generation company in Russia witha rated capacity of c.18 GW.

Other business

The vast geographic range of *Gazprom Group's* operations and the remoteness of its fields from end users require the development of auxiliary operations. For these purposes, *Gazprom Group* includes specialized subsidiaries providing transportation (Gazpromtrans, Gazprom Avia), communication (Gazprom Svyaz), and other services.

Gazprom Group Activities



3.2. *Gazprom* in Russia

Gazprom Group's share in Russian fuel and energy sector performance in 2007—2011, %

	2007	2008	2009	2010	2011
Controlled Russian gas reserves	62.1	68.9	69.8	68.7	71.8
Gas production	83.9	82.7	79.2	78.1	76.5
Oil and gas condensate production	9.2	8.8	8.4	8.6	8.7
Natural gas and APG conversion	70.2	59.1	47.6	49.9	48.6
Primary crude oil and stable gas condensate processing	14.1	14.5	15.5	16.5	17.2
Electric power generation	3.1	10.5	13.9	16.9	16.9

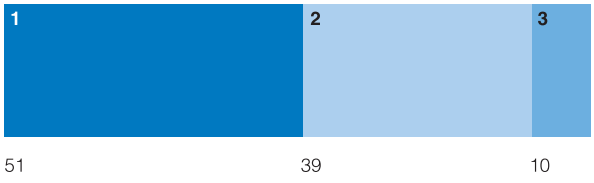
Considerable resource potential is one of *Gazprom Group's* most significant competitive advantages. *Gazprom* licensed fields located primarily in Russia contain about 18% of the world's gas reserves and nearly 72% of Russian gas resources.

Structure of *Gazprom Group* discovered gas reserves in Russia as of 31.12.2011, %

1 At development stage*

2 Prepared for development

3 At exploration stage



* Developed fields may include undeveloped reserves.

In 2011 *Gazprom* produced 513.2bn m^3 of gas, 32.3 mn tonnes of oil, and 12.1 mn tonnes of gas condensate in Russia.

Gazprom is the largest domestic supplier and is responsible for more than 70% of total gas supply. In 2011 *Gazprom* sold 265.3bn m^3 of gas to Russian users.

Sector structure of gas supplies to Russian consumers, %

1 Electric power

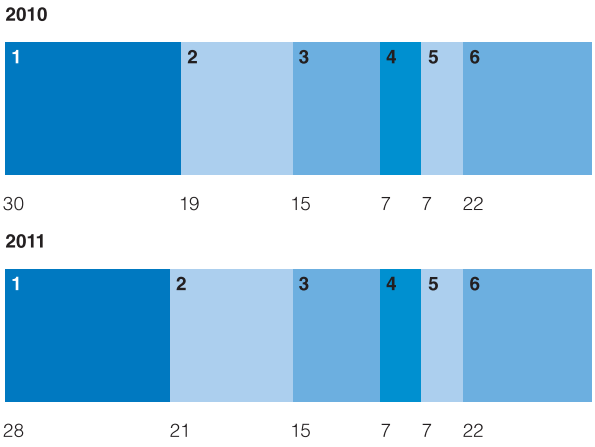
2 Households

3 Utilities

4 Agrochemistry

5 Metal industry

6 Others



Being a leader in gas supply in Russia, *Gazprom* ensures the reliable and failsafe operation of gas distribution systems. *Gazprom Group* subsidiaries and affiliated gas distribution companies own or operate about 670,000 km of gas distribution pipelines that transmit 226.2bn m^3 of natural gas to end users.

The processing business of *Gazprom Group* rests on gas and gas condensate processing plants and *Gazprom Neft* oil refining facilities. *Gazprom Group* hydrocarbon processing capacities accommodate 52.5bn m^3 of natural gas and 75.4mn tonnes of unstable gas condensate per year (including 46.6mn tonnes of oil delivered by Gazprom Neft Group facilities).

Motor fuel, diesel oil and fuel oil are the main conversion products delivered by *Gazprom Group* to the Russian market. Based on 2011 results, the *Group* was the largest supplier of motor fuel in Russia with sales of 9.4mn tonnes while diesel sales stood at 7.6mn tonnes.

Russian electric energy assets of the *Group* (Mosenergo, TGK-1, and OGK-2) are consolidated under the management of *Gazprom Energoholding*.

Gazprom Energoholding is the largest Russian owner of electric power generation assets and includes more than 80 power stations with a rated capacity of over 37 GW.

Gazprom's power generation assets are located in financially solvent regions including the cities of Moscow and St. Petersburg. The asset structure includes both gas and coal-fired generating stations, allowing for a flexible approach to fuel balance management. The *Group* also includes TGK-1 hydropower stations.

Gazprom Energoholding fuel balance in 2011, %

1 *Gazprom Group* gas

2 Coal

3 Gas of independent producers

4 Fuel oil and other fuels

At the end of 2011, the *Group* (*Gazprom Energoholding* and Kaunas thermoelectric power station) produced 173.2bn kWh of electric power and 100.2mn Gcal of thermal power in Russia. The entire volume of electric power generated by *Group* companies is sold on the wholesale market for electricity and power.

3.3. *Gazprom* around the world

Gazprom Group's share in the world gas industry performance, %

	2007	2008	2009	2010	2011
Gas reserves	16.5	18.0	18.0	17.6	18.3
Gas production	17.4	16.7	14.5	14.8	14.5
World gas sales	27.0	25.4	22.1	20.1	21.0

Currently, *Gazprom Group* operates in Austria, Algeria, Armenia, Belarus, Bulgaria, Bolivia, Brazil, China, Czechia, Estonia, Finland, France, Germany, Greece, Hungary, India, Italy, Kazakhstan, Kyrgyzstan, Latvia, Libya, Lithuania, Moldova, Nigeria, the Netherlands, Poland, Qatar, Romania, Serbia, Singapore, Slovakia, Tajikistan, Turkmenistan, Turkey, Switzerland, Uzbekistan, Ukraine, the United Kingdom, U.S.A., Venezuela, and Vietnam.

Gazprom representations are registered in Algeria, Belarus, Brazil, China, Iran, Kazakhstan, Kyrgyzstan, Latvia, Moldova, Qatar, Turkmenistan, and Ukraine.

Organization of international operations

Gazprom Group foreign trade operations and foreign projects are carried out through special-purpose subsidiaries.

The main volume of operations on foreign markets is performed by OAO Gazprom 100% subsidiaries Gazprom Export and Gazprom EP International B.V.

Gazprom Export enjoys exclusive rights to export *Gazprom* gas and is the largest gas exporter in the world. The Gazprom Germania Group plays an important role on the European market, its parent company Gazprom Germania GmbH is 100% owned by Gazprom Export. The Gazprom Germania Group includes over 40 companies that operate in more than 20 countries. Along with the sale of Russian and Central Asian gas in European countries, the Gazprom Germania Group owns interests in European gas storage facilities and trans-European gas pipelines. The Gazprom Germania Group also owns Gazprom Marketing & Trading Ltd., which is involved in trading and logistical operations in pipeline gas, liquefied natural gas (LNG), other energy products and electric power both on the European and world markets[4].

Gazprom EP International B.V. operates OAO Gazprom international assets in hydrocarbon exploration and production in Algeria, Bolivia, Libya and the United Kingdom, and manages hydrocarbon exploration projects in India, Kyrgyzstan, Tajikistan, Uzbekistan and Vietnam.

The bulk of oil and oil product exports go through *Gazprom Neft Group* companies (Gazprom Neft Trading GmbH, in particular).

In addition, through foreign holding companies *Gazprom Neft* participates in hydrocarbon exploration and production projects in Cuba, Equatorial Guinea, Iraq and Venezuela.

4 In 2012, in response to European Union requirements for energy resources supplied to EU member states, *Gazprom* evaluated possible actions to reorganize the *Group* operations on the European market. In particular, steps were considered to comply with the EU Third Energy Package on trade and asset management in the area of gas transmission and underground storage.

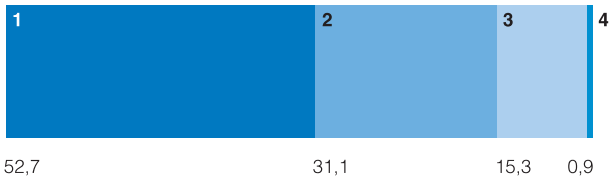
International business performance

Retaining market position, ensuring the reliability of gas supplies, and improving sales efficiency are *Gazprom Group's* primary goals on international markets.

Gazprom is a key natural gas supplier to European markets, and accounts for approximately one third of total gas imported into Western Europe. *Gazprom Group* takes measures to increase the reliability of gas supplies to European markets including regular negotiation of contracts to reserve new gas transmission capacities, optimization and redistribution of the reserved capacities, swap deals, all of which minimize the effects of gas pipeline failures or other emergencies.

Gazprom Group gas sale structure in 2011, %

1 Russia
2 Far abroad countries
3 CIS
4 Baltic states



The Asia Pacific Region is among key sales markets for *Gazprom Group*, and is demonstrating fast growth in gas consumption. To strengthen *Gazprom Group's* presence on the APR markets, its 100% subsidiary Gazprom Marketing and Trading Singapore Ltd. operates LNG supplies to South Korea, China, India, Taiwan, Japan, and other countries in the region.

In 2011 OAO Gazprom and KOGAS signed the Road Map for a natural gas supply project from Russia to the Republic of Korea via pipeline. A Memorandum of Understanding was also signed between OAO Gazprom and the DPRK Oil Ministry regarding the proposed construction of a pipeline to the Korean peninsula.

In January 2011 OAO Gazprom and the Japanese Government Agency for Natural and Energy Resources signed a cooperation agreement to prepare joint feasibility options for utilizing natural gas in the Vladivostok region; in 2011 on the basis of this agreement *Gazprom* and the Japanese consortium Japan Far East Gas Co., Ltd. prepared a preliminary feasibility study for building an LNG plant near Vladivostok for the purpose of LNG exports to Eastern Asia and Japan.

OAO Gazprom developed a detailed project for supplying natural gas from Russia to China along the Western route (the Altay project). The construction phase will be able to commence after business agreements are reached with the CNPC regarding the conditions for gas supplies.

In addition to supplying gas to APR countries, *Gazprom* is investigating options for cooperation with companies in the region in the field of developing gas refineries and gas chemical production in Russia within the scope of the Eastern Gas Program.

Gas sales in Europe in 2011, bn m³

Country	Sales	Country	Sales	Country	Sales
Germany	34.1	Hungary	6.3	Bulgaria	2.5
Turkey	26.0	Slovakia	5.9	Serbia	2.1
Italy	17.1	Austria	5.4	Slovenia	0.5
The United Kingdom	12.9	The Netherlands	4.5	Switzerland	0.3
Poland	10.3	Finland	4.2	Bosnia and Herzegovina	0.3
Czechia	8.2	Romania	3.2	Macedonia	0.1
France	8.5	Greece	2.9	Other countries	1.3

Gas sales in the near-abroad countries in 2011, bn m³

Country	Sales	Country	Sales
Ukraine	44.8	Armenia	1.6
Belarus	23.3	Latvia	1.2
Kazakhstan	3.3	Estonia	0.7
Lithuania	3.2	Uzbekistan	0.3
Moldova	3.1	Georgia	0.2

In 2011 *Gazprom Neft Group* oil product exports rose by 1.3% vs. 2010 to 15.1mn tonnes while oil exports dropped slightly y-o-y to 13.1mn tonnes due to higher oil refinery output. In 2011, 2.99mn tonnes of oil was supplied to CIS states while the rest was sold to far-abroad countries.

3.4. Key Projects

Yamal megaproject

The Yamal megaproject is being implemented on the basis of resolutions by the OAO Gazprom Board of Directors adopted in pursuance of orders from the Russian President and Government [5].

To date, 11 gas deposits and 15 oil and gas condensate fields have been discovered on the Yamal peninsula and in the adjacent offshore areas with 16 trillion m³ of discovered estimated gas reserves and about 22 trillion m³ of prospective and predicted gas resources. Condensate resources are estimated at 230.7mn tonnes, and oil reserves at 291.8mn tonnes. To provide for the transmission of Yamal gas, a unique new-generation gas transmission system is planned to be created before 2030, with the total length of more than 2,500 km.

The Bovanenkovskoye field, the most significant in terms of gas reserves, was the first to develop. At the end of 2011, we launched 112 infrastructure facilities, completed construction of all devel-opment gas wells and installation of all production equipment for the start-up facilities.

The Comprehensive Yamal Development Program provides that by 2020, annual production output should reach 125–168bn m³ of gas.

Eastern Gas Program projects

Eastern Siberia and the Far East are strategically important regions for gas production in Russia. *Gazprom* is coordinating implementation of the Government program designed to create a single system of gas production, transmission and supply, including possible exports to China and other APR countries (Eastern Gas Program), in Eastern Siberia and the Far East.

Gas production centers will be set up in the Russian East, in the Krasnoyarsk Region (Sobinskoye field), Irkutsk Region (Kovyktinskoye field), the Republic of Sakha (Yakutia) (Chayandinskoye field), the Sakhalin Region (Sakhalin-2 and Sakhalin-3 projects), and the Kamchatka Region (Kshukskoye and Nizhne-Kvakchinskoye fields). In parallel, the Eastern Program provides for developing a single gas transmission system, and gas processing and gas chemical plants including helium and LNG facilities.

5 The Draft Comprehensive Yamal Development Program was developed by OAO Gazprom and the Administration of the Yamalo-Nenets Autonomous District (YNAD) in 2002 in accordance with orders from the Russian President and Government. In 2010, the Order of the Russian Ministry of Energy approved the Program as part of the Program for Comprehensive Development of Hydrocarbon Fields in the Yamalo-Nenets Autonomous District and Northern Territories of the Krasnoyarsk Region.

Sakhalin-2

The Sakhalin-2 project is being implemented in accordance with the production sharing agreement for developing the Piltun-Astokhskoye and Lunskoye oil fields that was signed in 1994 between the Russian Federation and the Sakhalin Energy Investment Company Ltd., a consortium of foreign investors.

On April 15, 2007, OAO Gazprom acquired an interest in the Sakhalin Energy Investment Company Ltd., the operator of the Sakhalin-2 project, and became the major shareholder. After OAO Gazprom joined the project and a new shareholder agreement was signed by the Sakhalin Energy Investment Company Ltd. shareholders, shares in the Sakhalin-2 project were distributed as follows: Gazprom Sakhalin Holdings B.V. (OAO Gazprom 100% subsidiary) – 50% plus one share, Shell Sakhalin Holdings B.V. (Royal Dutch Shell plc subsidiary) – 27.5% minus one share, Mitsui Sakhalin Holdings B.V. (Mitsui & Co. Ltd. subsidiary) – 12.5%, and Diamond Gas Sakhalin B.V. (Mitsubishi Corporation subsidiary) – 10%.

The Sakhalin-2 project covers the phase-by-phase development of the Piltun-Astokhskoye and Lunskoye gas fields. Sakhalin-2 total hydrocarbon recoverable reserves exceed 600bn m^3 of gas and 170mn tonnes of oil and condensate.

The project included launching the first offshore oil and gas platforms in Russia and constructing a unique LNG plant. In 2010, the plant reached its annual rated capacity of 9.6mn tonnes of LNG.

The Sakhalin-2 project laid the foundation for Russian gas to enter APR energy markets.

Vladivostok-LNG project

The preliminary feasibility study for building an LNG plant near Vladivostok, prepared jointly by OAO Gazprom and Japanese companies in 2011, proved the project's feasibility, identified its market niche, and determined commercial opportunities.

The feasibility study provides for an LNG plant with annual capacity of 10mn tonnes with an option for further expansion. The resource base includes Sakhalin gas deposits and Yakut fields.

Nord Stream

The Nord Stream gas pipeline is a completely new route for Russian gas exports to European countries. Nord Stream connects the world largest gas reserves in Russia with the European gas distribution system, bypassing transit states. The project allows diversification of Russian export routes, improves reliability and increases export supplies, and optimizes gas traffic.

Reflecting the project importance, in December 2000 the European Commission assigned TEN (Trans-European Network) status to Nord Stream, which was confirmed in 2006. TEN status means that Nord Stream is a key project designed to create critical cross-border transportation facilities, and secure Europe's sustainable development and energy preparedness.

Nord Stream AG built the offshore portion of Nord Stream. The first section of Nord Stream, with annual capacity of 27.5bn m^3 of gas, was commissioned on November 8, 2011. This day marked the beginning of direct commercial supplies of Russian gas to European states, bypassing transit countries.

South Stream

To diversify natural gas export routes, OAO Gazprom is implementing the South Stream project, which involves construction of agas pipeline across the Black Sea and onward through Southern and Central Europe.

For building and operating the offshore section of the pipeline, South Stream Transport AG, a special-purpose company, was set up jointly with foreign partners in 2011. On September 16, 2011, shareholders in South Stream Transport AG signed a shareholder agreement with a view to implement the offshore section of the project. In accordance with the agreement, OAO Gazprom owns 50% of the project, Italian ENI – 20%, German Wintershall Holding GmbH – 15%, and French EDF – 15%.

On the territories of Central and Southern European states, the South Stream project is being implemented on the basis of inter-government agreements signed between the Russian Federation and Bulgaria, Serbia, Hungary, Slovenia and Croatia. In pursuance of inter-government agreements for the purposes of building and operating the onshore section of the pipeline, OAO Gazprom and authorized national companies set up the following SPVs on a parity basis: South Stream Bulgaria AD, South Stream Hungary Zrt. and South Stream Serbia AG. OAO Gazprom owns a 51% interest in each.

Now the project involves selecting the pipeline route, conducting engineering surveys, territorial planning, and environmental impact assessment, as well as designing line pipe and gas compressor stations.

In Q3 2011 project participants completed preparing the South Stream Comprehensive Feasibility Study that combined feasibilities of the offshore section and national sections of the pipeline that will be located on the territories of Southern and Eastern European states.

Commissioning the first phase of the project is scheduled for December 2015, and the rated capacity is expected to be reached by 2019.

Shtokman gas condensate field

The development of the Shtokman gas condensate field (GCF) on the shelf of the Russian sector of the Barents Sea is a strategic project in terms of creating a new gas production center on the Russian Arctic shelf. *Gazprom Group's* development strategy includes the Shtokman field as a resource base for expanding its geographic range and increasing Russian LNG and pipeline gas supplies to domestic and international markets.

During the reporting period, Shtokman Development AG made good headway in preparing for the final investment decision: developing project documentation based on international and Russian standards, holding a number of tenders for building offshore production facilities, making progress in optimizing the tax environment, and evaluating capital expenditures and operating costs, etc.

In 2011 public consultations were held on the project documentation for onshore start-up facilities including the List of Measures to Protect the Environment which includedan environmental impact assessment. The documents were approved at the public hearing.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4. Effective Management

4.1. *Gazprom* Strategy

Strategic goal and mission

OAO Gazprom's strategic goal is to become a leader among global energy companies through developing new markets, diversifying operations, ensuring reliable supplies, increasing efficiency of operations, and utilizing scientific and technological capabilities.

The *Company's* mission is to ensure a reliable, efficient and balanced supply of natural gas, other energy resources and products to end users.

OAO Gazprom's strategy rests on the following principles of operation:

- continuous improvement in operational excellence through utilizing the *Company's* experience, scientific and technological capabilities;
- effective management of resources (natural, human, financial, innovative and technological);
- diversification of operations through highly efficient projects that create high added value;
- raising capitalization and credit ratings;
- respecting the interests of all OAO Gazprom shareholders;
- improving corporate governance;
- increasing financial and business transparency;
- making managers personally responsible for executive decisions;
- minimizing specific negative impact on the environment.

OAO Gazprom's strategy is based on the fundamental principles and priorities outlined in the Russian Energy Strategy to 2030 and the General Scheme for Gas Industry Development to 2030.

Adaptability is OAO Gazprom's strategic advantage and key feature. Due to market diversification, reliable supplies, rising operating efficiency, and higher utilization of scientific and technological capabilities, the *Company* is able to respond promptly and completely to any changes in the internal or external environment.

Gazprom's strategic goals determine *Gazprom Group's* lines of development, and achievement of these goals is among the criteria used to assess the *Company's* performance.

Strategic planning integrates investment, financial and operational targets, which results in creating a long-term development program. The budgeting system provides for further program itemization for periods of one to three years that will ensure the budget figures aimed at achieving the *Company's* strategic goals.

A number of strategic performance targets (SPT) correspond to the tasks that are directly connected with sustainability goals, namely:

- Targets that reflect energy savings and resource conservation (reserves replenishment ratio, specific process losses);
- Environmental targets (pollutant and greenhouse gas emissions levels);
- Industrial safety targets (accident rate);
- Socially significant targets (employee training).

SPT-based performance is among the criteria used to evaluate the performance of the *Company's* top executives and business unit management.

In 2010–2011, the *Company* continued to actively develop the SPT-based planning system, including expansion to cover foreign operations, and the oil and electric energy business.

Medium- to long-term natural gas demand outlook

World population growth and rising living standards facilitate higher demand for energy resources in the long run. World energy consumption is expected to rise 40% by 2030 while the share of gas in the world fuel and energy balance may exceed 25%. World demand for gas is expected to rise 50% by 2030 vs. 2010, while higher gas consumption is expected in all *Gazprom* target markets.

On the Russian market, which is a OAO Gazprom priority, gas consumption, as provided by the Russian Energy Strategy to 2030, may increase to 605–641bn m^3 by 2030. Gas demand in Europe is estimated at 670–730bn m^3 by 2030. CIS markets are now experiencing the effect of energy saving measures, but national economic growth is expected to push the demand for gas to 260bn m^3 in 2030. APR markets offer good prospects to expand Russian LNG and pipeline gas exports, and APR gas consumption may increase at least twofold by 2030. As LNG production develops, *Gazprom* will be able to expand the supply of Russian gas to other prospective regions of the world.

Gazprom Group business segment strategies and implementation

Gas segment: Strategy

The priority of OAO Gazprom's gas business strategy is to ensure an efficient and balanced supply of natural gas. To maintain a sustainable gas supply in Russia, ensure highly reliable performance of long-term gas export contracts, and diversify gas supply directions, *Gazprom* is developing new production sites and implementing new gas transmission projects.

In the medium term, the gas output required will come from existing fields, the Kharvutinskaya area of the Yamburgskoye field and the Nadynskaya area of the Medvezhye field that are expected to reach their rated capacity, increased gas production at the Cenomanian and Valanginian deposits of the Zapolyarnoye field, and the Achimov deposit at the Urengoyskoye field. The *Company* plans to develop the Valanginian deposits at the Pestsovoye field located near existing infrastructure facilities, which ensures the economic efficiency of developing the deposits.

The Yamal peninsula is the strategically important production area that has been developed since 2008. Developing gas resources on the shelf of northern seas, in Eastern Siberia and the Far East, the potential of which makes it possible to set up a number of large gas producing centers, is also among the *Company's* priorities.

Exploration activities aimed at developing OAO Gazprom's resource base will also focus on these regions: the Nadym-Pur-Taz area (including Ob and Taz Bays), the Yamal peninsula, and the Barents, Pechora and Kara Seas, as well as Eastern Siberia, Sakhalin and the Kamchatka shelf.

Gazprom's expansion to other regions will help ensure a sustainable gas supply in Russia and diversify export routes. The *Company's* strategy for prospective field development includes investments in gas production facilities in an order that is determined on the basis of cost-effective, comprehensive and simultaneous development of gas production, transportation, processing and storage facilities. This approach avoids the commissioning of excessive capacity, ensures reasonable allocation of the *Company's* investment resources, and optimizes gas transportation costs.

In the field of gas transmission, the *Company* continues to reconstruct and upgrade existing facilities, create new gas transmission systems to deliver gas from new production areas, expand existing gas transportation corridors, and diversify transportation routes. The *Company* will continue to implement principal gas pipeline construction projects such as Bovanenkovo – Ukhta, Ukhta – Torzhok, Pochinki – Gryazovets, and Gryazovets – Vyborg, expand the Zapolyarnoye – Urengoy pipeline, commission new gas-compressor stations on the SRTO –Torzhok pipeline, and others.

OAO Gazprom will continue implementing the Nord Stream and South Stream projects, which are completely new gas transportation routes to Western Europe. Building a gas transmission system bypassing third states will allow *Gazprom* to increase the reliability of gas supplies to European partners.

To ensure flexible and failure-free gas supplies during the high-demand winter season and provide for Gas Transmission System maintenance, the *Company* will continue developing underground gas storage facilities both in Russia and on the territory of importing and transit states in Europe with a focus on creating its own storage facilities.

Domestic gas supply remains OAO Gazprom's priority. The principal component of OAO Gazprom's export strategy is the diversification of sales markets. OAO Gazprom is actively investigating APR markets that have considerable growth potential. The Russian government appointed OAO Gazprom coordinator of the Government program designed to create a single system of gas production, transmission and supply including possible exports to China and other APR countries in Eastern Siberia and the Far East. The *Company* proposes a comprehensive approach to hydrocarbon development in this region, that will ensure high-level processing, organize failure-free gas supplies to Russian end users as a matter of priority, and arrange for gas supplies to APR countries through a single export channel.

Raising the share of LNG s in the *Company* portfolio is a strategic goal that will help considerably expand the range of newly available markets. The main portion of LNG output could come from developing Russian projects including the Shtokman field. The *Company* is also investigating LNG facility expansion options in the Far East.

Gazprom's primary objective in the field of gas processing and gas chemical production is to upgrade existing and create new gas processing and gas production facilities that comply with global environmental and safety standards with a view to increasing the extraction level of valuable components of natural gas and APG, and ensure their further processing to create liquid products with high added value.

Oil segment: Strategy

Gazprom intends to increase oil production while maintaining the existing reserve-to-production ratio. The *Company* also plans to expand its deposit portfolio by acquiring undistributed sites, buying assets on the domestic market, and actively developing foreign projects.

Higher oil refining output and production efficiency are expected from expanding domestic oil refining capacity and developing foreign facilities.

To increase crude oil refining efficiency abroad, the *Company* plans to acquire interest in refining facilities and enter into long-term processing contracts. At the same time, the *Company* will implement programs designed to increase the quality of motor fuel, boost oil refining efficiency, and improve the technological infrastructure at all *Group* refineries in Russia.

In the field of oil product marketing, the *Group's* strategic goal is to raise premium sales through small wholesale and retail networks including the expansion of gasoline service networks both in Russia and abroad.

In 2011 the *Gazprom Neft Group's* capital investment in supporting conventional assets exceeded $4.0bn (c. 117.5bn rubles), a 22% rise compared to 2010. Investment in oil production stood at nearly $2.2bn [6] (64.4bn rubles), an 8% drop y-o-y resulting from optimization of the drilling and infrastructure development program.

Allocations to oil refining in 2011 amounted to $0.7bn (20.5bn rubles), a 61% rise y-o-y. Investment in oil product sales exceeded the results of the previous year: $0.5bn (14.7bn rubles), a 68% hike y-o-y due to the acquisition of large gas station networks in the Krasnoyarsk, Chelyabinsk, Novosibirsk and Nizhny Novgorod regions.

Total investment in inorganic growth[7] stood at $1.5bn (44.1bn rubles) including asset acquisition at nearly $1.0bn (29.4bn rubles), while investment in foreign projects and new asset development amounted to c. $0.5bn (14.7bn rubles).

In 2012–2013, the *Company* plans to invest more than $10bn in (but not limited to)

- developing new fields in Russia and abroad;
- reconstructing oil refineries to comply with professional standards (upgrade to Euro-4 from 2015, and to Euro-5 from 2016) and raise high-octane gasoline output;
- completing the construction of a hydrocracker facility at the NIS refinery;
- reconstructing and rebranding gas service stations;
- developing its own bunkering business infrastructure;
- acquiring bitumen production assets in Russia and the CIS.

Total investment in exploration and production will rise by 13%, refining operations – 58%, and sales – 12%. Investment in developing new assets and implementing high-profile oil production projects is expected to exceed $0.7bn (20.5 bn rubles).

Energy segment: Strategy

Gazprom is committed to increasing operating efficiency of the *Group's* generating companies. The *Group* is investigating electric power projects in a number of European countries and in North-East Asia.

The *Company* set the following strategic goals in the field of electric power: diversifying tariff regulation risks, optimizing the fuel balance and achieving a synergy effect from combining the gas and electric power businesses. The Company will focus on constructing new highly efficient steam-gas combined cycle power plants that will help ensure effective gas utilization to meet the growing energy demands from the Russian economy.

Gazprom is investigating investment options in electric power assets in Europe and Asia. The *Company* is developing cooperation with electric power suppliers who have a significant customer base and state-of-the-art technologies that will help the *Group* expand its presence on international electric power markets.

Currently, through *Gazprom Energoholding*, *Gazprom Group* is involved in a number of investment projects in capacity supply agreements (CSA), which represent a strategic line of development in the electric power segment.

Under CSA agreements, *Gazprom* plans to commission 9 GW of generating capacity. In 2012–2013, the *Company* expects to build five power facilities and upgrade four generating facilities.

Other capacity expansion projects are also in the pipeline. Progress has been made on power station construction projects in the Astrakhan and Kaluga regions that will satisfy industrial demand.

6 Hereafter, the 2011 data are translated at the CBR annual average rate of 29.39 rubles to 1 dollar.
7 Inorganic business growth provides for growth via mergers and acquisitions.

OAO Gazprom IT Strategy

Leading oil and gas company practice proves that information technologies play a very important role in securing competitiveness given the increasingly complex geological and geographical environment, as well as in risk and efficiency management. Information technologies support decision-making at all levels of government, and prompt and transparent reporting from primary sources to corporate key performance indicators.

The main document that governs the *Company's* development in the IT sphere is the OAO Gazprom IT strategy approved by OAO Gazprom's Management Committee in 2008, which defines priority IT initiatives and provides for higher quality of IT support for decision-making through integrated development of *Gazprom* IT facilities by all *Company* divisions and subsidiaries based on unique requirements.

OAO Gazprom's IT strategy is designed to create a unique information environment through vertical and horizontal integration of various information systems that will allow the accumulation of all business data in one database and ensure IT support for all business processes at all stages of governance, including planning, operations management, and control.

The unique information environment created covers the following elements:

— ERP systems based on off-the-shelf solutions for all types of business, which bring subsidiary management processes into compliance with the parent company requirements;

— vertically integrated solutions to support gas business management at the corporate center level;

— an efficiency management system based on key performance indicators and the corporate database;

— system-wide solutions that provide for technological and informational integration of system architecture components: a corporate database, industry reference database, and a corporate web-portal.

OAO Gazprom's IT strategy is being implemented on the basis of annual plans. The approved portfolio includes more than 20 large-scale IT projects.

In 2011 the Company commissioned IT systems that support corporate production management business processes in the gas and condensate transportation segment, as well as payment control, preparation of consolidated financial statements, and HR management; Gazprom Transgaz Samara introduced the information management system template for gas transmission companies (first stage), and other subsidiaries have also started the template introduction process. The *Company* has actively developed template solutions for other gas business segments and the electric power business.

IT solutions will allow for regular business efficiency reporting to *Gazprom* management based on a unique software platform.

4.2. Approach to Sustainability

OAO Gazprom's commitment to sustainability principles is an essential component of doing business on international energy markets. The *Company's* sustainability approach includes forecasting and analyzing long-term operating conditions, tracking global trends in raising environmental efficiency, and monitoring direct and indirect social and economic impact on the regions where the *Company* operates.

OAO Gazprom's approach to sustainability is based on realizing the responsibility of all *Gazprom Group* member companies for the impact of their decisions on employees, society and the environment. OAO Gazprom management is fully aware of the importance of the *Group's* contribution to sustainability including the development of comfortable living conditions and growth of social welfare. Strict compliance with applicable laws and international rules of conduct, as well as consideration of reasonable stakeholder expectations are the basis for *Gazprom's* operations.

When it comes to stakeholder engagement, OAO Gazprom is committed to building an effective and constructive dialogue with all stakeholders that allows analysis of the substantiated views of all participants. The *Company* has identified the following stakeholder categories:

— shareholders and investors;
— business partners and customers;
— human resources;
— Russian federal and municipal government agencies;

— government agencies from the EU and natural gas market participants;
— local communities;
— public organizations;
— mass media;
— regulators of gas importing states.

These stakeholder groups are identified on the basis of the scale and materiality of their influence and the *Group's* dependence on stakeholder expectations.

This Report includes disclosures about the issues that are material to key stakeholders and the main results of stakeholder engagement.

Disclosure of material issues and stakeholder engagement

Category	Material issues	Report sections disclosing material issues and stakeholder engagement
Shareholders and investors	Higher *Company* value and return on equity	5.1. Key financial indicators from the reporting period 5.2. Operating results
	Expanding the range of operations	3.4. Key Projects 10.2. Prospective innovative technologies and projects 10.3. R&D performance in 2010–2011
	Effective risk management	4.4. Sustainability risks
	Compliance with laws	4.3. Corporate governance system
	Compliance with international standards and codes of conduct	4.2. Approach to Sustainability 4.3. Corporate governance system 5.3. Economic efficiency and pricing 6.3. Climate change
	Developing investment climate	4.2. Approach to Sustainability 4.3. Corporate governance system
	Disclosures and transparency	4.3. Corporate governance system
Business partners and customers	Ensuring proper cooperation conditions	9.3. Coordinating supplier and contractor operations
	Compliance with contract terms	4.2. Approach to Sustainability 11.1. Promoting social and economic development in the regions
	Timeliness, reliability and stability of supplies	5.2. Operating results 5.3. Economic efficiency and pricing 7. Rational use of resources 11.2. Regional gas distribution network development
	Counteracting corruption	4.3. Corporate governance system
	Avoiding conflicts of interest	4.3. Corporate governance system
	Scientific and technological cooperation	6.3. Climate change 10. Innovation activity
Human resources	Compliance with labor law	8.2. *Gazprom* personnel features 8.3. Employee motivation, development and retention
	Human rights protection, avoiding discrimination	8.2. *Gazprom* personnel features
	Training and development	8.3. Employee motivation, development and retention
	Improving labor conditions	8.4. Social policy
	Social policy and social insurance	8.4. Social policy
	Incentive programs	8.3. Employee motivation, development and retention

Category	Material issues	Report sections disclosing material issues and stakeholder engagement
Russian federal and municipal government agencies	Compliance with laws	4.2. Approach to Sustainability 11.1. Promoting social and economic development in the regions 11.2. Regional gas distribution network development
	Promoting economic, cultural, scientific, sports development in the regions of operation	11.3. Supporting indigenous minorities 11.4. Social and charitable programs
	Environmental protection	6.5. Environmental impact assessment 6.6. Fragile ecosystem protection 7.1. Energy saving and energy efficiency
	Social programs	11.1. Promoting social and economic development in the regions 11.3. Supporting indigenous minorities 11.4. Social and charitable programs
	Providing employment opportunities	8.2. *Gazprom* personnel features
	Public-private partnership	11.2. Regional gas distribution network development 11.4. Social and charitable programs
Government agencies of EU and natural gas market participants	Efficient operation of the gas market and energy security	5.3. Economic efficiency and pricing
	Maintaining competition, access to gas transmission infrastructure	5.2. Operating results 5.3. Economic efficiency and pricing
Local communities	Timely public disclosures	4.2. Approach to Sustainability 11.1. Promoting social and economic development of regions
	Supporting indigenous minorities	11.3. Supporting indigenous minorities
	Developing social infrastructure	8.4. Social policy 11.4. Social and charitable programs
	Growing welfare	8.4. Social policy
Public organizations	Reliable disclosures	All sections of this Report
	Cooperation opportunities in organizations' core business areas	4.2. Approach to Sustainability 6.2. OAO Gazprom environmental policy 8.4. Social policy 11.4. Social and charitable programs
Mass media	Reliable disclosures	All sections of this Report
Regulators of gas importing states	Developing an efficient mechanism for gas market operation	4.3. Corporate governance system 5.3. Economic efficiency and pricing
	Compliance with laws	4.3. Corporate governance system 5.3. Economic efficiency and pricing

The main tools and mechanisms used by the *Gazprom Group* to engage stakeholders include consultations, negotiation, round tables, conferences, seminars, exhibitions, and other public events that allow discussion of the widest possible range of issues including technological, economic, environmental, social and legal aspects. To provide reliable disclosures on *Gazprom Group's* operations and management approach to the stakeholders, the *Company* uses tools such as annual reports, sustainability reports, environmental reports, fact books (e.g. Gazprom in Figures), press releases, special-purpose press conferences and briefings, and also publishes management analysis and evaluation of financial position and performance. Information exchange, building professional connections and measures to strengthen the *Group's* corporate image and reputation are aimed at preserving and developing *Gazprom's* position as a successful global energy corporation.

Gazprom Group actively participates in finding solutions to international sustainability issues. One of the world's largest corporations, *Gazprom* is participating in the initiative undertaken by the international investment community to disclose greenhouse gas emissions and climate change risks (Carbon Disclosure Project).

OAO Gazprom is a full member of such international organizations as the International Gas Union, European Business Congress, World Energy Council, and Gas Center of the UN Economic Commission for Europe. Parent company representatives sit on governing bodies of these international organizations, participate in research activities, attend working group meetings, and contribute to developing working programs. *Gazprom Group* experts regularly represent Russia at meetings of the Gas Exporting Countries Forum.

Gazprom is a member of the Russian Union of Industrialists and Entrepreneurs and the Russian Gas Society. Efficient and effective sustainability performance is proved by the various sustainability awards that *Gazprom Group* won in 2010–2011.

Sustainability awards won by *Group* companies

Award	Participants	Prize
Russian organization of high social effectiveness – 2010	Gazprom Dobycha Astrakhan and Gazprom Dobycha Orenburg	First and second prizes respectively in the Creating a Healthy Corporate Lifestyle category
The Government of Moscow Environmental Protection Award – 2011	Mosenergo	Award winner in the Best Completed Project Involving Environmentally Friendly and Energy Saving Technologies category Diploma For Significant Contribution to Environment Protection in Moscow
Russian organization of high social effectiveness – 2011	Gazprom Transgaz Saratov	First prize in the Reducing Workplace Injuries and Occupational Diseases in Industrial Organizations category
	Gazprom Dobycha Orenburg	Third prize in the Reducing Workplace Injuries and Occupational Diseases in Industrial Organizations category Third prize in the Developing Social Partnership by Industrial Organizations category

Recognizing Sakhalin Energy's sustainability performance

In the reporting period, Sakhalin Energy's sustainability performance received wide public recognition.

The company won the main award for The Best Program for Corporate Philanthropy Policy and Social Investments Principles in Corporate Charity Research – 2011 for its Indigenous Minorities Development Plan; it won the award For Contribution to Developing a Healthy Lifestyle at the VI Russian Forum National Health – Basis for Russia's Prosperity; an won the Social Investments and Projects category in the All-Russia Award Best Russian Enterprises. Performance, Effectiveness, Responsibility – 2011.

Government relations

In 2011 OAO Gazprom's Department for Relations with Russian Regions was reorganized into the Department for Relations with Russian Federation Authorities. The new Department includes the Office for Relations with the Federal Assembly and the Division for Cooperation with Legislative Authorities, to the creation of which strengthened the engagement of both executive and legislative bodies.

In 2011 the Department:

- organized the timely receipt and presentation to *Gazprom Group* executives of 161 draft laws and accompanying documents;
- prepared and filed with the Federal Assembly chambers and executive government bodies 82 opinions on draft laws;
- proposed amendments initiated by OAO Gazprom to 51 draft laws;
- promptly informed the *Company* business units of State Duma plans and results of considering draft laws;
- coordinated participation of *Group* experts in discussion of draft laws by the Federal Assembly committees and working groups.

To provide for securing and implementing *Group* interests, the Department maintains regular correspondence with the Russian government, and interacts with State Duma deputies, Federation Council members, and committees, commissions and secretariats of the Russian Federal Assembly chambers. The Department

conducts working meetings and consultations with legislative authorities and Plenipotentiary Envoys of the Russian Government to Federal Assembly chambers, and exercises control over implementation of *Group* proposals filed with government authorities.

In the reporting period, OAO Gazprom was actively involved in discussing draft laws designed to improve antimonopoly law and develop competition, develop tax legislation and relationships arising from organized tenders, and advance environmental regulation.

OAO Gazprom proposals were considered and reflected in the following Federal Laws:

- Concerning the Introduction of Amendments to the Federal Law Concerning Competition Protection and Certain Other Legislative Acts of the Russian Federation;
- Concerning Organized Tenders;
- Concerning the Introduction of Amendments to Parts One and Two of the Tax Code of the Russian Federation Following the Creation of the Consolidated Taxpayer Group;
- Concerning the Introduction of Amendments to Part Two of the Tax Code of the Russian Federation and Certain Legislative Acts of the Russian Federation;
- Concerning the Introduction of Amendments to Certain Legislative Acts of the Russian Federation in Connection with Improving Environmental Regulation and Introducing Economic Incentives for Business Entities to Implement Best Technologies;
- Concerning the Introduction of Amendments to Federal Laws Concerning the Continental Shelf of the Russian Federation and Concerning Internal Sea Waters, Territorial Sea and Adjacent Zones of the Russian Federation.

In 2011 the Department for Relations with Russian Federation Authorities, together with *Gazprom's* Legal Department, summarized, prepared and filed with the Russian Energy Ministry *Gazprom's* proposals for the plan for legislative drafting activities by the Government of the Russian Federation for 2012. Company proposals to the Draft Federal Law Concerning the Introduction of Amendments to the Administrative Offense Code of the Russian Federation were included in the Russian Government plan for 2012.

The system of engagement of the Russian regions' government authorities based on cooperation agreements between OAO Gazprom and Russian regions allows the identification of effective solutions to industrial, financial and organizational issues that arise in the regions of the *Group's* operations. At the end of 2011, cooperation agreements were signed with 81 Russian regions while in 2010, 79 similar agreements were in effect.

In 2010–2011, the first-ever agreements were concluded with the Republic of Khakassia and the Amur Region, and a Memorandum of Cooperation was signed with the Sakhalin Region. *Gazprom Group* continued signing annual agreements with the *Group's* strategic regions: the Yamalo-Nenets Autonomous District, the Khanty-Mansijsk Autonomous District, Yugra, the Leningrad Region, the Murmansk Region, Moscow and St. Petersburg.

New forms of cooperation between the *Group* and the regions include:

- an energy saving and energy efficiency program for the agrarian sector in the Tambov Region;
- a pilot economic develop project in the Volgograd Region based on efficient use of fuel and energy resources;
- memoranda of intent that include creation and development of gas chemical production signed with the Far Eastern Federal District, the Khabarovsk Territory, and the Primorye Territory.

Regional Policy Commission

Gazprom Group's regional policy is a tool that allows the creation of the economic, organizational and legal conditions required for effective operation of *Group* member companies based on mutually beneficial cooperation. To review important issues connected with *Gazprom* operations in Russian regions, OAO Gazprom set up a Regional Policy Commission.

In 2011 the Commission held five meetings to discuss inter alia:

- OAO Gazprom activity aimed at preserving the primordial living environment, traditional way of life and conventional nature management of indigenous minorities on Sakhalin island within the scope of implementing gas projects;
- cooperation between Gazprom Dobycha Nadym and local authorities within the scope of the Comprehensive Yamal Development Program;
- representing gas industry employees in legislative bodies of Russian regions.

4.3. Corporate governance system

Corporate governance system and principles

Gazprom Group's corporate governance is designed to comply with generally accepted international standards and provide for the realization of shareholder rights while facilitating effective relationships with all stakeholder groups. Improving corporate governance is a continuous process aimed at the full-scale protection of shareholder rights.

The *Company* developed and approved the OAO Gazprom Code of Corporate Governance (Conduct) that introduced fundamental principles of corporate governance: effective protection of shareholder rights and interests, fair treatment of all shareholders, transparent decision-making, the professional and ethical responsibility of Board members, other *Company* officers and shareholders, expanded disclosures and business ethics rules.

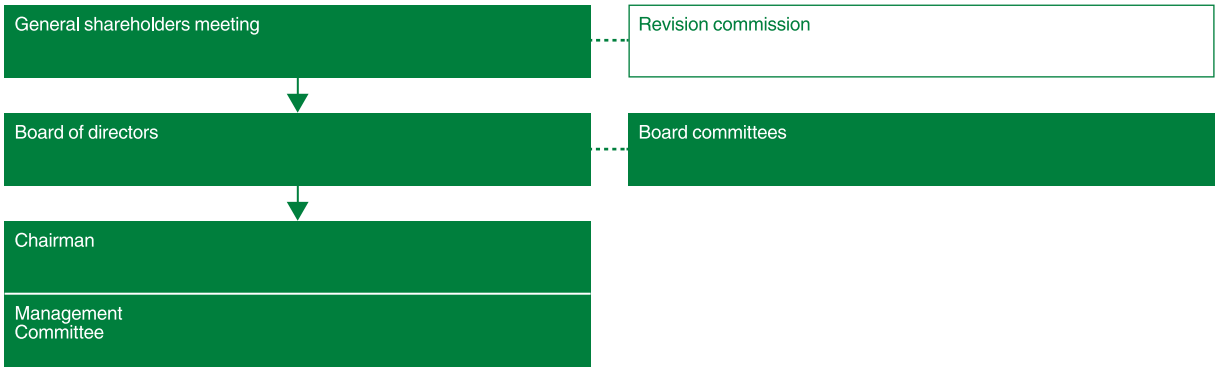
The *Company* adopted the following internal documents that regulate the corporate governance system:

- Article of Association
- Regulation on General Shareholders Meeting
- Regulation on Board of Directors
- Regulation on Management Committee
- Regulation on Chairman of Management Committee
- Regulation on Audit Commission
- Procedure for Shareholders Suggestions and Queries with Regard to General Shareholders Meeting
- Dividend Policy
- Regulation on Information Disclosure
- Procedure for Shareholder Familiarization with Information about OAO Gazprom

Corporate governance and control bodies

Gazprom corporate governing bodies include the General Shareholders Meeting (the supreme governing body), the Board of Directors, and executive authorities – the Management Committee and its Chairman. To supervise the preparation of accurate and fair financial and accounting reports, OAO Gazprom set up the Revision Commission of nine members elected by the annual General Shareholders Meeting.

OAO Gazprom corporate governance and control system



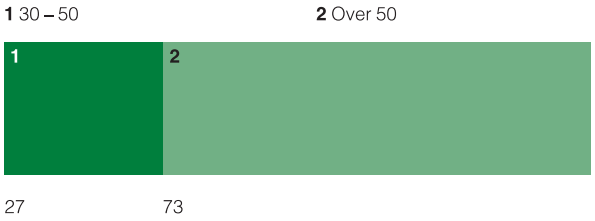
The General Shareholders Meeting ensures the protection of the rights and legal interests of all shareholders, enabling them to participate in decision-making on *Gazprom* operations and shaping the governing (Board of Directors) and control (Revision Commission) bodies.

Overall management of the *Company* is exercised by the Board of Directors (excluding the issues referred to the authority of the General Shareholders Meeting by the Federal Law Concerning Joint Stock Companies and the Articles of Association). To provide for effective control over business and financial operations, every year OAO Gazprom creates the Board Audit Committee, which is chaired by an independent director. The Board of Directors is also authorized to appoint and terminate executive bodies.

OAO Gazprom's sole executive body is represented by the Management Committee Chairman while the Management Committee makes up a collective executive body. The Management Committee and its Chairman are responsible for day-to-day management of the *Company*.

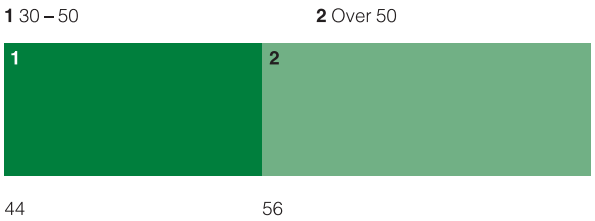
OAO Gazprom Board of Directors by gender*, %

OAO Gazprom Board of Directors by age*, %



OAO Gazprom Management Committee by gender*, %

OAO Gazprom Management Committee by age*, %



* As of 31.12.2011

The Board of Directors regularly considers sustainability-related issues, such as energy saving and energy efficiency, environmental protection, industrial safety, *Group* social programs, etc.

In 2010–2011 the Board of Directors discussed a number of essential issues.

- In February 2010, the Board of Directors discussed the introduction of energy saving technologies in *Gazprom Group* and instructed the Management Committee to arrange for the introduction of energy saving technologies and equipment with a view to reducing specific consumption of fuel and energy resources.
- In July 2010, the Board of Directors considered various approaches to developing the OAO Gazprom Innovative Development Program to 2020.
- In February 2011, the Board of Directors took note of the information about introducing energy saving technologies. To reduce gas production and transmission costs, the Management Committee was instructed to finance energy saving technologies on a first-priority basis.
- In October 2011, the Board of Directors approved the Gazprom Environmental Policy and recommended that it be implemented by all *Gazprom Group* member companies.
- In November 2011, the Board of Directors took note of results from monitoring the development of the shale gas industry in different parts of the world.
- In November 2011, the Board of Directors considered the implementation of the Russian Regions Gasification Program, which directly affects regional social and economic development and living standards.

A detailed description of the functions and composition of governing bodies and other material information about the corporate governance system are available from the Company Web site (www.gazprom.com) and the 2010 and 2011 Annual Reports.

Remuneration of the Board of Directors and the Management Committee

Remuneration of members of the Board of Directors, members of the Management Committee, and Chairman of the Management Committee is regulated by the following documents:

- Regulation on Determining Remuneration of Members of the Board of Directors (for Board members);
- Regulation on the Annual Bonus Paid to OAO Gazprom Management (for managers from head of division and higher to the Chairman of the Management Committee as well as CEOs, deputy CEOs, and chief accountants of subsidiaries involved in core operations);
- Employment Contracts (for the Chairman of the Management Committee, members of the Management Committee, and members of the Board of Directors that are employed by OAO Gazprom).

The Regulation on Determining Remuneration of Members of the Board of Directors provides for a two-level remuneration that consists of a base salary and additional compensation. The base salary is paid for exercising the functions of a member of the Board of Directors and determined in accordance with *Gazprom's* practice of paying remuneration to its Board members. The additional compensation is paid for exercising the additional functions of Chairman of the Board of Directors, Vice Chairman of the Board of Directors, or a member of a Board

committee. The additional compensation is determined on the basis of general corporate performance indicators that are applied to estimate the annual bonus paid to OAO Gazprom management. It should be noted that the Board members holding government offices do not receive any remuneration. The remuneration paid to Board members is approved by the annual General Shareholders Meeting.

The Regulation on the Annual Bonus Paid to OAO Gazprom Management governs annual bonus payments to managers from head of division and higher to Chairman of the Management Committee as well as CEOs, deputy CEOs, and chief accountants of subsidiaries involved in core operations. The annual bonus is determined on the basis of individual and corporate key performance indicators.

In addition to the annual bonus, a motivation scheme for OAO Gazprom senior executives includes a share bonus program. The share bonus program is divided into three-year cycles, the first of which was realized in 2008–2011 and included the 70 top managers at OAO Gazprom and the CEOs of subsidiaries. The share bonus creates a higher material interest on the part of *Gazprom* and subsidiaries senior management in increasing OAO Gazprom's competitiveness and business stability.

In addition to the previously mentioned incentives, managers can also receive bonuses for performing critical tasks.

In 2010–2011, the short-term remuneration paid to members of the Board of Directors, members of the Management Committee, and the Chairman of the Management Committee (including salaries, and compensation for participating in OAO Gazprom governing bodies) amounted to 2,579,702,000 rubles including individual income tax and insurance payments.

Remuneration paid to OAO Gazprom management, in thousand rubles*

	2010	2011
Remuneration paid to members of the Board of Directors, members of the Management Committee, and Chairman of the Management Committee	1,243,354	1,336,348
Total for 2010–2011	**2,579,702**	

* Including individual income tax and social insurance payments.

As required by Russian law, OAO Gazprom pays pension tax for its employees, including the Chairman of the Management Committee, members of the Management Committee, and members of the Board of Directors that are employed by OAO Gazprom.

In addition, OAO Gazprom covers voluntary health insurance for the Chairman of the Management Committee, members of the Management Committee, and members of the Board of Directors that are employed by OAO Gazprom. Voluntary health insurance payments in 2010–2011 amounted to 1,748,000 rubles.

Shareholder Equity

OAO Gazprom share capital totals 118,367,564,500 rubles and is divided into 23,673,512,900 common registered shares with a par value of 5 rubles each. At the end of 2011, a total of 45,741 shareholders were registered in the OAO Gazprom Shareholder Register including 10 nominee holders.

OAO Gazprom equity structure, %

	As of 31.12.2010	As of 31.12.2011
Shares controlled by the Russian Federation, including:	50.002	50.002
The Russian Federation represented by the Federal Agency for State Property Management	38.373	38.373
Rosneftegaz	10.740	10.740
Rosgazifikatsiya	0.889	0.889
ADR holders	27.570	28.350
Other registered persons	22.428	21.648

In 2011 there were no material changes in *Gazprom's* equity structure. The Russian Federation is the major shareholder in *Gazprom*. Including the shareholdings of Rosneftegaz and Rosgazifikatsiya, the Government controls 50.002% of *Gazprom's* share capital.

Shareholder and investor relations

OAO Gazprom identifies shareholders and investors as one of the key stakeholder groups and pays special attention to building relationships based on their interests and expectations, namely:

- explaining and understanding the *Group's* strategy and key business factors;
- providing opportunities for direct dialogue with senior management or to participate in events attended by the *Group's* management;
- participating in managerial decision-making;
- obtaining financial or other material information.

In 2009 the *Company* set up a Coordinating Committee for Shareholder and Investor Relations which is responsible for:

- developing and pursuing a single consistent policy in the field of shareholder and investor relations;
- general coordination and control over shareholder and investor relations;
- timely provision of information necessary and sufficient to make investment or managerial decisions;
- raising the effectiveness of shareholder and investor relations.

OAO Gazprom management maintains regular dialogue with shareholders, different investor groups and analysts through regular meetings, press conferences, and presentations on OAO Gazprom strategic plans and performance in both Russia and the world's largest financial centers. For example, every year we hold an Investor Day when OAO Gazprom management and the managers of major subsidiaries make presentations to the investment community. Every quarter we hold teleconferences on the *Group's* IFRS consolidated financial statements. OAO Gazprom management conducts individual meetings with major shareholders, road shows, and is prepared to answer oral and written requests from shareholders and investors.

The annual Shareholder and Investor Engagement Plan provides a valuable tool for managing continuous shareholder and investor engagement.

A detailed description of the forms of engagement with shareholders, investors and analysts is available in the *Company* 2010 and 2011 Annual Reports.

Information disclosure

OAO Gazprom makes regular disclosures about its operations in accordance with applicable laws, the requirements of Russian and foreign securities market regulators, and internal documents.

Fundamental principles of disclosure are established by the *Company's* Disclosure Regulation, including:

- regularity and promptness;
- accessibility to shareholders and other stakeholders;
- accurate and complete content, and a reasonable balance between *Company* transparency and commercial interests.

The *Company* adopted the Procedure for Shareholder Familiarization with Information about OAO Gazprom.

The *Company* continuously improves the forms and methods used to provide information to stakeholders, ensuring both mandatory and voluntary disclosures.

Counteracting corruption and conflict of interest

The *Company* has established an effective system of control over the ways *Company* officers use their authority which, among other things, allows identification of the symptoms of corruption and conflicts of interest. In terms of organization, the system is based on the Board Audit Committee, Internal Audit Department of the Management Committee Secretariat, Human Resources Department, Corporate Cost Management Department, and the Corporate Security Department.

Governing bodies of the *Group's* member companies take measures to prevent conflicts of interest. For example, to avoid any possible conflict of interest, the OAO Gazprom General Shareholders Meeting and Board of Directors approve interested-party transactions as required by Chapter XI of Federal Law No 208-FZ of 26 December 1995 Concerning Joint Stock Companies.

In the reporting period there were no incidents of corrupt behavior by employees of OAO Gazprom or its subsidiaries.

The *Company* also takes measures to prevent the use of insider information as required by applicable laws and the principles established by the Disclosure Regulation. The *Company* approved the List of Insider Information, which is publicly available on the corporate Web site.

Combating fraud and corruption at the *Gazprom Neft Group*

Company subsidiaries are also involved in combating fraud and corruption. For example, the *Gazprom Neft Group* established a system to fight fraud and corruption that includes a hot line, an important component that makes it possible to collect and process information about violations of corporate regulations, or administrative or criminal offenses. The hot line's objective is to provide anyone with a tool to report violations at *Gazprom Neft Group* including embezzlement, misappropriation of assets or property, fraud, bribes and kickbacks, conflict of interest between employees and contractors, breach of tender procedures, or many other violations.

The *Gazprom Neft* hot line operates on the basis of such key principles as:

- all information must be checked;
- every hot line message processed must be granted maximum confidentiality;
- the verification of information must be based on the requirements of objectivity and independence.

An essential component of fighting corruption will be the OAO Gazprom Code of Corporate Ethics, which is expected to be approved by the Board of Directors. The Code of Corporate Ethics will govern, for example, such issues as conflicts of interest, nepotism, gifts, fighting corruption, contractor and competitor relations, handling information, and other important rules for conducting business.

The Code of Corporate Ethics will also regulate the mechanism for its implementation: ensuring compliance with the Code will be the responsibility of the Corporate Ethics Commission. All requests or messages to the Corporate Ethics Commission will be delivered through the hot line, by e-mail, or in person. A pledge to comply with the Code of Corporate Ethics will be signed by all Company employees including *Gazprom* top management.

Adopting the Code of Corporate Ethics will support higher investment appeal and harmonization of the *Company's* [8] business practices.

4.4. Sustainability risks

The *Gazprom Group* risk management system

Gazprom Group member companies are actively developing the corporate risk management system.

In 2011 OAO Gazprom's Management Committee updated the Company's Plan of Action to Develop the Corporate Risk Management System, a key document that regulates corporate action in the field of risk management. The key elements of the updated Plan include developing methodological procedures to establish the risk management system, preparing proposals to create a system for managing the key risks faced by *Gazprom Group* and the pattern of interaction between OAO Gazprom and the *Group* companies within the scope of the risk management system.

In 2011, in pursuance of the Plan requirements, OAO Gazprom developed Key Methodological Approaches to Establishing a Market and Credit Risk Management System as well as methodology and rules for currency risk management. These documents make it possible to reduce the probability of unfavorable situations in the *Group's* sales markets, ensure stable relationships with credit organizations, and streamline currency risk optimization efforts.

In pursuance of the corporate Risk Management Policy, the *Gazprom Neft Group* is endeavoring to set up an integrated risk management system (IRMS) on a phase-by-phase basis. In 2011 *Gazprom Neft* prepared the 2010–2011 Risk Book, completed a six-month monitoring of key risks and quantitative evaluation of the ten most significant risks incurred by *Gazprom Neft* subsidiaries, and finalized the IRMS review in terms of compliance with international best practices. In late 2011, *Gazprom Neft* introduced IRMS baseline processes to most subsidiaries and affiliated companies.

Environmental risks are a special focus of the IRMS system. *Company* management is aware of environmental risks and prepared to bear civil liability for any social or environmental damage resulting from *Company* operations. The *Company's* policy of minimizing environmental risk is designed to support efforts to protect nature and ensure compliance with environmental laws. The result was a reduction of environmental risks for *Gazprom Neft* operations in 2010–2011.

8 The Code of Corporate Ethics was approved by the OAO Gazprom Board of Directors in July 2012.

The Integrated Risk Management System (IRMS) corporate standard represents best practices in implementing a risk-oriented approach to *Gazprom Neft* key operating aspects. The *Gazprom Neft Group* intends to actively develop the IRMS system, tie risk management to business planning processes, and improve the information system that supports IRMS processes.

Gazprom Energoholding member companies are also involved in creating a single corporate risk management system. OGK-2 is taking steps to implement a Comprehensive Risk Management System (CRMS) that will allow company experts to manage social and property risks as well as large investment project risks. Mosenergo and TGK-1 also take regular measures to create local risk management systems including preparing Risk Maps and distributing areas of responsibility for key risk management among corporate business units.

In 2012–2013, OAO Gazprom intends to classify all *Company* and *Group* risks by lines of business, prepare the Policy and the Rules for key risk management and develop an Authority Matrix for organizing the *Group's* key risk management system. Creating a *Gazprom Group* single corporate risk management system will also include developing and adopting the fundamental documents regulating key risk management by subsidiaries and affiliated companies.

Gazprom Group key sustainability risks

Risks affecting *Gazprom Group* sustainability performance and minimization options

Risks	Effect on the *Group's* sustainability performance	Risk minimization in the reporting period	Risk minimization options in the medium term
Environmental pollution risks	Environmental damage brings unfavorable legal, financial and reputational consequences for the *Gazprom Group*. The *Gazprom Group's* responsibility for environment pollution in the regions of operation and damage to third parties is described in the *Group* Environmental Policy.	Implementation of the *Group's* Environmental Policy Efforts to reduce environmental impact ISO 14001:2004 certification of the environmental management system Environmental due diligence of proposed projects Comprehensive insurance coverage for *Group* companies Accessibility and transparency of the *Group's* environmental information	Improving the *Group's* Environmental Policy Introducing state-of-the-art environment protection technologies
Geographic and climate risks	Climate change directly affects *Gazprom Group* sustainability performance and brings the risks of higher frequency of extreme weather conditions, changes in ground temperature, unfavorable human health impact, etc.	Developing and introducing effective technological processes designed to operate in critical weather conditions	Developing programs for adapting *Gazprom* operations to changing climate conditions
Operational risks	technological emergencies makes the *Group* responsible for the resulting damage to human life and health, property and the environment	Implementing advanced diagnostic techniques, reconstructing and upgrading *Gazprom Group* production facilities Implementing the Occupational Health and Safety Policy	Ensuring occupational health and safety Timely and effective natural disaster control and technogenic accident management
Unconventional gas production risks*	Developing unconventional gas resources, compared to conventional resources, brings new social and environmental risks	Monitoring the social and environmental impact of unconventional gas production Implementing advanced conventional gas production standards and technologies Developing coal bed methane production technologies focused on associated social and environmental risks	Maintaining a competitive edge for conventional gas resources vs. unconventional gas production Improving environmental and social safety of conventional and unconventional gas production Promoting proprietary solutions in the field of unconventional gas production

* This group of risks relates only to the *Gazprom Group* gas segment.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29 июня 2012 года
www.gazprom.ru
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5. Performance results

5.1. Key financial indicators over the reporting period

Net sales revenue structure, IFRS*, RUB mn.

Net Revenue	2010	2011	Change y-o-y
Gas sales, including	2,186,205	2,814,848	+29%
to Europe and other states	1,099,225	1,439,069	+31%
to FSU states (excluding Russia)	450,137	637,178	+42%
in Russia	636,843	738,601	+16%
Oil & gas product sales	709,062	973,026	+37%
Crude oil and gas condensate sales	196,074	235,432	+20%
Electric & thermal power sales	288,655	344,551	+19%
Gas transmission service sales	92,631	112,995	+22%
Other earnings	124,427	156,238	+26%
Total sales revenue	**3,597,054**	**4,637,090**	**+29%**

* Hereinafter, consolidated IFRS financial accounts are provided for the *Gazprom Group*, since the existing consolidation techniques for IFRS reporting involve transformation of the accounts prepared in accordance with Russian law and does not provide for accurate presentation of the consolidated data within the consolidation perimeter that corresponds to the Report Boundary.

Financial results of the *Gazprom Group* are published in annual and quarterly financial statements of OAO Gazprom, the *Group* parent company.

Earnings

In 2011 *Gazprom* total sales revenue (less VAT and customs duties) rose by 29% y-o-y to RUB 4,637bn.

Growth in gas sales revenue on all *Gazprom* markets also reached 29%. The highest rise in gas sales revenue came from FSU states (excluding Russia), reaching 42%. Oil & gas product sales also generated considerably higher (37%) earnings. Growth in sales of other *Gazprom* products was lower than the pace of total sales revenue.

In 2010, EBITDA stood at RUB 1,364bn, and in 2011 – RUB 1,931bn. The adjusted EBITDA to total earnings ratio reached 38% in 2010, and 42% in 2011. The 2010–2011 earnings structure did not experience any considerable change: in 2010 and 2011, 61% of earnings came from gas sales.

***Gazprom* sales revenue structure in 2011, %**

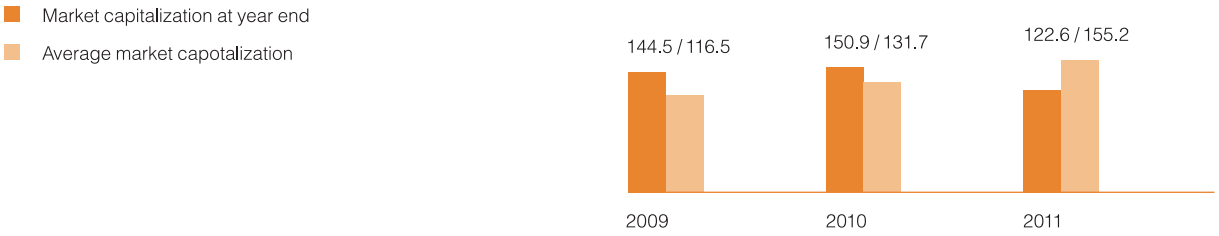
1 Gas sales
2 Oil & gas product sales
3 Electric & thermal power sales
4 Crude oil and gas condensate sales
5 Gas transmitting service sales
6 Other earnings

In 2010 *Gazprom* IFRS net earnings reached RUB 969bn, and in 2011 – RUB 1,307bn.

Capitalization and net assets

As of December 31, 2011, *Gazprom's* market capitalization reached $122.6bn. Average market capitalization in 2010–2011 rose by 18% to $155.2bn. At the end of 2010, Company IFRS net assets stood at RUB 6,536bn, and in 2011 – RUB 7,761bn.

Gazprom market capitalization in 2009—2011, $bn



5.2. Operating results

Today, *Gazprom Group's* goal is to become a global energy company, and the world's leader in the production, processing and transportation of gas, gas condensate and oil as well as in electric power production and distribution. Gazprom 2010–2011 operating results across the three key market segments – gas, oil and power – demonstrate our successful and consistent achievement of this goal.

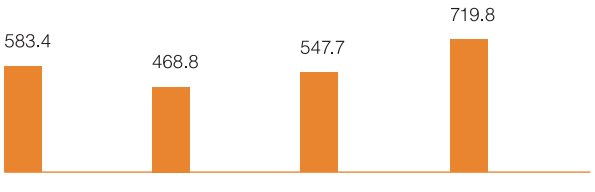
Gas segment performance

Gazprom Group's core business is the production, processing, transmission and sale of natural gas. *Gazprom* holds the world's largest gas reserves.

As of December 31, 2011, according to Russian classification, *Gazprom Group* natural gas reserves stood at 35,046.9bn m3 (A+B+C_1 reserves). A PRMS audit estimated *Gazprom Group's* proved and probable reserves at 29.2bn t c.e. as of December 31, 2011, with a current discounted value of $299.2bn. The reserve valuation covered 90% of gas, 83% of condensate, and 89% of oil reserves (A+B+C_1). A year earlier, the *Group's* proved and probable reserves were estimated at 28.7bn t c.e. with a current discounted value of $269.6bn. At that time, reserve valuation covered 93% of gas, 86% of condensate, and 90% of oil reserves (A+B+C_1).

Gazprom's geological exploration in 2010–2011 resulted in natural gas reserves growing by 1,267.5bn m^3. The *Group* discovered the Abakanskoye gas field in the Krasnoyarsk Territory and condensate fields on the shelf of the Sea of Okhotsk: the large Yuzhno-Kirinskoye deposit and the Mynginskoye field. In 2010 the gas reserve replacement ratio reached 108% while in 2011 it hit a record-high 140%. Growing gas reserves in the reporting period allowed the *Group* to raise production output and ensure sustainable development of the industry in the

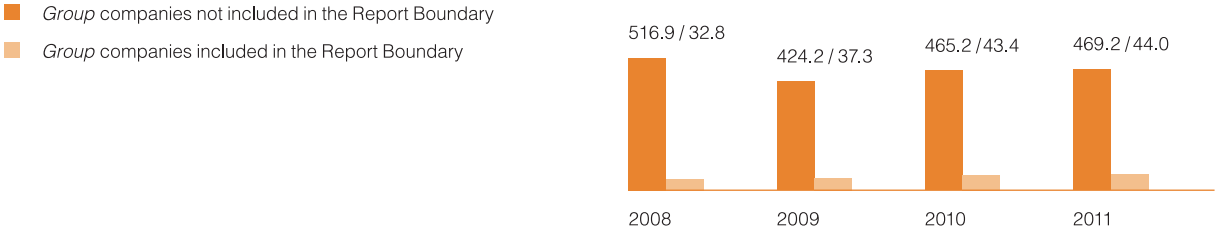
***Gazprom Group* gas reserves growth through geological exploration, bn m^3**



In 2010–2011, *Gazprom Group* total natural gas production reached 1,021.8bn m^3 (508.6bn in 2010, and 513.2bn in 2011). The companies included in the Report Boundary produced 934.4bn m^3, i.e. 91.4% of the *Group's* output in 2010–2011. In 2010 gas production rose 10% y-o-y while in 2011 – less than 1% y-o-y. In 2015 *Gazprom Group* intends to exceed the pre-crisis gas output.

According to *Gazprom* estimates, to satisfy the growing demand for gas both on the domestic and European market, the *Company* will have to achieve annual production of 630–720bn m^3 of gas by 2030.

Gas production in 2008—2011*, bn m³



* Gas production in 2008–2009 differs from that presented in the first Sustainability Report due to changes in the number of companies included in the Report Boundary.

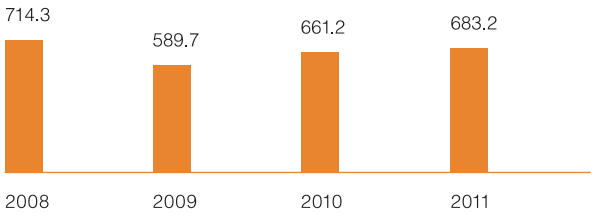
Natural gas is transmitted along the *Gazprom Group's* main gas pipelines that are integrated into the Unified Gas Supply System (UGSS). In 2010–2011, the length of Gazprom's main gas pipelines across Russia increased by 4,300 km to reach 164,700 km. Gas intake and distribution through *Gazprom* UGSS across Russia also rose in 2010–2011, but was still below the pre-crisis level of 2008: in 2011 gas intake reached 683.2bn m³, or 95.6% of the 2008 level.

In addition to *Gazprom Group* gas, the UGSS system is used to transmit gas produced by other companies: in 2011 81.5bn m³ of gas was transmitted through the system (122.6% of the 2009 volume), with earnings from transmission service sales reaching RUB 79,239mn (168.5% growth vs 2009).

Underground gas storage (UGS) facilities are an essential component of the UGSS that ensures gas supply during the heating season. *Gazprom* uses UGS facilities in Russia and European countries (Austria, Germany, the U.K., Serbia and Latvia).

In 2010-2011, total active capacity of Russian UGS facilities rose by 1.5bn m³ to reach 66.7bn m³. Growing key gas transmission rates by *Gazprom Group* guarantee stable operation of the Russian UGSS.

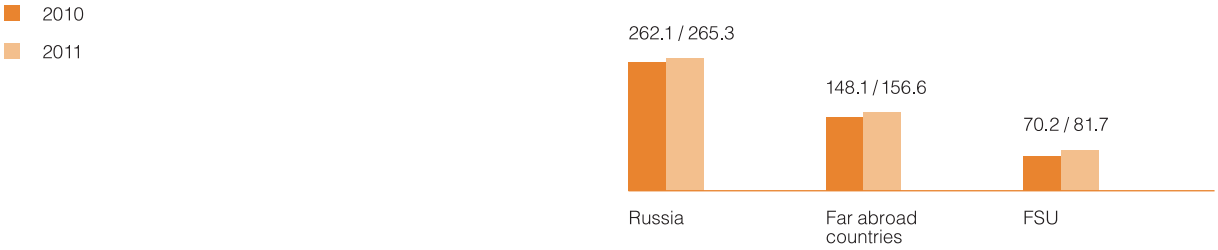
Gas intake to Russian GTS system, bn m³



Gazprom Group has six gas and liquid hydrocarbon processing plants including the Astrakhansky GPP, Orenburgsky GPP, Sosnogorsky GPP, and Orenburgsky helium refinery. In 2011 the *Group* processed 33.2bn m³of natural and associated gas vs. 33.6bn m³ in 2010 (excluding raw materials provided under tolling arrangements). A slight decline in gas processing in 2011 vs. 2010 results from lower production in the raw material supply base of several GPPs.

In 2010–2011 Gazprom gas sales in Russia accounted for c.53% of total sales. The far abroad countries consumed c.31% of gas sold, and FSU states nearly 16%.

Gas sales, bn m³



Independent gas producer engagement

Gazprom customers and business partners are among the key stakeholders of the *Group*. It is estimated that 25% of Russian natural gas will be produced by independent producers that gain access to the Gas Transmission System (GTS) in accordance with the Russian Government Resolution Concerning the Provision of Access to OAO Gazprom Gas Transmission System to Independent Organizations. Independent gas producer engagement is based on the following principles.

No discrimination

OAO Gazprom provides access to GTS facilities to independent gas producers to deliver their products to end users. Today, the gas from independent producers makes up 11–12% of total GTS transmission volume.

Order of priority

OAO Gazprom provides gas transmission capacity that is not used by the *Group* for export deliveries or to supply gas to socially important end users in Russia. In the reporting period, independent producer access to all GTS capacity was comprehensively discussed with the Russian Antimonopoly Service[9].

Protecting the interests of the UGSS owner

In accordance with Article 13 of the Federal Law Concerning Gas Supply in the Russian Federation, OAO Gazprom owns the UGSS and is interested in GTS reconstruction, upgrading and development. Independent gas producers can be involved in financing GTS reconstruction and development projects through higher tariffs for transmitting their products through the GTS system.

Gas industry development

Access of gas suppliers to regional markets to the gas supply system reflects the interest of OAO Gazprom and independent suppliers in developing the gas industry. In 2010, gas transmission services were provided to 23 companies, and to 26 producers in 2011.

Liability for performing contract bligations

Independent gas producer engagement should rely on the principle of mutual liability of the parties. Contracts between the *Company* and independent producers include a schedule for the delivery and distribution of transmitted gas.

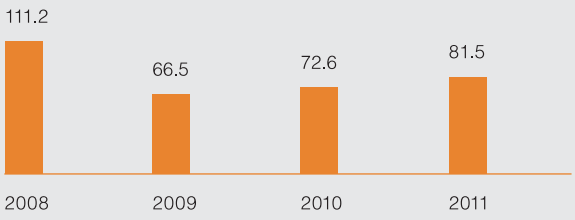
Information transparency

Gazprom provides information about available GTS capacity to all interested independent gas producers as required by the Government Resolution Concerning Information Disclosure Standards for Natural Monopolies Providing Gas Transmission Services.

In the reporting period, OAO Gazprom successfully developed cooperation with leading gas producer NOVATEK. In 2010 the companies signed a Cooperation Agreement covering LNG production at the Yuzhno-Tambeiskoye field on the Yamal peninsula. Cooperation between *Gazprom* and NOVATEK is aimed at increasing Russian LNG exports to Europe, including gas supplies by independent producers.

Therefore, efficient interaction between the *Gazprom Group* and independent producers promotes growing natural gas production, creating conciliatory relations among gas market participants, and, consequently, sustainable development of the gas industry.

Gas transmission services to companies beyond the *Gazprom Group*, bn m³



In 2011 265.3bn m³ of natural gas was sold to Russian end users (excluding intra-group sales), which represents a 1.2% rise y-o-y and 1.0% growth vs. 2009. The Russian Energy Strategy and CEDIGAZ Association estimate that gas consumption will continue to grow in Russia and around the world. Therefore, *Gazprom* plans to actively develop and expand its gas business to satisfy the rising demand both in Russia and abroad.

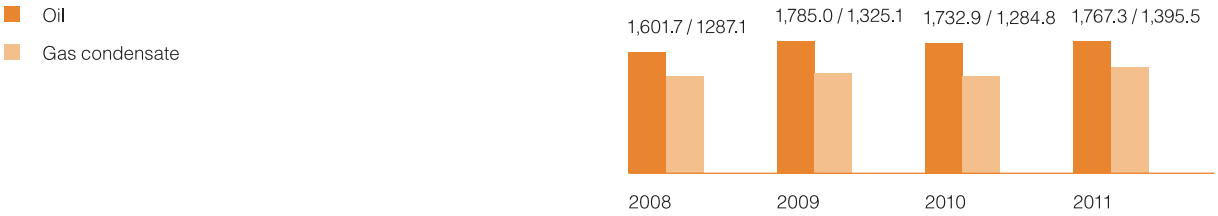
9 In the reporting period, the *Company* was charged a penalty of 1,008,000 rubles for breaching the anti-trust legislation as the *Company* failed to comply with the application processing procedure when considering Gazenergo Alliance's access to the GTS.

Oil segment performance

The *Gazprom Neft Group* plays a key role in *Gazprom's* oil business, uniting over 70 oil producers, refiners and sellers in Russia, the FSU states, and the far abroad countries.

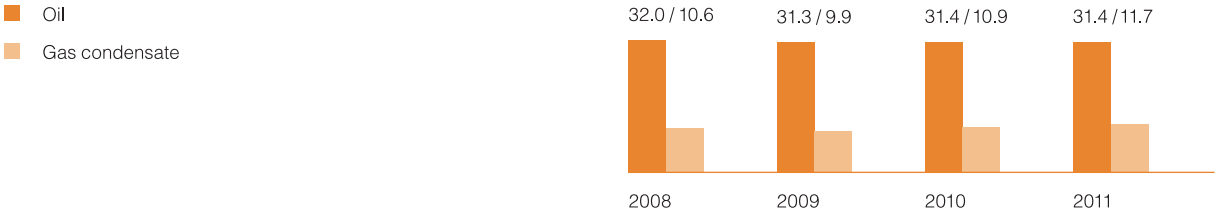
As of January 1, 2012, *Gazprom* liquid hydrocarbon (oil and gas condensate) reserves stood at 3,162.8mn tonnes ($A+B+C_1$), including 1,767.3mn tonnes of oil and 1,395.5mn tonnes of gas condensate. In 2010–2011, *Gazprom's* geological exploration brought oil reserve growth of 141.3mn tonnes, and a 70.8mn tonne increase in gas condensate. In the reporting period the following fields were discovered: the Severo-Vakunayskoye oil field in the Irkutsk Region, the Novotatischevskoye gas & oil field in the Orenburg Region, the Severo-Trassovoye and Myginskoye fields in the Tomsk Region, and the Ignyalinskoye oil & condensate field in the Irkutsk Region. Growing oil and gas condensate reserves allow *Gazprom* to continue expanding the *Group's* oil business.

Liquid hydrocarbon reserves in Russia in 2008—2011, mn tonnes



In 2010–2011, oil and gas condensate production by the companies that are included in the Report Boundary reached 85.4mn tonnes, or 97.5% of total *Group* production. The associated companies' production included in *Gazprom Group's* share in the same period stood at 43.1mn tonnes. In 2010 the companies within the Report Boundary produced 42.3mn tonnes of oil and gas condensate (31.4mn tonnes of oil and 10.9mn tonnes of condensate), and 43.1mn tonnes (31.4mn tonnes of oil and 11.7mn tonnes of condensate) in 2011. In 2010 oil and condensate production rose by 3.8% y-o-y, and 2.3% y-o-y in 2011. By 2020 *Gazprom* expects to increase annual oil production to 100mn t c.e., including subsidiaries and shares in associated companies.

Liquid hydrocarbon production in Russia in 2008—2011, mn tonnes



Oil and gas condensate processing is an important strategic business line for *Gazprom*. The *Group's* oil and unstable gas condensate processing capacity totals 75.4mn tonnes. In 2010-2011 (excluding raw materials provided under tolling arrangements), the *Group* processed 103.7mn tonnes of oil and condensate (50.2mn tonnes in 2010, and 53.5mn tonnes in 2011). The processing segment is demonstrating annual growth in raw material processing: 13.3% in 2010, and 6.6% in 2011. A similar rise is shown by oil refineries: 39.7mn tonnes of oil products in 2010 (+12.5% y-o-y), and 42.6mn tonnes in 2011 (+7.3% y-o-y).

Omsk Oil Refinery

The Omsk Oil Refinery is *Gazprom Group's* key facility with annual rated capacity of 20mn tonnes of oil. In 2011 the refinery launched production of Euro-5 gasoline with ultra-low sulphur and benzene content, which considerably reduces hazardous emissions when used in vehicle engines.

The structure of *Gazprom Group* oil products did not reflect any considerable change: c.30% diesel oil, c.25% gasoline, and c.20% residual oil. Other oil products (including aircraft fuel and lubricants) account for c.25% of total production. The strong performance by *Gazprom Group's* oil production and refining segments makes the oil business high potential line of business in the *Company's* strategic development.

Raw material processing and gas conversion products, 2008—2011

	2008	2009	2010	2011
Raw materials				
Natural and associated gas, bn m^3	33.3	29.9	32.9	32.4
Processed products				
Dry gas, bn m^3	26.5*	24.2	26.2	25.7
Liquefied petroleum gas, thousand tonnes	2,601.0*	2,806.6/ 105.4**	3,045.4	2,891.7
Broad fraction of light hydrocarbons, thousand tonnes	554.6*	454.0	441.9	660.5
Stable gas condensate and oil, thousand tonnes	3,126.8	2,900.1	3,010.4	3,576.0
Helium, thousand m^3	5,037.9	4,892.6	4,856.1	3,526.4
Sulphur, thousand tonnes	5,385.9	4,404.6	5,252.4	5,391.5
Ethane, thousand tonnes	327.2	362.1	384.1	391.8
Odorant, thousand tonnes	3.0	3.0	3.3	3.4
Black carbon, thousand tonnes	30.4	21.1	31.6	31.4
Methanol, thousand tonnes	–	419.0	663.2	690.4
Pentane-hexane fraction, thousand tonnes	111.0	35.2	151.5	145.1

* Excluding Sibur Group production.
** Including abroad (includes NIS performance).

Raw material processing and oil refining products, 2008—2011

	2008	2009	2010	2011
Raw materials				
Oil and unstable gas condensate, mn tonnes	40.1	44.3	49.8	53.1
Oil products				
Gasoline, thousand tonnes	7,606.2	8,648.8	9,368.8	10,253.3
Aircraft fuel, thousand tonnes	1,967.3	2,276.0	2,598.1	2,735.5
Diesel oil, thousand tonnes	10,406.6	11,214.2	12,830.9	12,771.6
Heating oil, thousand tonnes	6,138.5	6,355.6	8,176.4	8,642.5
Lubricants, thousand tonnes	328.3	371.4	367.1	391.0

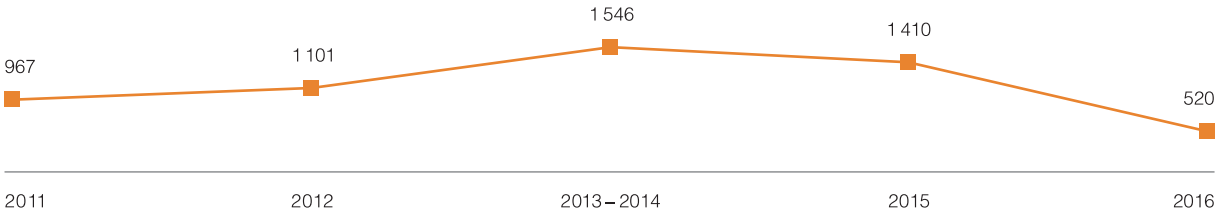
Power segment performance

Gazprom Group is the largest owner of generating assets in Russia: in 2010–2011 *Gazprom's* share in electric power generation in Russia reached 17%, and 18-19% in heat production. The high efficiency demonstrated by *Gazprom's* power business results from advanced combined cycle power units, or heat and power plants that produce both heat and electric power, and hydro generation facilities. The key role in the *Group's* power business is played by OOO Gazprom Energoholding, which is responsible for managing the *Group's* generating companies on the basis of uniform corporate standards. The companies include Mosenergo, TGK-1, and OGK-2. OOO Gazprom Energoholding's asset structure includes more than 80 power stations with rated capacity over 37 GW. The *Group* also includes ZAO Kaunas Heat and Power Company, which owns the Kaunas Combined Heat and Power Plant in Lithuania with a rated capacity of 170 MW.

In 2011 the *Group* completed reorganization of its generating companies: OGK-6 was merged with OGK-2. The merger resulted in 18 GW of OGK-2 total rated capacity. In 2010–2011, Mosenergo rated capacity rose 3.2%, TGK-1 rincreased its capacity by 8.9%.

According to the long-term program for introducing new capacity, in the period of 2012-2016 *Gazprom Energoholding* total capacity is expected to grow by 4,576.8 MW.

Plan for expanding *Gazprom Energoholding* capacities, MW



In 2010–2011 a third of generating companies demonstrated lower capacity factor[10]. OAO Mosenergo's capacity factor dropped by 1.3%, OGK-2 by 2%, and TGK-1 by 2.4%. A lower capacity factor is the result of increasing total capacity and a drop in electric power consumption due to weather conditions.

Key specifications of *Gazprom Energoholding* generating companies, MW

			Total rated capacity, MW		Capacity factor (electric power), %	
Subsidiary	**Company structure**	**Fuel supply performance in 2011**	**2010**	**2011**	**2010**	**2011**
Mosenergo	1 GRES power plant 14 CHPs	Gas: 98.4% (0%) Coal: 1% (0%) Fuel oil: 0.6% (0%)	11,900	12,305	62.3	61.0
OGK-2 (including OGK-6)	10 GRES power plants 1 CHP under construction	Gas: 70.6% (+3,5%) Coal: 28.8% (-3.4%) Fuel oil: 0.6% (-0.1%)	17,869	17,857	53	51
TGK-1	41 HPPs 14 CHPs	Gas: 91.1% (+1.3%) Coal: 3.4% (-0.4%) Fuel oil: 5.5% (-0.9%)	6,278	6,837	49.3	48.1

In 2010–2011, *Gazprom Group's* electric power output also declined slightly. In 2010 the *Group* produced 174.5bn kWh of electric power and 105.5mn Gcal of thermal energy vs. 172.8bn kWh and 98.8mn Gcal respectively in 2011. This decline comes from weather conditions and capacity maintenance.

Gazprom power assets are well structured in geographical terms, which makes it possible to optimize the loading factor and power supply chain. *Gazprom Energoholding* companies are located in Moscow and the Moscow Region (Mosenergo), St. Petersburg, the Leningrad Region and the Murmansk Region, the Republic of Karelia (TGK-1), the Pskov, Ryazan, Vologda, Rostov, Chelyabinsk, the Sverdlovsk Region, the Krasnoyarsk and Stavropol Territories, and the Khanty-Mansijsk Autonomous District – Yugra (OGK-2).

OAO Gazprom is also involved in the salesof power produced. In 2010–2011, total sales of electric power rose at Mosenergo (70.070mn MWh, +5.7% y-o-y) and TGK-1 (32.948mn MWh, +2.9% y-o-y) but declined at OGK-2 (84.823mn MWh, -9% y-o-y). A drop in power sales at OGK-2 resulted from lower power production. Thermal power net supply to end users also declined at each of the three generating companies by an average of 5.5% compared to 2010, which is the result of a higher average temperature during the heating season of 2010–2011.

***Gazprom Energoholding* electric power output and thermal power supply**

	Electric power output, mn kWh		Thermal power supply, in thousand Gcal	
OOO Gazprom Energoholding subsidiary	**2010**	**2011**	**2010**	**2011**
Mosenergo	64,969	64,648	69,865	66,410
OGK-2 (including OGK-6)	82,472	79,796	6,734	6,333
TGK-1	27,162	28,362	28,818	26,053
Gazprom Energoholding total	174,603	172,806	105,417	98,796

10 The capacity factor is equal to the ratio of actual electric power output for the period to possible output for the same period in the event of uninterrupted operation at the rated capacity.

The power segment investment program is aimed at increasing power production and sales. In 2011 investment in electric and thermal power production and sales reached RUB 69.4bn vs. RUB 46.2bn in 2010 (IFRS). Before 2016, it is planned to commission about 9 GW in new capacity including the Adler CHP.

5.3. Economic efficiency and pricing

Direct economic value

The direct economic value created includes material values created by *Gazprom Group* for its stakeholders. In the reporting period, the economic value created rose by 28.5% to RUB 4,767,414mn in 2011.

The direct economic value distributed includes material value distributed by *Gazprom Group* among its stakeholders. In the reporting period, the distributed economic value rose by 28% to RUB 4,518,129mn in 2011.

The *Group's* rising economic value proves its highly effective performance in creating and distributing value among its stakeholders.

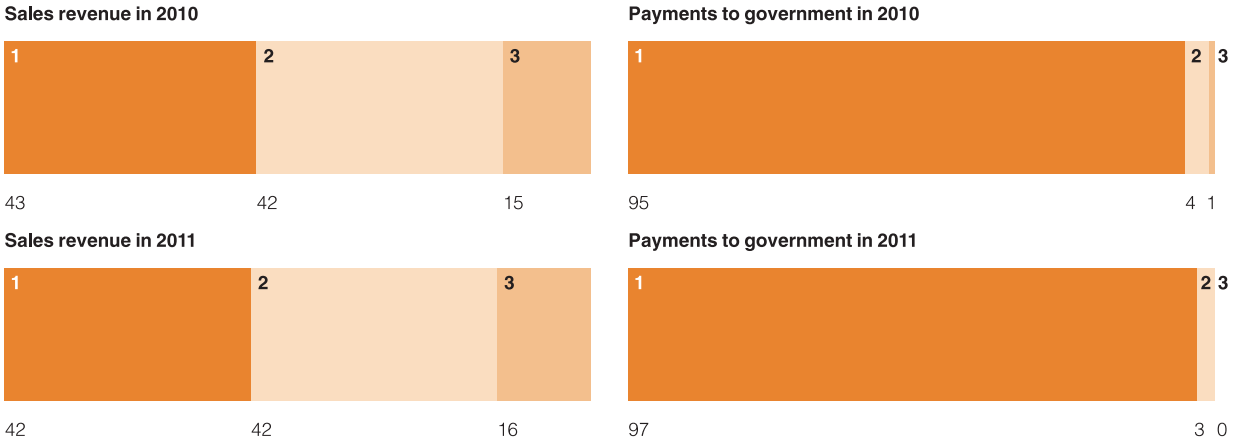
***Gazprom Group* created and distributed economic value, IFRS, RUB mn**

Indicator	2010	2011	Change y-o-y
Direct economic value created			
1. Net sales (sales revenue), including:	3,578,481	4,615,441	+29%
1.1. Russia	1,535,765	1,928,641	+25.6%
1.2. FSU	524,583	735,025	+40.1%
1.3. Europe and other states	1,518,133	1,951,775	+28.6%
2. Gains from trading activity	6,256	2,791	-55.4%
3. Income from financial investments, including:			
3.1. Financial loan interest	20,692	18,685	-9.7%
3.2. Dividend income	4,584	7,574	+65.2%
3.3. Income from leases	18,573	21,649	+16.6%
3.4. Other income from investment facilities	76,520	99,049	+29.4%
4. Income from sale of assets (including fixed assets, financial assets, tangible and intangible assets)	1,044	846	-19%
5. Gains on disposal of available-for-sale financial assets	3,292	1,379	-58.1%
Total direct economic value created	**3,709,442**	**4,767,414**	**+28.5%**
Direct economic value distributed			
1. Operating costs (less depreciation, reserves, exchange rate differences and payroll)	1,803,700	2,288,261	+26.9%
2. Payroll, benefits & other payments to employees	380,136	393,542	+3.5%
3. Payments to capital suppliers, including:			
3.1. Dividend payments to shareholders	56,117	98,210	+75%
3.2. Loan interest	38,714	31,998	-17.3%
4. Payments to government (federal and local taxes and associated penalties) , including:	1,234,264	1,683,109	+36.4%
4.1. Russia	1,178,150	1,626,946	+38,1%
4.2. FSU	6,263	8,548	+36.5%
4.3. Europe and other states	49,851	47,615	-4.5%
5. Community investments (non-commercial charitable donations to organizations outside the Group)	15,993	23,009	+43.9%
Total direct economic value distributed	**3,528,924**	**4,518,129**	**+28%**
Retained economic value	**180,518**	**249,285**	**+38.1%**

* Payments to government (taxes) are presented on a cash basis due to the need for segmentation; other components are presented on an accrual basis.
** Charitable activity, the *Gazprom* for Children program, financial and sponsorship activities.
*** Retained economic value is calculated as the difference between created and distributed economic value.

Regional economies share in *Gazprom's* direct economic value, %

1 Russia **2** Europe and other states **3** FSU



Gazprom's stance on gas market pricing

Gazprom Group supplies natural gas to foreign and domestic markets on a daily basis. Gas prices on foreign markets (FSU and the far abroad states) are driven by the market. Gas prices on the Russian domestic market are regulated by the governmen[t1].

To improve domestic gas pricing, the Russian government adopted Resolution No 1205 of December 31, 2010, Concerning the Improvement of Government Regulation of Gas Prices, which provides that in the medium term the wholesale gas price for industrial users will be based on a formula that will provide for gradual achievement of net back parity. The period for transition to gas prices that would provide for net back parity will depend on the price situation on foreign gas markets and compliance with the regulated domestic gas price performance expected by the Government.

In 2011 the average regulated wholesale gas price for Russian users stood at 29.7% of the average sale price of gas delivered to far abroad countries and 34.9% of the average sale price for FSU consumers.

In 2011 the average regulated wholesale gas price rose by 15.3% y-o-y to RUB 2,745/1,000 m^3. The net back parity price in 2011 made up 63% of the price for far abroad gas supplies. While the regulated wholesale gas price for Russian industrial users stood at 40% of the net back parity price.

The Russian Government made a decision to ensure gradual indexing of regulated domestic gas prices in the medium term: in 2012 prices changed by 7.5%, in 2013, 2014 and 2015 price indexing is expected at 15%, 15% and 14.6%, respectively.

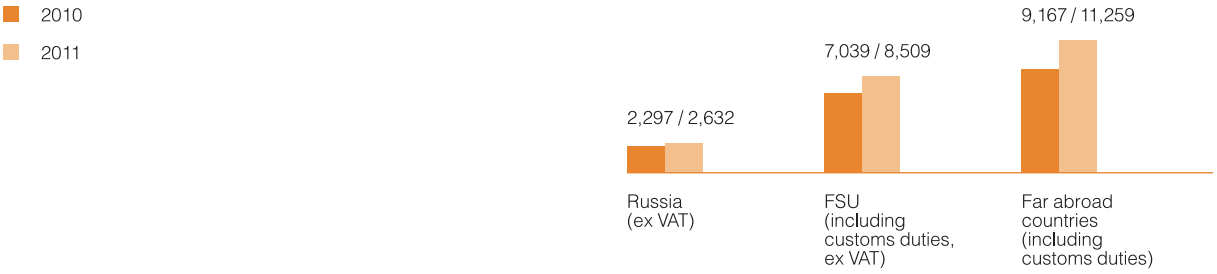
Current regulated domestic gas prices do not allow *Gazprom* to use its own funding sources to finance investment programs required to maintain and develop gas production, transmission and storage capacities. Return on equity on the domestic regulated wholesale gas market is as low as 4%. This return rate is half the level needed to support and develop the Unified Gas Supply System.

At the same time, since 2011 the Government has been raising the tax burden on the gas industry as a whole and Gazprom in particular through a higher mineral extraction tax on gas. In 2011 the MET rate on gas rose by 61% from RUB 147 to 237 per 1,000 m^3. Looking forward, the MET rate on gas will rise stage-by-stage from RUB 509/1,000 m^3 (2012) to RUB 788/1,000 m^3 (2015), which will result in a higher additional tax burden that *Gazprom Group* will have to bear.

In addition, t indexing regulated wholesale prices will p become the primary source for increasing income to the federal budget by an annual increase in the MET rate on gas (the government plans to capture at least 80% of the increase in *Gazprom* earnings resulting from indexing gas prices), including 93% in 2013. This tax load on gas will not facilitate the creation of a stable background for development.

11 Wholesale prices for Russian consumers of gas produced by OAO Gazprom and its affiliated companies are regulated by the Federal Tariff Service of the Russian Federation (FTS). Before 2011, in accordance with decisions of the Russian Government, the FTS annually indexed wholesale gas prices for Russian consumers taking into account the remoteness of various consumer categories from gas production regions. Since July 2012, wholesale gas prices for end users (excluding households) have been calculated in accordance with the Regulation on Determining Gas Pricing Formula approved by the Russian FTS Order of July 14, 2011 No 165-e/2.

Average sale price for *Gazprom* gas in Russia, FSU and the far abroad states*, RUB/1,000 m³



* Average *Gazprom* sales prices for the FSU and far abroad countries are presented in accordance with IFRS accounts.

Gazprom's strategic goal is to make a transition to market-driven gas pricing on the domestic market.

We need to achieve a level of regulated gas prices that will include reasonable economic costs and profits and ensure that the owners of gas supply systems have readily available funds to expand gas production and develop pipeline networks and underground gas storage facilities as required by Federal Law No 69-FZ of March 31, 1999, Concerning Gas Supply in the Russian Federation.

We also need to create a well-balanced tax system that will recognize the interests of both the government and gas producers.

Developing market-based principles for gas pricing

On May 28, 2007, the Russian Government adopted Resolution No 333 *Concerning the Improvement of Government Regulation of Gas Prices* that supported the development of market-based pricing in the gas industry. *Gazprom* received the right to supply gas to certain users at agreed prices above the regulated gas price that could not exceed the upper limit set by the government. In 2011, that limit was 10% above the regulated price.

Government Resolution No 1205 of December 13, 2010, provides that in 2013–2014, gas prices may fluctuate in the range of -3pp to +3pp of the average gas price in every particular region, which will help create a more flexible pricing system reflecting specific features of gas supply to end users.

On April 16, 2012, the Russian Government adopted Resolution No 323 *Concerning the Sale of Natural Gas on Commodity Markets and the Introduction of Amendments to the Acts of the Government of the Russian Federation Concerning Government Regulation of Gas Prices and Access to the Gas Transmission System of Open Joint Stock Company Gazprom*, which entitled *Gazprom* to sell its gas on commodity markets.

However, implementing this Resolution requires the adoption of certain federal regulations that will first of all govern access to the gas transmission system for buyers of exchange-traded gas and organization of exchange trading in an environment in which gas users are allowed to consume 10% more than the contracted volume. Along with organizing exchange trading, we also need to resume gas trading through electronic platforms as is widely done on world gas markets.

Overall, implementing these Russian Government resolutions will facilitate the stage-by-stage creation of market-based principles for gas sales on the domestic market.

Improving gas pricing options

Supporting the development of gas electronic and exchange trading in Russia

From 2006–2008, Gazprom Mezhregiongaz' electronic trading platform conducted an experiment on selling *Gazprom* and independent producer gas at free prices. When the experiment was completed, gas sales via the electronic trading platform ceased. The government should consider Gazprom Mezhregiongaz' experience with the electronic trading platform when creating gas exchange trading in Russia.

Transition to market-driven pricing for gas supplies to industrial users

Regulated gas underpricing means that *Gazprom Group* is compelled to subsidize Russian industry. In the last decade, these subsidies reached nearly 2 trillion rubles. Government Resolution No 1205 of December 31, 2010, Concerning the Improvement of Government Regulation of Gas Prices, was the first-ever effort that made it possible to set gas prices for industrial users with a view to gradually achieving net back parity in gas supplies. Looking ahead, implementing this Resolution will make it possible to set domestic gas prices based on the purchasing power of Russian industrial gas consumers.

Harmonizing mineral extraction tax rates

In 2010–2011, *Gazprom* filed a number of proposals to harmonize the MET rate, which resulted in a considerable reduction in *Group* earnings due to the lack of flexibility in domestic gas prices. The MET rate on gas will rise stage-by-stage, resulting in a higher additional tax burden for the *Group*. The expected rise in wholesale prices will not be able to compensate for the *Group's* lost earnings, which in 2012 alone will hit RUB 64bn. OAO Gazprom proposes that the fair price for gas must be based on a zero MET rate for socially important fields on the Yamal peninsula, in Eastern Siberia and the Far East, and graduated rates that depend on field depletion and depth of Given the continued regulation of domestic gas prices, flexible tax rates will help maintain profitability for *Gazprom* sales to Russian users.

Introducing government regulation of tariffs for transmitting *Gazprom* gas through the main pipelines on Russian territory

The current system of regulating gas prices for end users is governed by the Federal Law Concerning Gas Supply, which allows for replacing tariff regulation for gas transmission with the regulation of gas prices for end users and regulation of tariffs for transmitting gas from independent producers. Government Resolution No 1205 of December 31, 2010, provides for introducing government regulation of tariffs for gas transmission for all gas suppliers, including *Gazprom Group*, by 2015. Implementing the government initiative to replace government regulation of prices with the regulation of tariffs for gas transmission will facilitate the creation of a gas capacity market and inter-fuel competition on the Russian gas market.

Tariffs for gas transmission services

Tariffs for gas transmission services via *Gazprom's* main pipelines provided to independent producers are set by the Russian Federal Tariff Service (FTS).

To bring gas transmission tariffs to a reasonable economic level, the regulator raised domestic tariffs by 22.8% and 9.3% in 2010 and 2011, respectively, and by 3.5% y-o-y in 2012.

Gazprom earnings from transmitting gas for independent producers are only sufficient to cover operating costs when net income does not exceed 2.5% of the book value of the facilities involved in gas transmission. This kind of return is nearly one quarter the income required to create reasonable business conditions to maintain and develop a GSS gas transmission network, which will also benefit independent producers.

The Group stance on pricing in the oil market

In 2010–2011, *Gazprom Group* oil prices were driven by the situation on the global markets for oil and oil products. These two years saw rising oil prices driven by the post-crisis recovery of global markets. In two years, the average Brent price rose by $31.5/bbl, reaching $111/bbl in 2011.

Achieving fair prices for oil and oil products on the domestic market

In 2008, to achieve fair prices for oil and oil products on the Russian market, *Gazprom Group* developed and launched *Gazprom Neft's* electronic trading platform. Electronic platform participants (c.750 companies) traded in *Gazprom Neft* oil products. Minimum document flow and easy trading ensured that the system was highly effective.

From 2008 through 2010, more than 318,000 tonnes of oil products were sold via *Gazprom Neft's* electronic platform. Since 2009, along with developing electronic trading, *Gazprom Neft* has been actively involved in exchange trading in oil products. In 2010 over 1mn tonnes of oil products were sold via exchange, rising to more than 2.5mn tonnes in 2011. This puts *Gazrpom Neft* in second place among vertically integrated oil companies (VIOC).

The exchange prepared the infrastructure needed for oil trading, and trading in this market segment will launch as soon as regulators decide on the minimum share of sales. *Gazprom Neft's* active involvement in exchange trading and organizing automated registration of over-the-counter deals (in 2011 *Gazprom Neft* accounted for more than 50% of all exchange transactions) made it possible to raise the representativeness and liquidity of exchange trading and create conditions for achieving fair and transparent price indicators (market/aftermarket indices). *Gazprom Group* interests in Russia include the development of electronic and exchange trading.

Favorable global oil prices used by *Gazprom Group* for trading in Russia support the *Group's* sustainable development on domestic and foreign markets.

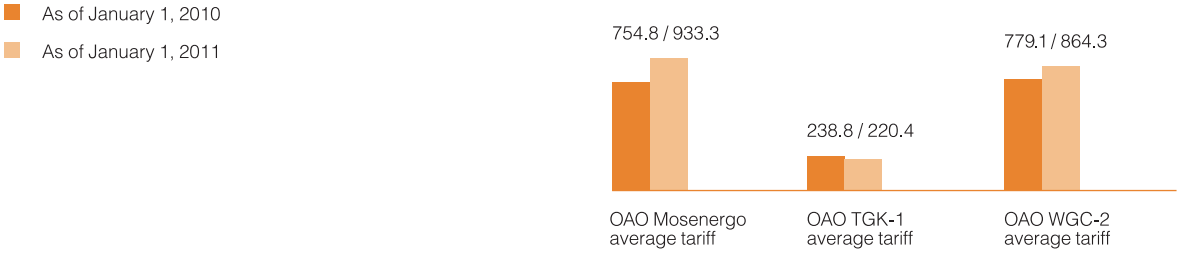
The Group stance on pricing in the electricity market

Gazprom Group generating companies trade on the wholesale and retail electricity and power markets. TGK-1 exports electric power to Finland and Norway.

On the wholesale market, *Group* companies are represented in both pricing zones[12]. Following the liberalization of the electricity market in 2006–2011, the wholesale market operates on the basis of regulated contracts and free pricing. Regulated contracts cover the purchase and sale of electricity and power for households and equivalent users. Prices under regulated contracts are equal to government tariffs for electricity and supplier capacity. Electric power tariffs are set by the Russian FTS every year. Free prices are set on the open electricity market (including the day-ahead market and the balancing market) and on the open capacity market.

In 2010–2011, tariffs for electricity traded on the wholesale market under regulated contracts rose by 23.6% at Mosenergo and 10.9% at OGK-2 (including OGK-6). TGK-1 average tariffs dropped by 7.7% following the decline in electricity rates for a number of HPPs. In 2011, to contain electricity price growth, the Russian FTS did not raise electricity tariffs until July 1, 2012, when they were increased by 6%. *Gazprom Group* seeks to minimize its losses from government regulation of electricity tariffs and avoid other price risks in the electric power segment.

Average electric power tariffs, RUB/MWh



12 The Russian energy system is divided in two price zones: one covers European Russia, the Urals, and the Southern and North-Western territories, the other applies to Siberia. Additionally, there are non-price zones of wholesale market that cover territories where competitive market does not exist (Arkhangelsk and Kalinigrad oblast, Republic of Komi and Far East).

Improving electricity pricing options

Preventing artificial caps on tariff increases or a prescriptive reduction in tariffs by government regulator

To contain rising costs for electric power suppliers, government tariffs for electricity traded on the wholesale market under regulated contracts should be adjusted for the inflation level. Russian FTS efforts to control tariff increases have a negative impact on the financial and economic performance of *Gazprom Group* generating companies and, consequently, on end users. To avoid any prescriptive cap or reduction in tariffs on the wholesale market, *Gazprom* participates in continuous market monitoring and complies with all requirements of the FTS, NP Market Council, and TSA.

Minimizing risks of fuel price increases

Electric power production costs incurred by *Gazprom* generating companies depend on fluctuating prices for fuel (gas, coal, etc.). *Gazprom* seeks to minimize the *Group* generating companies reliance on fuel suppliers. In 2011 gas produced by the *Gazprom Group* constituted 80% of *Gazprom Energoholding's* fuel balance. Cross-sector cooperation between *Group* companies makes it possible to reduce the risks of rising generation costs and ensure sustainable operations of generating companies.

Achieving a fair price for electricity on foreign markets

To diversify electricity sales, in 2011 the *Gazprom Group* traded electricity on European platforms. Total sales reached 255 TWh. The *Group* also supplied 1.5 TWh of electricity to end users in Germany and the U.K.

Gazprom's pricing policy in the electric power sector is aimed at preventing government prescriptive action on electricity markets, developing cross-sector cooperation and achieving fair pricing on foreign electric power markets. Implementing this policy will enable the *Group* to develop its generating assets and increase electricity production for its end users.

Dialogue with European energy market regulators

The dialogue between *Gazprom Group* and EU energy market regulators seeks to evaluate the effect of international regulatory changes and prepare proposals on draft agreements in the energy sector. In 2010–2011, *Gazprom* and the European Union focused on the Third Energy Package, the Draft Agreement on Cross-Border Energy Infrastructure, the Draft Convention on Ensuring International Energy Security, "energy" articles from the new Basel agreement between Russia and the European Union, and the Road Map for cooperation between Russia and the European Union in the energy sector to 2050.

Third Energy Package

The EU Third Energy Package is a set of legal regulations in the energy sector adopted in 2009. It is designed to ensure structural reorganization of vertically integrated energy companies with a view to separate intrinsically monopolistic businesses (gas transmission) from competitive operations (gas production and sales).

The regulations require that gas transmission systems created after September 3, 2009, on a non-competitive basis be subjected to legal and property demerger. The transportation systems that existed in the European Union on or before September 3, 2009, will be subject to less demanding separation procedures. In certain cases, demerger procedures contradict international treaties between the Russian government and governments of EU member states, and require corporate and government negotiation.

As of March 2011, 18 EU member states failed to achieve agreement with the EU government about incorporating the Third Energy Package provisions into their national legislation.

In 2010–2011, *Gazprom* was involved in active negotiation with the EU regarding the issues and prospects for implementing the Third Energy Package. Meetings between *Gazprom* and EU experts were held in Moscow and Brussels to inform the EU and national governments of *Gazprom's* position on European regulatory legislation in the energy sector.

The new model for the European gas market that was created pursuant to the Third Energy Package has a number of considerable defects and uncertainties that affect *Gazprom* interests in Europe. Depriving the *Group* of the right to manage its gas transmission assets in Europe will reduce the value of investments made to create the assets. The appeal of further investment in European gas transmission capacity may significantly decline due to the uncertainty regarding returns. The other defect in the new gas market is the European regulators' abandonment

of long-term reservation of transmission capacity which could have an unfavorable impact on gas supplies to Europe since in peak demand seasons Europe will have to compete with other international gas markets. The Third Energy Package contains a number of material risks for gas suppliers and consumers, and further development and adaptation to gas market realities will require engagement by all stakeholders.

OAO Gazprom expects to continue the dialogue with the European Union about the Third Energy Package and acceptable solutions for the existing and proposed gas transmission infrastructure in Europe.

Agreement on cross-border transport infrastructure

Gazprom developed a draft agreement on cross-border transport infrastructure to determine the legal status of cross-border gas pipelines located on the territory of EU member states after the Third Energy Package is adopted. This agreement gives special status to *Gazprom* cross-border pipelines and relieves the Company of the forced separation of an intrinsically monopolistic business from competitive operations in Europe.

In 2011 *Gazprom Group* negotiated the draft agreement on cross-border transport infrastructure with the European Commission. *Gazprom* sought to discuss possible exemption from the Third Energy Package for the Group cross-border pipelines.

The separation of gas transmission from further delivery and sales required by the Third Energy Package is designed to develop competition among European companies for the right to use gas transmission facilities. Applying similar measures to *Gazprom* cross-border pipelines is unacceptable since there can be no other suppliers but Gazprom on the route to Europe.

Gazprom intends to continue discussing the agreement on cross-border transport infrastructure with the European Union as it is able to protect *Group* interests from the most controversial requirements of the Third Energy Package.

Other discussions with European energy market regulators

In 2010–2011, *Gazprom Group* was actively involved in preparing proposals regarding the Convention on Ensuring International Energy Security.

The Draft Convention on Ensuring International Energy Security was developed by the Russian Government with a view to creating a legal framework for developing detailed rules for long-term international cooperation in the energy sector. If adopted, the Convention will make it possible to implement the principles of transparency in energy policies, predictability of energy demand, and state sovereignty over national natural resources.

In the reporting period the Group also participated in preparing the “energy” articles of the new Basel agreement between Russia and the European Union. The new Basel agreement between Russia and the European Union is expected to replace the existing Partnership and Cooperation Agreement and create a new legal framework for strategic partnership between Russia and the European Union. Negotiation of the new Basel agreement began in 2008, and more than 10 rounds of talks were held. The new Basel agreement will create a solid basis for Gazprom’s cooperation with European gas consumers in the long run.

Now, negotiation is underway to develop a Road Map for cooperation between Russia and the European Union in the energy sector to 2050, which is intended to create an agreed and mutually beneficial plan of action for all major participants in the Russian and EU gas, oil and electric power markets. The Road Map to 2050 is being developed within the scope of the standing EU-Russia Energy Dialogue. *Gazprom Group* experts are participating in the Thematic Groups of the Energy Dialogue and submitting proposals on prospective lines for developing bilateral relations in the energy area.

Gazprom Group also takes part in other EU-Russia Energy Dialogue initiatives. Group experts are included in the Gas Advisory Council under Coordinators of the EU-Russia Energy Dialogue, participate in informal meetings of gas market regulators, and facilitate the promotion of a joint EU-Russia Partnership for Modernization initiative in the energy area.

Gazprom expects that European energy market regulators will support all international initiatives the reflect the *Group’s* interests: the Draft Convention on Ensuring International Energy Security, the new Basel agreement between Russia and the European Union, the Road Map for EU-Russia cooperation in the energy sector to 2050, and the Partnership for Modernization initiative.

6. Environmental Impact

6.1. Environmental protection management

Gazprom Group production operations affect the human environment. Fully aware of this fact, the Company pursues a consistent environmental policy, and implements programs and measures designed to reduce man-made impact on natural sites and ecosystems[13]. For this purpose, OAO Gazprom has developed the Environmental Management System (EMS) at the *Group* and subsidiary levels, which includes advanced environmental protection approaches and techniques in planning and designing its operations, implements the best available technologies to ensure resource conservation and energy savings, provides the financing required to protect the natural environment, and assures the transparency and openness of environmental information.

Environmental protection across the entire life cycle of production facilities

Group companies strive to reduce negative environmental impact across the entire life cycle of production facilities with a focus on preventing environmental risks: as required by Russian and international law, *Gazprom Group* member companies conduct pre-project environmental surveys and environmental impact assessments (EIA) on all phases of the project cycle – from the investment idea to the investment project. If a project affects the interests of other countries, an EIA is made in the cross-border context as required by the Espoo Convention[14]. Before filing with government authorities, all project documents are reviewed in terms of environment protection by *Gazprom* experts. At all stages of construction, operation and retirement of production facilities, the *Group* controls compliance with legislative and corporate environmental requirements, conducts environmental monitoring, and develops and implements measures to protect nature. In terms of technical upgrades and modernization, the *Company* is committed to the best available technologies.

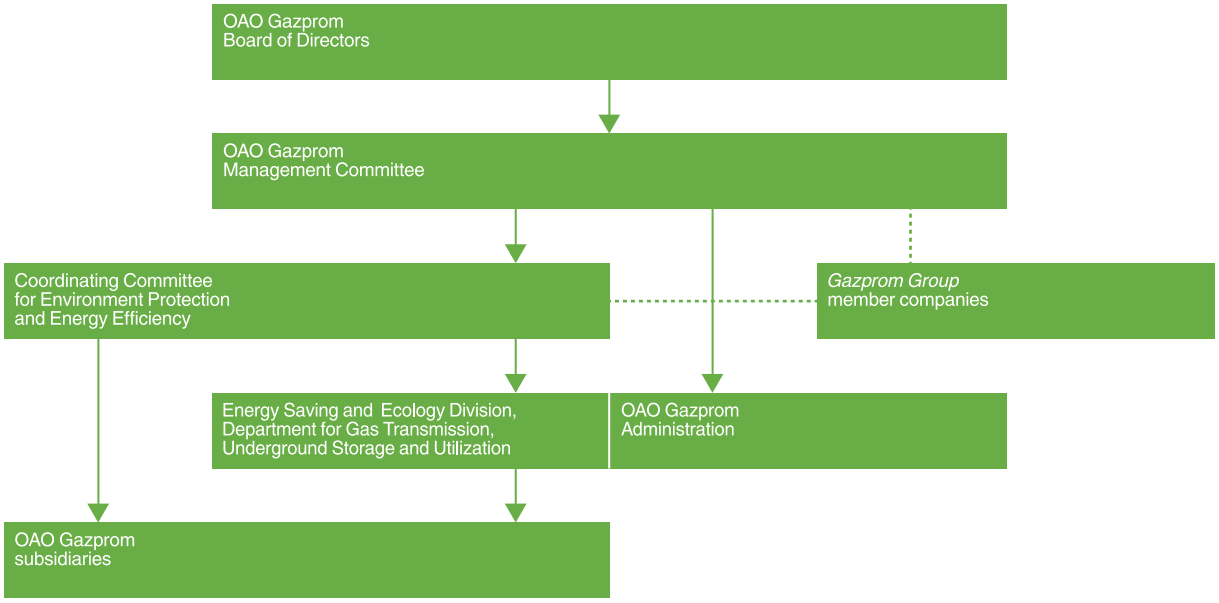
Environmental protection performance is governed by the Coordinating Committee for Environmental Protection and Energy Efficiency that was established in 2007 with a view of ensuring a comprehensive approach to environmental management and coordinate OAO Gazprom subsidiaries and business units' efforts in environmental protection. The Committee's primary responsibilities include:

- evaluating the effectiveness of environmental protection measures;
- organizing comprehensive environmental protection management, energy conservation and energy efficiency;
- coordinating interaction with government environmental protection agencies and public organizations.

The Committee includes most of the Management Committee members and heads of OAO Gazprom business units. The Committee is chaired by V.A. Markelov, the Deputy Chairman of the OAO Gazprom Management Committee. The Energy Saving and Environmental Division of the OAO Gazprom Department for Gas Transmission, Underground Storage and Utilization coordinates the activity of all OAO Gazprom subsidiaries and member organizations in the area of environmental protection, energy conservation and energy efficiency management. The OAO Gazprom Management Committee is the supreme governing body in the area of environmental protection. Strategic environmental protection issues are referred to the authority of the OAO Gazprom Board of Directors.

13 A detailed description of approaches to environmental management and environmental protection performance is presented in Gazprom Environmental Reports for 2010 and 2011.
14 The Espoo Convention is the international Convention on Environmental Impact Assessment in a Trans-boundary Context signed in Espoo, Finland, in 1991.

***Gazprom Group* environmental protection management structure**



At the *Gazprom Neft Group*, environmental management is the responsibility of the Industrial Safety Department, which since June 2011 reports directly to *Gazprom Neft's* CEO. To make key decisions and determine strategic objectives, *Gazprom Neft* established a collective governing body – the Industrial Safety, Labor and Environment Protection Board. The Board includes the heads of Industrial Safety Department divisions and heads of corresponding functions of *Gazprom Neft* major assets.

At *Gazprom Energoholding*, environmental protection management is the responsibility of generating companies Mosenergo, TGK-1, and OGK-2. Now the *Company* is seeking to develop a single technical policy and a uniform environmental protection policy for all *Gazprom Energoholding* member companies.

In 2011 OAO Gazprom Environmental Management System (EMS) was certified in accordance with the ISO 14001:2004 international standard. The system is built as a vertically integrated structure that covers all management levels – from OAO Gazprom Administration to administrations of subsidiaries and associated companies and organizations to branches and industrial facilities[15]. EMS applies to all OAO Gazprom subsidiaries involved in the production, transportation, storage and processing of natural gas and condensate. Certified Environmental Management Systems operate in many subsidiary companies: Mosenergo, OGK-2, TGK-1, *Gazprom Neft Group* member companies, associated companies of Sakhalin Energy, and others.

To unify and raise the effectiveness of environmental protection performance, *Gazprom* has introduced corresponding corporate standards. In 2010–2011, over ten new standards were established in the Environmental Protection at OAO Gazprom Companies category.

To improve employee competence and environmental protection awareness, the *Gazprom Group* conducts corporate training for managers and employees. In 2011 a total of 4,677 Group employees took environmental training.

6.2. OAO Gazprom environmental policy

For the first time, a OAO Gazprom Environmental Policy was adopted in 1995. Regular updates ensure compliance with modern environmental protection principles and approaches. By Resolution No 1891 of October 24, 2011, OAO Gazprom's Board of Directors approved implementation of the Environmental Policy and recommended that it be applied by all member companies. Thus, the *Group* carried out the Order of the Russian President of June 6, 2010, requiring that all joint stock companies with government participation implement mechanisms of voluntary environmental responsibility. Based on the OAO Gazprom Environmental Policy, a number of Group companies including *Gazprom Neft* adopted their own environmental policies. OAO Gazprom's environmental policy is publicly available on the corporate Web site at http://www.gazprom.com/nature/ecology/.

15 OAO Gazprom Management Committee Member O. Aksyutin is the EMS Authorized Representative of the *Company* management.

OAO Gazprom's environmental policy and policies of its member companies establish strategic objectives in the environmental protection area that incorporate specific features of company operations and are designed to minimize environmental impact.

The Environmental Policy defines OAO Gazprom's responsibility for environmental conservation as a global energy company. The Policy confirms *Gazprom's* commitment to sustainability goals.

The long-term strategic objectives in the environmental protection area established by the Environmental Policy include:

- minimizing specific negative impact on the environment;
- improving the efficient use of natural resources and sources of energy;
- engaging all employees in mitigating environmental risks, improving environmental management systems and environmental protection performance.

The set objectives are cascaded to obligations that include but are not limited to:

- compliance with all applicable national and international laws;
- resource conservation and higher energy efficiency;
- developing environmental protection activities as well as environmental management of the *Group*;
- commitment to preventing pollution;
- respect for the rights and interests of indigenous minorities, their traditional way of life, preservation of the primordial living environment, and climate change performance;
- responsibility for gas supplies to households, wider use of natural gas as a motor fuel;
- availability of *Gazprom* environmental information and transparency of environmental protection decisions.

The Environmental Policy also includes basic implementation mechanisms.

6.3. Climate change

The *Company's* Environmental Policy recognizes the importance of the climate change problem and undertakes to make best efforts to preserve climate conditions. OAO Gazprom considers business, legal, physical, infrastructure and social risks that arise from possible consequences of climate change.

- Business risks may be connected with lower domestic and international prices for gas vs. those planned, introduction of duties or taxes on fossil fuels.
- Legal risks may arise from changes in legislation including Russia's undertaking of national or international obligations in the area of climate change.
- Physical risks may come from the natural events such as thawing permafrost, changes in seasonal precipitation or temperature levels or temperature levels, and a rise in sea levels.

Risk management measures related to climate change are also described in section 4.4 Sustainability risks.

In 2011, with a view to advancing its own experience in climate change risks analysis, OAO Gazprom presented the report Identification of Climate Risks and Adaptive Measures to Ensure Safe Operation of Gas Facilities on the Yamal Peninsula at the International Scientific Conference Adapting to Climate Change Issues. The report elaborated on a wide range of highly complex issues connected with field development on the Yamal peninsula and the adjacent shelf of the Kara Sea that the Company has to consider in the course of its operation.

OAO Gazprom is a regular participant in the Carbon Disclosure Project, an annual international investment community initiative. The parent company provides information about reducing greenhouse gas emissions that is also available on the Project Web site at https://www.cdproject.net/, namely:

- legal and physical risks, and OAO Gazprom capabilities related to climate change;
- registration techniques for greenhouse gas emissions;
- quantitative data on greenhouse gas emissions.

In 2011, following a survey, the Carbon Disclosure Project noted that OAO Gazprom had provided the most complete information among Russian companies.

Gazprom contributes to mitigating human impact on global climate change by implementing technical and organizational measures, and establishing corporate target programs designed to raise energy efficiency and energy conservation that result in lower greenhouse gas emissions. *Gazprom's* effort to reduce methane leaks when repairing main pipelines and associated petroleum gas (APG) flaring is of key importance for reducing greenhouse gas emissions. For details of the APG efficient utilization, see section 7.2 titled Expanding the Use of Gas.

Implementing Environmental Policy obligations regarding availability of environmental information and decision transparency

In pursuance of Environmental Policy obligations, *Gazprom* provides free public access to environmental information.

The corporate Web site contains the text of the Environmental Policy, includes a special Environment section, provides regular information about meetings and decisions by the OAO Gazprom Coordinating Committee for Environmental Protection and Energy Efficiency, environmental protection measures, environmental safety and environment conservation. Since 1995 *Gazprom* issues annual Environmental Reports that are also available on the corporate Web site. Along with Environmental and Sustainability Reports, the information about environment protection and energy saving is included in OAO Gazprom's Annual Reports and the annual Government Report of the State and Protection of the Environment in the Russian Federation.

The information about current and prospective measures taken by the *Gazprom Group* in the field of environmental protection and energy conservation is regularly published in Russian mass media, the Gazprom corporate magazine, Gas Industry, Siberian Oil, regional and corporate media, and special industry publications.

OAO Gazprom introduced a procedure for handling external stakeholder requests and complaints. All requests received in 2010–2011 were reviewed as required by the established procedure.

OAO Gazprom and *Group* companies participate in Russian and international environmental protection conferences, and conduct regular meetings with various stakeholders. For example, with a view to demonstrate OAO Gazprom's environmental protection performance and exchange views with stakeholders, the 2nd International Conference on Environmental Safety in the Gas Industry was held on December 7–8, 2011, which gathered 150 leading experts from 65 companies in five countries and included 86 speakers. At the conference a round table discussion *Gazprom* and Public Environmental Organizations: Experience and Prospects for Cooperation was organized. The round table participants agreed to continue the discussion of environmental safety issues.

Special attention is being paid to considering public opinion in the course of EIA procedures. In 2011, in the course of preparing EIA documents for a number of the facilities covered by the Program for Constructing Olympic Facilities and Developing the City of Sochi, Gazprom Sotsinvest held 11 public hearings, and established community liaison offices where experts and interested individuals could investigate all aspects of environmental support for preparation and construction of Olympic facilities.

Reducing greenhouse gas emissions

Since 1992 OAO Gazprom has been involved in creating a corporate system of control, inventory and accounting for main greenhouse gas emissions (methane and carbon dioxide) in the gas industry, as well as developing measures to reduce greenhouse gas emissions. A set of regulations has been developed to ensure compliance with the UN Framework Convention on Climate Change, which is used to prepare inventory, accounting and control of greenhouse gas emissions and develop projects to reduce emissions.

To date, comprehensive accounting for greenhouse gas emissions has not been ensured by all member companies in the *Group*. For example, *Gazprom Neft* is now working to create a full-scale greenhouse gas inventory system that will enable the Company to account for both direct and indirect emissions. This will provide for an overall assessment of existing greenhouse gas emissions and the input from various business segments.

In 2010–2011, the *Group's* recorded greenhouse gas emissions stood at 254.7 and 245.5mn tonnes of CO2 equivalent, respectively. Lower emissions in 2011 resulted primarily from reduced methane emissions by OAO Gazprom's gas business subsidiaries and a reduction in heat and electricity production by the electricity segment.

In general, *Gazprom Group's* effort to reduce greenhouse gas emissions has contributed to achieving the objective of reducing national greenhouse gas emissions by 15–25% from the 1990 level by 2020 that was stated by the Russian Federation at the 15th session of the Conference of Parties to the UN Framework Convention on Climate Change.

Greenhouse gas emissions in 2009—2011, mn tonnes of CO_2 equivalent

Companies	2009	2010	2011
OAO Gazprom subsidiaries*	131.2	137.2	133.4
*Gazprom Neft***	0.5	1.5	1.8
*Gazprom Energoholding****	105.7	116.0	110.3
Sakhalin Energy	—	3.7	3.4

* Data refer to direct emissions. Indirect emissions from *Gazprom* subsidiaries are negligible compared to direct emissions.
** Data refer to direct methane emissions.
*** Data refer to direct and indirect emissions.

OAO Gazprom is open to sharing the expertise accumulated in this area: in 2011, at the 34th session of subsidiary bodies of the UN Framework Convention and the Kyoto Protocol in Germany, the Company held a seminar titled: Preparing Corporate Greenhouse Gas Registers in the Russian Federation: Gas Industry Experience, and as part of preparing for the Global Gas Congress, the International Gas Union and OAO Gazprom developed industry guidelines on reducing greenhouse gas emissions that describe best practices across the entire gas industry value chain.

International technical cooperation in the area of greenhouse gas emissions

GDF SUEZ, Gazprom VNIIGAZ and Gazprom Transgaz Samara completed the final stage of the technical dialogue Enhancing Operation of Compressor Plants to Reduce Fuel gas Losses and Air Emissions, which included an exchange of experience in field studies of detecting and measuring methane leaks from technological equipment including dry seals and oil baffles in gas compressor units (GCU).

Together with E.ON Ruhrgas, OAO Gazprom completed the technical dialogue CO_2 Emission Assessment, Control and Reduction Techniques at Gas Processing and Transmission Facilities, which included technical meetings on CO_2 emission reduction issues, and the possible use of OAO Gazprom's positive experience in introducing a software system for assessing greenhouse gas emissions at E.ON. Ruhrgas facilities.

The Company with a grant from the US Environmental Protection Agency completed the study Methane Capture in the Russian Gas Sector: Economic and Ecological Benefits. The study was designed to identify the potential for reducing greenhouse gas emissions, assessing OAO Gazprom's corporate system of emission accounting and assessment, and developing guidelines on reducing emissions by an oil and gas company.

In recent years, within the framework of the Kyoto Protocol, OAO Gazprom and a number of *Group* companies, including *Gazprom Neft* and Mosenergo, launched joint projects designed to reduce greenhouse gas emissions through beneficial utilization of associated gas and increasing energy efficiency.

For example, in 2011 *Gazprom Neft* was the first among Russian oil companies to complete the transfer and sale of 295,000 emission reduction units (ERU, equal to 1 tonne of CO_2), received in accordance with the Kyoto Protocol implementation procedure established in Russia, from the national register to another state's register.

6.4. Gazprom Comprehensive Environmental Program

In 2010, within the framework of implementing the Environmental Policy and introducing the EMS system, OAO Gazprom adopted the Comprehensive Environmental Program for 2011–2015.

The program contains a list of system-wide events and investment projects aimed at increasing the environmental safety of facilities that are designed, built or operated, and includes time frames, expected results, scope and sources of funding. The program ensures consistency in the underlying approaches and principles used in current OAO Gazprom programs in various sectors of operation. It is closely connected with the environmentally effective measures included in the programs of OAO Gazprom or its subsidiaries that are implemented or scheduled for this period. The Program scenario fully corresponds to the OAO Gazprom 10-year Development Program. The Program relies on basic provisions of strategic national and industry documents in the area of power supply and

environmental protection, OAO Gazprom's Environmental Policy, an analysis of the current national ecological situation, significant environmental aspects of operations by OAO Gazprom subsidiaries, and the global best practices of environmental management applied by major oil and gas companies. Program aims and objectives are worded in strict accordance with *Gazprom* strategic development targets.

OAO Gazprom Comprehensive Environmental Program Principal Objectives for 2011—2015:

- reducing gross pollutant emissions;
- reducing specific emissions of nitrogen and carbon oxides by gas turbine plants per fuel gas flow unit;
- reducing contaminated and partially purified effluents in surface-water bodies;
- reducing buried production and consumer wastes;
- eliminating the environmental damage done in previous years;
- reducing the share of excessive impact fees as an integrated indicator of negative environmental impact in overall environmental payments;
- introducing ISO 14001-compliant environmental management system at 28 subsidiaries.

The Program is designed to minimize specific negative environmental impact (per product unit); increase the effectiveness of using non-renewable energy sources and natural resources; engage all staff in reducing environmental risks, improving environmental management systems and environment protection performance; reduce environmental risks; raise the effectiveness of budget planning and using financial resources allocated for environmental activities; renew fixed production assets including environmental protection facilities; improve the ecological situation in the regions of operation; ensure OAO Gazprom's input to environmentally sensitive development of the Russian economy and improve *Gazprom*'s image as an environmentally responsible company.

Gazprom continues to expand financing for environmental protection. Since 2009 investments by the companies included in the Report Boundary[16] increased by more than half; in 2010 and 2011 the annual growth rates reached 24% and 31%, respectively. Increased investment largely resulted from the implementation of major investment projects in which environmental protection measures played a key role.

Environmental protection funding in 2009—2011, RUB mn

	2009	2010	2011
Total *Gazprom Group* costs	**18,881.2**	**20,511.9**	**24,607.4**
Total costs of companies included in the Report Boundary	**17,960.1**	**19,696.5**	**24,248.1**
including			
operating expenses for environmental protection	9,908.9	9,846.6	10,988.4
overhaul costs for fixed production assets at environmental protection facilities	944.5	1,219.0	2,552.1
capital investments in environmental protection and rational use of natural resources	6,013.9	7,440.1	9,727.1
negative environmental impact fees	1,092.8	1,190.9	980.5

In 2010–2011, companies paid RUB 1,190.9mn and 980.5mn, respectively, in negative environmental impact fees. The gas segment demonstrated a considerably lower share of excessive impact fees in total environmental payments: in 2010 the figure dropped to 9% and fell further to 8% in 2011.

Observing environmental laws is a primary responsibility of OAO Gazprom and its subsidiaries. In 2010–2011, no major violations of environmental regulations by the companies included in the Report Boundary were identified. As a result of state inspections carried out in 2010–2011, no major violations of the environmental regulations of the Russian Federation by the *Gazprom Group* companies included in the Report Boundary were identified. In 2010 a total of RUB 1.8mn in fines was paid, which in 2011 rose to RUB 4.6mn. Environmental violations related mostly to untimely approval of licenses for activities that involve adverse environmental impact. All violations were remedied within the established deadline.

16 Hereinafter, all indicators for the companies included in the Report Boundary are complemented with and provided inclusive of Sakhalin Energy Investment Company Ltd., the Sakhalin-2 operator that contributes greatly to the environmental aspects of *Gazprom's* sustainability performance.

6.5. Environmental Impact Assessment

Air emissions

In 2010–2011, gross pollutant emissions by the companies included in the Report Boundary fell by 5% and 8% respectively compared to 2009. In 2011 emissions by gas segment companies were approximately 70% of gross emissions.

On the whole, the greatest share of OAO Gazprom's gross emissions was generated by gas pipeline transmission, which accounts for nearly 92% of total methane emissions in the gas segment. While the total of gas transported rose, gas transmission company emissions fell, mainly due to the minimization of outgassing volume during repairs on main gas pipelines. Also, while the volumes of gas intake and off-take increased, emissions from underground gas storage facilities fell.

At the same time, in 2010–2011 increased production by the *Gazprom Neft Group* resulted in higher gross emissions by the oil production and processing segments. In 2011 *Gazprom Energoholding's* emissions fell year-on-year due to lower energy production.

Gross pollutant emissions in 2009—2011, '000 tonnes

	2009	2010	2011
Total *Gazprom Group* emissions	3,391.1	3,225.3	3,124.2
Total emissions by the companies included in the Report Boundary	3,366.4	3,181.7	3,084.7

Composition of pollutant emissions in 2011 by weight, %

1 Hydrocarbons (including methane)
2 Carbon oxide
3 Nitrogen oxides
4 Sulfur dioxide
5 Others

95% of hydrocarbons (methane) in the gross emissions structure are related to the emissions produced by OAO Gazprom subsidiaries during transmission, production, underground storage, and processing of natural gas and condensate.

Water consumption

In 2011 the companies included in the Report Boundary consumed 5,786.5mn m^3 of water, of which approximately 97% was used for their own needs. The energy segment is the main water consumer (more than 95%). Water discharge by the companies included in the Report Boundary in 2011 was 5,299.6mn m^3.

Water consumption in 2009—2011, mn m³

	2009	2010	2011
Water withdrawal by *Gazprom Group* member companies	5,791.3	6,259.0	5,793.0
Water withdrawal by the companies included in the Report Boundary	5,788.8	6,255.8	5,786.5
including			
from underground waters		86.5	77.5
from surface waters		5,932.3	5,492.9
received from other organizations		105.3	199.5
Reuse water supply		13,431.9	11,554.9
Recycling water supply		267.9	236.0

The considerable change in water consumption in 2010–2011 resulted from an increase in energy production in 2010 and a subsequent decline in 2011 by *Gazprom Energoholding* companies. Water consumption by oil and gas companies is declining due to organizational and technical measures. Total water consumption is also falling due to more efficient water usage resulting in lower consumption overal.

Water discharge and waste-water quality in 2009—2011, mn m³

	2009	2010	2011
Water discharge by *Gazprom Group* member companies	5,336.3	5,701.0	5,300.7
Water discharge by the companies included in the Report Boundary	5,335.8	5,700.4	5,299.6
including			
Water discharge to surface water bodies	5,209.8	5,363.6	5,257.2
including			
partially clean and treated-to-standard waters	5,031.2	5,348.7	5,096.0

Waste treatment

In 2011 the companies included in the Report Boundary accumulated 4,938,800 tonnes of production and consumer waste. Waste production in 2011 declined considerably vs. 2009. *Gazprom Energoholding* companies are the main contributors to waste production: in 2011 their share exceeded 75% of total waste, or approximately 3,790,000 tonnes, of which 99.8% was ash and slag produced by solid-fuel combustion that are related to IV-V classes of hazard. In the annual waste produced by oil and gas companies, low-hazard and non-hazardous wastes account for nearly 90%.

Waste production in 2009—2011, thousand tonnes

	2009	2010	2011
Waste production by *Gazprom Group* member companies	5,210.8	5,598.6	4,973.9
Waste production by the companies included in the Report Boundary	5,153.5	5,463.7	4,938.8

Gas-engine fuel

Gazprom Group is contributing greatly to the gradual transition of Russian motor transport to a more ecofriendly fuel. Presently, of all popular engine fuels, natural gas provides for the least destructive emissions of motor vehicle exhaust gases. Vehicle conversion from gasoline to gas allows for an average 80% reduction in hazardous emissions, and reduced noise impact by half.

The global market for gas powered vehicles is developing rapidly. The number of methane-driven transport vehicles is approaching 15 million. In Russia *Gazprom* is an undisputed leader in the production and sales of gas-engine fuel, and is actively working to expand gas-engine usage in Russia.

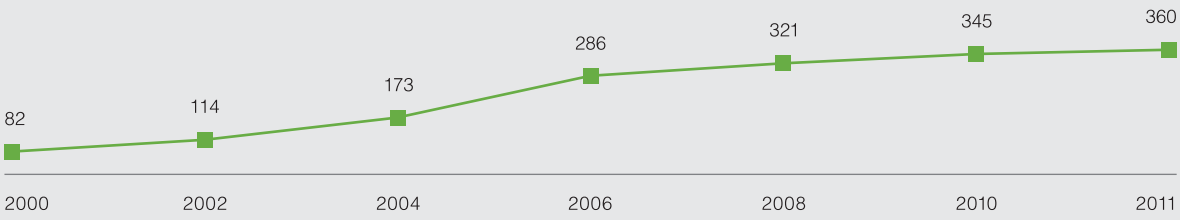
During the reporting period agreements were reached for more extensive use of natural gas as engine fuel with the administrations of the Nizhny Novgorod, Kaluga, Orel and Tambov Regions, as well as with the municipalities of Yekaterinburg, Chelyabinsk, Orenburg, Samara, Saratov and Tambov. In February 2011, the Moscow Government decided to convert city buses to gas. In December 2011, an agreement between the *Gazprom Group* and the Volga Bus Investment Industrial Group, a bus manufacturer, was signed regarding the use of natural gas as an engine fuel.

Gazprom Group is developing a program to equip its own vehicles with natural gas-powered engines. The program intends to increase the share of Company natural gas-powered vehicles to 30% of the corporate motor vehicle fleet. During the reporting period, 3,770 vehicles were converted to natural gas.

Today 242 automatic compressor natural gas filling stations, including 207 owned by *Gazprom*, currently operate in 58 Russian regions. In 2007, the 2007–2015 Comprehensive Target Program for Developing a Natural Gas Filling Station Network and a Natural Gas Powered Vehicle Fleet was approved. The Program envisages commissioning at least 200 automatic compressor gas filling stations in various Russian regions and expanding the natural gas filling station network annual capacity to 2.6bn m^3, which will make it possible to increase the number of CNG-driven motor transport vehicles and agricultural equipment by more than 50,000 by 2015. Annual CNG sales in Russia should rise to 700mn m^3. Among other things, this will lead to reducing greenhouse gas emissions by more than 1mn tonnes of CO_2 equivalent.

CNG sales in Russia continue to grow. In 2000–2011, the demand for the gas-engine fuel increased by 278mn m^3.

CNG sales growth in Russia, mn m³



Changes in waste production in 2010–2011 resulted primarily from a rise in electricity production in 2010 and a decline in 2011 by a number of large coal-fired power stations, and the use of high-sulphur and high-ash coal, which affected generation of ash-and-slag wastes. Higher waste generation by gas companies was primarily due to expanded drilling and, accordingly, drilling wastes; the *Gazprom Neft Group* companies reduced drilling wastes in 2011 through application of pitless drilling techniques.

Waste reduction due to pitless drilling

To resolve the problem of drilling waste utilization, oil and gas companies use pitless drilling techniques. Pitless drilling technology incorporates special facilities to utilize the waste generated by well construction. Gazprom Dobycha Noyabrsk applies pitless drilling technique to drill wells at Yety-Petrovskoye field, and drilling waste is then converted to building material. Over 10,000 tonnes have waste been processed. The resulting building material was used on road slopes, making it possible to fortify roads and prevent ground erosion, and achieve additional savings on sand deliveries. The *Gazprom Neft Group* also actively applies pitless drilling techniques.

In 2011, ash-and-slag waste produced by energy-generating companies accounted for about 85% of total waste delivered to storage or burying facilities by the companies included in the Report Boundary. The waste utilized by enterprises rose by approximately 30% in 2011 vs. 2010 while the waste handed over to special processing organizations dropped by 22%.

Oil-contaminated waste comprises mainly slime generated by pipeline, container and oil separator cleaning, and floating oil waste collected by oil traps. Approximately 50% of such waste is handed over to special processing organizations; about 10% is processed and utilized on-site, and the rest is delivered to temporary storage facilities.

Structure of production and consumer waste treatment in 2011, %

1 Stored and buried at company own facilities

2 Accumulated as at year end

3 Utilized and process at company own facilities

4 Released to other companies

58 18 12 12

6.6. Fragile Ecosystem Protection

Conservation of natural resources and biodiversity is one of the main objectives of *Gazprom's* corporate Environmental Policy. To achieve this objective, companies take measures to protect wildlife and plant life, and their habitats that are incorporated in project development and implemented at the stages of building and operating production facilities.

Pre-feasibility study and environmental impact assessments determine the baseline state of ecosystem key components, identify the most vulnerable species of flora and fauna, prepare proposals to minimize adverse impact on fragile ecosystems, and preserve wildlife and plant habitats. Project solutions for preserving biodiversity are subjected to state expert review and, if required by law, state environmental appraisal.

Gazprom possesses an enormous amount of experience operating in the Arctic region with its adverse climate conditions and high ecosystem fragility.

Since 2007 OAO Gazprom has been involved in implementing a megaproject to develop the plentiful natural resources in the Yamal peninsula. The project started with developing the Bovanenkovskoye field and building the Bovanenkovo – Ukhta main pipeline system. In 2011 the Yamal megaproject entered the final stage. All work is being carried out in accordance with project solutions. To minimize impact on the regional ecosystem, the project concept completely eliminates effluent discharge into all water sources. The project relies on in-plant recycling systems that eliminate contamination of surface waters and soil. The project also uses the ray system of gas collection from well clusters and envisages a number of technological measures at main pipeline facilities designed to reduce significantly greenhouse gas emissions. Special techniques to ensure safe utilization of waste and preserve stable permafrost conditions are also in use.

Another example of environmentally safe development in the Arctic Region is the offshore ice-resistant fixed platform (OIRFP) at the Prirazlomnaya oil filed located on the Pechora sea shelf, 55 km offshore. The depth in this location reaches 19-20 m. Adverse Arctic climate conditions require extraordinary safety measures during field development. Gazprom Neft Shelf is responsible for Prirazlomnaya. To ensure environmental safety, the company has implemented a number of measures including:

- monitoring and controlling the industrial environmental, including that of marine life in the Prirazlomnaya area;
- keeping multifunctional supply ice breakers equipped to localize oil spills on standby in the platform vicinity;
- utilizing APG for in-house needs including heat and electricity generation, and oil treatment;
- storing oil and condensate in storage tanks, which eliminates the risks of leakage of light hydrocarbon vapors and explosion;
- eliminating discharge of oil, stratal water, contaminated waste water and storm run-offs, or other hazardous substances, into sea waters;
- eliminating discharge of drilling and production waste: they are either delivered to shore or, like underground and oil-contaminated waters, treated and re-injected;
- employing technological solutions that ensure protection of underground waters and prevent water mixing from different horizons;

— scheduling vessel traffic routes and timetables with a view to minimizing interference with commercial fishing;
— withdrawing water through highly effective fish protection systems;
— compensating for damage to water and biological resources, 123,000 species of two-year Atlantic salmon were bred and in May 2012 released into the waters of the North commercial fishing zone.

Gazprom pays special attention to restoring areas that have suffered damage. Together with leading specialized institutions, OAO Gazprom subsidiaries are undertaking annual comprehensive environmental and technological expeditions in order to determine the impact on the environment and test technologies for rehabilitating damaged and polluted land. For example, Gazprom VNIIGAZ[17] organized comprehensive the Yamal-2011 and Yamal-2010 environmental and technological expeditions. Their goal was to obtain objective information on the current state of the Yamal peninsula's natural ecosystems with a view to mitigating the consequences of technogenic impact from hydrocarbon production and transportation. One of the main goals of the research was to develop technologies and a program to restore the damaged and polluted area including the Bovanenkovskoye group of fields.

Gazprom Neft also investigated new technologies to reclaim oil-contaminated soil and sludge pits taking into account the landscape and biochemical conditions, and treat drilling slime for recultivation of sludge pits. In 2011 *Gazprom* adopted new corporate standard rules and requirements for organizing land (soil) recultivation contaminated by *Gazprom* production facilities.

At the end of 2011, the area damaged by oil and gas companies included in the Report Boundary totaled 72,900 ha, with the *Gazprom Neft Group* responsible for the greatest share of 52,000 ha. Energy generating companies accounted for 670 damaged land (ash-disposal areas) at the end of 2011, or less than 1% of the total area damaged by the *Group*.

Protecting ecosystems in the Dzhubga-Lazarevskoye-Sochi gas pipeline construction area

Construction of the Dzhubga-Lazarevskoye-Sochi gas pipeline, which was approved by the state environmental appraisal and FSI Russian Glavrosekspertiza, relies on the most sophisticated technologies and technical facilities to minimize technogenic impact on the environment. For example, the use of controlled directional drilling, an optimal choice for crossing over the coastal makes it possible to reduce significantly the impact on the most fragile coastal ecosystems. The offshore option of the pipeline makes it possible to avoid alienation of agricultural and forest lands, as well as specially protected nature preserves. The pipeline construction schedule is designed to protect seasonal life cycles of local fauna, and construction is carried out preserving the landscape. Project solutions and construction of the offshore section is taking the seabed profile into account in order to minimize the impact on the Black Sea ecosystem.

The condition of the Sochi National P local ecosystem is monitored annually. To ensure further mitigation of environmental impact, Gazprom Sotsinvest is involved in consistent effort to preserve the migration paths of large mammals and maintain biological diversity in the Caucasian State Natural Biosphere Reserve. To eliminate disturbances of hooved animals and brown bears during migration periods and hibernation, construction work in the areas adjacent to the Reserve territory are limited.

In 2010-2011, a series of compensatory measures was carried out, including relocation of more than 540 adults of Red Book (endangered) species from the Olympic construction zone as well as the transfer of a large number of spawn and juvenile fish and the transplanting of about 5,400 plant specimens, including Red Book species.

Lands remediated by oil and gas companies in 2009—2011, thousand ha

	2009	2010	2011
Total land remediated by *Gazprom Group*	12.6	9.8	11.6
Total land remediated by companies included in the Report Boundary	12.3	7.4	10.6

In 2010–2011 *Gazprom Group* oil and gas companies included in the Report Boundary remediated 10,600 ha of land. Gas segment companies remediated more than 85% of the total area. The greatest share of remediated land falls on stems from gas transmission companies following construction and repair work on main gas pipelines. Most companies conducted full remediation of the land damaged over the period, while certain subsidiaries reclaimed legacy contaminated land.

17 GazpromVNIIGAZ is *Gazprom's* main scientific and research entity.

In 2010–2011, *Gazprom Neft Group* expanded remediation work with the bulk of work done in due to increasing financing for reclaiming damaged land, developing new technologies for reclaiming oil-contaminated land and processing drilling slime in the course of sludge pit reclamation. The company reclaimed about 54 ha of oil contaminated land and 138 sludge pits. Since 2011, new sludge pits are reclaimed immediately after drilling work is completed.

All measures to damaged land complied with recultivation projects based on all relevant factors (contamination level, soil type, state of biocenosis in every natural zone, weather conditions) and engaged qualified experts and specialized companies. Control of the content of oil products in the soil stratum on construction sites was carried out at all stages by accredited laboratories.

Gazprom Energoholding's Troitskaya GRES, a branch of OGK-2, completed work to reduce the negative impact on the environment from the ash-disposal area located near Lake Chebarkul, and bring the technical conditions of the ash-disposal area into compliance with project requirements.

6.7. Production Environmental Safety Monitoring and Control

To review the state of the environment at the pre-project stage, develop relevant environmental protection measures and control their efficiency, *Gazprom* has implemented programs to monitor environmental safety and production control including compliance with environmental laws and corporate environmental standards. Production environmental safety control is organized at every subsidiary.

As part of Gazprom Gaznadzor, OAO Gazprom created a specialized body called OAO Gazprom Environmental Inspection. Apart from supervising compliance with environmental laws, and corporate environmental standards by subsidiaries and contractors, the Environmental Inspection carries out EMS internal audits at OAO *Gazprom* subsidiaries.

With the aim of providing for environmental safety during construction and operation of industrial facilities, strict environmental protection requirements are imposed on contractor organizations. For example, contractor agreements concluded by the *Gazprom Neft Group* establish contractor requirements and responsibility for compliance with environmental laws. Access of third-party organizations to company facilities for carrying out construction, installation, repair and other types of work is governed by instructions that establish environmental protection requirements. A mandatory contractor requirement is the availability of a license for hazardous waste management issued for the specific type of services rendered. Production environmental safety control includes the assessment of contractor compliance with the environmental protection measures envisaged by construction and reconstruction projects. A recent reduction in the number of violations and penalties identified and imposed by the state supervisory control proves the effectiveness of *Gazprom's* production environmental safety control.

The *Gazprom* system of monitoring production environmental safety is well-equipped, including fixed-site and mobile laboratories, meteorological and aerological control rooms, automated control stations and monitoring wells[18].

Gazprom's system for monitoring production environmental safety makes it possible to control:

- pollutant emissions from stationary sources;
- atmospheric air quality on the border of the sanitary protection zone and in communities;
- quality of surface and waste waters;
- noise impact;
- quality of underground water for drinking needs;
- the state of geological environment, snow and soil cover.

Gazprom's production environmental safety monitoring systems ensure assessment of the environmental conditions. In certain cases they are integrated into regional environmental safety monitoring systems.

All *Gazprom Energoholding* facilities carry out continuous quality control of the atmospheric air on the borders of sanitary protection zones. Mosenergo uses an automated environmental monitoring system installed on CHP boilers. It ensures on-line tracing of pollutant concentration in tail gases, and makes it possible to take prompt measures to reduce emissions, if needed. Moscow CHP transmits the environmental safety monitoring data to Mosecomonitoring under the Department of Natural Resources Management and Environmental Protection of the Moscow Government.

18 A "monitoring well" is a water well designed to monitor the regimen of underground waters for changes in temperature levels and chemical composition of head and ground waters to determine production impact on underground water.

7. Rational Use of Resources

7.1. Energy conservation and energy efficiency[19]

Consumption of fuel and power resources by *Gazprom Group* member companies

Gazprom is one of the largest Russian consumers of fuel and power resources (FPR), which is why since 2000 energy conservation and energy efficiency measures have been among *Gazprom's* top priority objectives, making it possible to considerably reduce negative environmental impact and achieve lower production costs.

FPR consumption for in-house technological needs, thousand t c.e.

	2010	2011
OAO Gazprom subsidiaries		
Gas	57,228	60,876
Electric power	5,005	5,493
Thermal power	3,343	3,371
Gazprom Neft Group		
Electric power	2,915	2,981
Thermal power	1,343	1,393
Gazprom Energoholding		
Gas	53,008	52,109
Fuel oil	464	391
Coal	9,822	8,482
Total	**133,128**	**135,096**

Activities in energy conservation and energy efficiency

Concept of energy conservation and higher energy efficiency

The *Company's* long-term strategy in this area is reflected in the OAO Gazprom Energy Saving and Raising Energy Efficiency Concept for 2011–2020, approved in 2010. The main objectives for this period are:

- maximum realization of the energy conservation potential in all kinds of *Company* operations on the basis of state support for *Gazprom's* energy conservation policy and improvement of energy conservation management;
- increased energy efficiency from *Gazprom* subsidiaries and affiliated companies on the basis of innovative technologies and equipment;
- a lower anthropogenic load on the environment.

The Concept determines performance targets for energy conservation and energy efficiency in the *Company's* gas business and for production and technological processes in gas production, transmission, processing and underground storage:

- reducing FPR specific consumption for in-house needs before 2020 by at least 1.2% per annum;
- reducing specific natural gas consumption for in-house technological needs and losses in the core business by at least 11.4%;
- reducing greenhouse gas emissions by at least 48.6mn tonnes of CO_2 equivalent.

The Concept estimates the total technically feasible energy saving potential for the period to 2020 at 28.2mn t c.e., including 22.5bn m^3 of natural gas.

Along with the Concept, OAO Gazprom adopted the Energy Saving Program for 2011–2013, which provides for implementing executive decisions based on improving control over energy efficiency, and raising economic interest in energy conservation performance on the part of both employees and subsidiary companies.

19 A detailed description of energy conservation and energy efficiency is available in the OAO Gazprom Environmental Reports for 2010 and 2011, and in the Energy Saving section of the *Company* Web site at: http://www.gazprom.com/nature/energy/.

The Program's main objectives are:

- improving energy conservation and raising energy efficiency in all types of operations based on current statutory and regulatory requirements;
- developing energy conservation and higher energy efficiency targets based on government and corporate requirements;
- planning and implementing energy conservation measures taking into account the programs of reconstruction and development of production, transport, processing and underground storage facilities;
- implementing energy conservation measures ensuring lower FPR consumption for in-house technological needs based on previous similar experience and the energy savings effect achieved;
- implementing highly effective innovative technologies in all types of *Gazprom* operations;
- reducing/stabilizing specific consumption of energy for in-house technological needs;
- ensuring partial compensation for commissioning new gas production facilities based on a stage-by-stage decline in energy consumption by production companies to economically feasible levels;
- reducing losses of energy products and pollutant emissions based on higher efficiency of existing power units and equipment;
- developing forms and methods for encouraging subsidiaries' performance in the field of energy conservation and increasing energy efficiency.

In accordance with the OAO Gazprom Energy Saving Program for 2011–2013, the total FRP saving target for the gas segment companies is set at 6.4mn t c.e.

Other areas of activity in the field of energy conservation and energy efficiency

In 2010–2011, the *Gazprom Neft Group* focused on implementing a number of medium-term energy efficiency programs along the following lines:

- intensifying heat exchange processes and improving fuel combustion in heating furnaces;
- optimizing recuperation systems in crude oil refining and utilizing the potential of secondary energy resources;
- reducing electricity consumption by transformer plant pumps and air coolers through installation of energy saving equipment including variable frequency drives;
- using energy efficient electrical centrifugal pumps;
- optimizing operational modes of submersible equipment and booster pump stations.

At the same time, since 2010 the *Gazprom Neft Group* member companies have been involved in creating the Energy Management System, a full-time energy saving system designed to ensure transition from individual technical measures to system-based solutions in the sphere of management and technologies.

Gazprom Energoholding's priority task list includes introducing energy saving technologies, and developing and applying new techniques based on the principles of rational use of energy resources. In the reporting period, program documents on energy saving and energy efficiency were in effect at all *Gazprom Energoholding* member companies.

Mosenergo implemented the Energy Saving Program for 2010–2015. At TGK-1, measures aimed at the rational use of energy resources were based on the Environmental Policy adopted by the Board of Directors in 2007. OGK-2 and OGK-6 carried out energy efficiency and energy saving measures in accordance with the companies' Energy Saving Programs for 2011–2013. After OGK-6 was merged with OGK-2, a new Energy Saving Program for 2012–2015 was developed.

Energy saving in 2010—2011

Gas segment companies

Energy saving programs resulted in FPR savings of 2.7mn t c.e. in 2010, and 2.8mn t c.e. in 2011.

Gazprom Energy Saving Program performance

	Natural gas, mn m³		Electric power, mn kWh		Thermal power, thousand Gcal	
Type of Operation	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**
Pipeline gas transmission	2,062.0	2,100.1	150.4	166.1	89.3	48.6
Gas, condensate, oil production	216.3	269.3	11.3	3.9	8.8	26.9
Gas underground storage	12.5	10.9	2.1	2.5	1.1	0.0
Gas conversion and condensate processing	16.9	9.9	17.8	21.6	100.1	27.4
Total savings	**2,037.7**	**2,390.2**	**181.6**	**194.1**	**199.3**	**102.9**

The main part of the FPR savings in the reporting period (89%) was brought by the gas pipeline transmission segment, with the most noticeable savings of natural gas, which is the main energy source for gas transmission facilities.

Natural gas saving performance in the pipeline gas transmission segment, mn m³

	2010	2011
Optimizing operating practices in main pipeline transport	749.0	763.0
Reducing gas consumption for technological needs by gas compressor stations (GCS), linear parts (LP) and gas distribution stations (GDS)	630.8	587.1
Reconstructing and upgrading technological equipment at GCS, LP and GDS	254.0	362.9
Improving GCU technical conditions through repairs	242.3	249.4
Reducing gas losses by GCS, LP and GDS	126.8	44.3
Reducing gas consumption for technological needs by auxiliary production	37.0	27.6
Raising gas pipeline hydraulic efficiency	21.7	24.3

Gazprom Neft Group member companies

In 2010, specific energy consumption in oil production declined by 3.4% y-o-y to 31.7 kWh per tonne of liquid. Respective electrical energy savings reached 186.9mn kWh. In oil refining, the specific energy consumption remained at 66 kWh per tonne of oil products.

The most noticeable reduction occurred in the specific energy consumption of oil product sales: from 13.5 to 12.4 kWh per 1 tonne of oil products. The electrical energy savings were 7.92mn kWh.

The main energy savings programs demonstrated the following performance in 2010: electrical energy savings reached 45.7mn kWh, liquid fuel savings – 34,000 tonnes, and heat energy savings – 155,000 Gcal. Introducing the monitoring system and increasing the reliability of energy supply made it possible to reduce oil losses from 96,000 to 22,000 tonnes.

Gazprom Energoholding member companies

In 2010–2011, Mosenergo FPR savings reached 88,140 t c.e. of gas, 131.6mn kWh of electrical energy and 68,200 Gcal of heat energy. This level of savings resulted from commissioning modern combined cycle plants (CCP) at HPP-21 and HPP-26, heating electric power generation and energy saving measures.

In 2011 at OGK-2 and OGK-,6 energy resource savings amounted to 6,003,000 t c.e. of fuel and 0.831mn kWh of electricity.

CCP commissioning at HPP-14 and HPP-22, owned by TGK-1, implementing technical upgrades and reconstruction projects as well as repairs and organizational and technical measures resulted in saving 156,900 t c.e. in 2010–2011.

7.2. Expanding the Use of Gas

Associated petroleum gas utilization

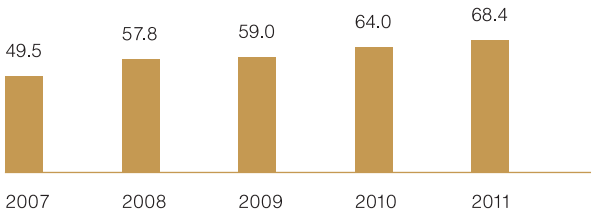
Gazprom's effort to reduce and eventually eliminate the flaring of associated petroleum gas (APG) generated in the process of oil production is of great significance for reducing greenhouse gas emissions and saving resources. APG is a valuable raw material that can be used. Traditionally, APG is flared, which generates significant pollutant emissions into the atmosphere. An important mission of the *Gazprom Group* for the next few years is to develop rational methods for APG utilization and usage. Currently, the share of APG in total gas production is 1%.

Gazprom Group consistently works to resolve the problem of APG usage. Implementing specific measures in this sphere made it possible to increase APG utilization by 19% in 2007–2011. In 2011 APG utilization by the Gazprom Group amounted on average to 68.5%.

Since 2008, *Gazprom Neft* has been successfully implementing the APG efficient utilization investment program In 2010 the Gazprom Neft APG utilization rate rose to 60.4%, reaching 64.5% (including joint ventures) in 2011. To further enhance APG utilization, *Gazprom Neft* drafted an investment program for 2012-2015. In 2015 Gazprom Neft intends to achieve an APG utilization rate of 93%, which will ensure similar rate across the entire Gazprom Group.

The APG utilization rate at Gazprom fields reached 86%. The APG utilization rate at Gazprom Dobycha Orenburg and Gazprom Pererabotka has already reached 100%, and 95% at Gazprom Neft Orenburg and NK Magma. Gazprom Dobycha Urengoy commissioned two APG-driven compressor stations, making it possible to increase the utilization rate to 95%. The growing APG utilization rate is the result of commissioning APG utilization facilities at Tomskgazprom in 2011: a gas-compressor station with an annual capacity of 500mn m^3, 206 km of gas pipeline, and gas-turbine stations for electric power generation with the total capacity of 7.5 MW. Implementing this project will bring the APG utilization rate at I fields to more than 95% in 2012 and onward.

APG utilization rate performance in 2007—2011, %



Fields with declining production

As of December 31, 2011, of *Gazprom* total discovered A+B+C$_1$ gas reserves (35.1 trillion m^3), 5.8 trillion m^3 are from fields that provide stable production, and 6.4 trillion м^3 occur at deposits with declining production. Thus, the major portion of OAO Gazprom's developed fields are in the declining stage of production. Today, operating well stock exceeds 7,500 wells, and most are also located at declining production fields.

The declining production stage at any gas field is characterized by considerably lower strata pressure. This results in a lower production rate, wells accumulate liquidsn which leads to further decline in the production rate and ultimate well shut-down. Under certain conditions, isolation squeeze and inflow stimulation technologies (mainly hydraulic fracture) make it possible to restore well productivity[20]. Nevertheless, liquid is removed from wells mainly by periodic blowdown flare, which leads to environmental pollution and non-collectable gas losses. In addition, such wells prematurely drop out of operation, which can result in a lower gas recovery factor. Global practice offers various technologies to operate watering out wells at the declining production stage, but imported standard equipment cannot be used at *Gazprom's* main fields due to their unique geological, technical and climate conditions.

The strategy for handling declining production sites is regulated by the OAO Gazprom Geological and Engineering Measures Program for 2011-2015. Interventions are aimed at increasing well operation efficiency, reducing idle well stock, and maintaining rated well production capacity, which involves replacing elevator pipes, using coil tubing to remove liquids and sand from the backwell, zone water shut-offs, consolidating wall robbing in the bottom-hole area and sanding-up prevention, and using inflow stimulation technologies.

20 For example, Gazprom Dobycha Urengoy has employed hydraulic fracture technologies since 2000, and the success rate of this technology is about 60%. Certain wells managed to enhance the production rate from 0 to 300,000 м^3 per day.

To resolve the problem of well operation at mature stages, the Company leverages its own research centers as provided by the Research & Development Program, develops cooperation programs with foreign industry leaders, and promotes the development of domestic companies through import substitution.

Gazprom VNIIGAZ, *Gazprom's* main research center, created a unique test facility designed to fine-tune technologies for well operation at mature stages, which is capable of researching one-, two- and three-phase flows in 33 m high vertical and inclined pipe consisting of oil-well tubing that are the most widely used at Gazprom fields, including those with a diameter of 168 mm. The facility is capable of simulating all possible conditions that occur at mature wells.

In cooperation with equipment suppliers Sumitomo and Zedi Inc., the concentric tubing technologies developed by Gazprom VNIIGAZ were successfully tested, followed by tests of the control system used to operate this technology, which was manufactured by NPO Vympel, at the Yamburgskoye oil & gas condensate field.

Together with Siemens, at the Vyngapurovskoye gas field Gazprom successfully tested mobile compressor units installed near the well-mouth. Currently, tests of Russian-made compressor units are in the pipeline.

Apart from the abovementioned technologies, the Company tested such technologies as plunger lift for large diameter tubed wells, gas lift, well-head ejectors, and well dispersers.

Using various technologies at mature wells makes it possible to extend the well operation period considerably and enhance the field's gas recovery factor. In addition, these technologies ensure a considerable reduction in non-collectable gas losses and a lower negative environmental impact.

Biogas: Investigating opportunities

Currently *Gazprom* views biogas as a prospective renewable energy source.

Despite the availability of considerable organic waste resources in Russia, such waste is not used for gas production on a commercial scale.

Now *Gazprom* is involved in researching biogas production technologies and creating favorable conditions for successful implementation of relevant projects. For example, in 2011 Gasunie, a European gas infrastructure company, Russian Evrotehnika and BioGazEnergoStroy corporation, and *Gazprom* signed a Memorandum of Understanding regarding a joint project for biogas production in Russia. The Memorandum declares that the parties will consider a joint venture in Russia, prepare a business plan, and create conditions for implementing a pilot project. This project will allow the *Company* to complete developing gas production technologies from renewable sources. On a preliminary basis, total 'green' gas supplies under this pilot project are estimated at 100mn m^3 per annum.

The fuel produced will be supplied to both Russian and European markets. For Russia, with its abundance of unused agricultural land and considerable potential for biogas production, which according to different estimates may reach 35bn m^3 per annum, 'green' fuel can[21] in the long run open a new chapter in energy cooperation with Europe where the 'green' power supply has become an integral part of the energy balance. At the same time, 'green' gas in *Gazprom's* portfolio can help the *Company* enter a new segment of the energy market and expand gas exports to Europe through the 'green' certification system. In addition, bioenergy development is *Gazprom's* contribution to environmental protection and sustainability in the Russian agricultural industry.

Gazprom view on alternative gas sources

According to contemporary views, unconventional hydrocarbon sources (natural gas hydrates, shale gas and coal bed gas) that are widespread in nature and have considerable resource potential will play an ever more important role in forming the world energy balance. The biggest success has been achieved by commercial production of shale gas.

Gazprom Group assessed the potential of the unconventional hydrocarbon resource base, which determined the most feasible strategy for the *Group* to develop and identified advanced technologies for developing unconventional fields.

According to *Gazprom* estimates, coal gas and low-permeability gas in the aggregate exceed estimated resources of shale gas in the global unconventional gas resource structure. Therefore, the *Group's* priority is to develop technologies for coal gas production, leaving shale gas resources as a strategic reserve for future generations.

21 Green certificates (or Renewables Obligation Certificates) confirm energy production from a renewable source.

Using unconventional gas potential

In accordance with the Russian president's orders, *Gazprom* and the Administration of the Kemerovo Region are implementing an innovative project for methane production at Kuzbass coal fields with the ultimate objective of organizing commercial production of coal bed methane.

The project represents a promising area of social and economic development in the Kemerovo Region. In addition to the environmental effect from lower greenhouse gas emissions, this project will help increase mining safety, improve the environmental situation in the region, and create new jobs.

Over the long term, the project may provide for replacing gas supplies to the Kemerovo Region from Russian northern territories with the Region's own gas in quantities up to 4bn m^3 per annum.

Since January 2010, six exploratory wells have been operating in the pilot mode in the Taldinskaya area, which supplies gas for gas-fueled reciprocating power plants with a total capacity of about 2.4 MW. In addition, gas is supplied as engine fuel. Pilot commercial production and construction of operating wells are expected to commence in late 2012. Commercial operation of 16 wells is planned for 2013.

Methane reserves at the Taldinskoye methane-coal field will amount to 74.2bn m^3 of C_1+C_2 reserves including 29.7bn m^3 of C_1+C_2 recoverable reserves, and 14.1bn m^3 of C_3 methane resources.

In the Naryksko-Ostashkinskaya area, 10 exploratory wells that were drilled in 2010–2011 are in pilot peration. By now, another 10 exploratory wells have been drilled, and the construction of another 8 vertical and 2 exploratory horizontal wells is expected in 2012-2013. On the whole, 30 exploratory wells will be in pilot operation in the Naryksko-Ostashkinskaya area in 2013.

When exploratory wells reach commercial gas inflow, a considerable part of coal bed methane resources in the Naryksko-Ostashkinskaya area can be re-classified into commercial category reserves, which will make it possible to commence developing a technological framework for pilot production.

In accordance with the OAO Gazprom Management Committee Resolution of 14 October 2010, No 53, Concerning the OAO Gazprom Strategy for Coal Bed Methane Utilization, the Company will prepare a Feasibility Study of Investment in Commercial Development and Use of Coal Bed Methane in 2013.

Evolution of the gas utilization model

Currently natural gas is used mainly as an energy carrier. Nevertheless, there is a growing understanding by both the expert community and society that natural gas is a unique and valuable raw material for the chemical industry.

Further development of OAO Gazprom's gas business largely depends on commissioning fields with a multicomponent formation fluid, which means that along with field development *Gazprom* will need to create processing facilities (including the territories of Eastern Siberia and the Far East) to separate valuable components and prepare gas for transmission, and gas-chemical facilities to produce high value-added products.

Therefore, gas- and condensate-processing facilities form a part of the entire technological cycle, and not only make up an integral part of gas industry facilities and an important sub-industry that supports operation of adjacent sub-industries (gas production and transmission), but also facilitate the development of other national industries.

To provide for gas and condensate transportation from newly commissioned fields in Western Siberia, *Gazprom* plans to expand and reconstruct the Urengoy Condensate Transportation Preparation Plant and enhance its annual capacity to 12mn tonnes of de-ethanized condensate by 2014; create preparation and transportation facilities for condensate and oil from the Achimov deposits; complete the construction of unfinished sections of the Urengoy – Surgut condensate pipeline; and expand and reconstruct the Surgut Condensate Stabilization Plant.

In terms of production technologies, the main tasks are to optimize the hydrocarbon supply to production facilities, expand the range and improve the quality of finished products, and increase the extraction rate of target components (chemical feedstock).

OAO Gazprom and its subsidiaries participate in developing and implementing projects aimed at changing the existing model of using natural gas. For example, *Gazprom* is working to develop the technology for deep-cut recovery of C_2+ fraction from natural gas and technical specifications of the required equipment.

The *Company* is also considering upgrading options for other existing production facilities. Gazprom Dobycha Orenburg Helium Refinery separates ethane from the natural gas produced at the Orenburgskoye and Karachaganakskoye fields. The separated ethane is further processed by Kazanorgsintez and Gazprom Neftekhim Salavat. However, the technologies used by the helium refinery are not capable of ensuring maximum ethane

separation from raw materials. Increasing ethane production will require reconstruction of the existing helium units and construction of new separation facilities for ethane and broad fractions of light hydrocarbons.

The Feasibility Study for Investment in the Orenburg Gas Chemical Complex Development to 2030, which is expected in 2012, will consider the viability ofbuildng new separation facilities for ethane and broad fractions of light hydrocarbons and/or reconstructing existing helium units at Gazprom Dobycha Orenburg.

TransValGaz Joint Project

In cooperation with Sibur Holding and the American Dow Chemical Company, OAO Gazprom is considering utilization options for valuable components of Valanginian gas in the north of the Tyumen Region (the TransValGaz Project).

In 2010 a tripartite agreement was signed to regulate the project configuration. A feasibility study for investment in creating gas-processing and gas-chemical facilities that will provide the basis for determining the viability of the TransValGaz project is under way.

Today,the Novy Urengoy Gas Chemicals Complex, a OAO Gazprom subsidiary, is involved in completing the construction of the Novy Urengoy Gas Chemicals Complex (NUGCC) with an annual capacity of 400,000 tonnes of low-density polyethylene. In addition, the *Company* is considering resource base development options for gas chemistry in the region, and expansion of annual polyolefin production for another 1mn tonnes based on NUGCC facilities.

8. Human Resources Management

8.1. HR Management Principles and System

HR Management Principles

Following the requirements of the International Labor Organization Conventions ratified by the Russian Federation, OAO Gazprom puts into practice international labor principles and standards: freedom of association, effective recognition of the right to collective bargaining, elimination of all forms of forced or compulsory labor, and avoidance of discrimination in employment opportunities. The *Company* recognizes employee rights to decent working conditions, fair remuneration, protection from occupational risks, career growth opportunities, the right to rest and leisure, individual development, maternity protection, and other social guarantees.

In accordance with the existing HR Policy[22], *Gazprom* human resources are considered a primary strategic resource of the *Company,* ensuring its competitiveness and contributing to successful achievement of its objectives.

HR Management System

At the level of the *Gazprom Group* parent company, HR management falls within the authority of the OAO Gazprom Management Committee Deputy Chairman and Human Resources Department. The main responsibilities of the Human Resources Department include: implementation and further development of unified approaches to HR management at all levels of governance and in all areas of staff relations in accordance with OAO Gazprom's general development strategies, comprehensive methodological support of HR departments of subsidiaries, and effective exchange of experience and best practices.

The main business processes in HR management include:

- institutional design and labor organization;
- personnel recruitment, assessment and planning;
- personnel administration and reporting;
- training and development;
- personnel motivation;
- social policy;
- corporate communications;
- personnel performance management at all levels.

These business processes use advanced management tools and technologies including target management, risk management, performance management (KPI introduction), HRcost management, reporting and analysis, and information services.

The business process model is based on HR goals and objectives of the *Gazprom Group*. One of the main goals is to recruit and retain highly qualified professionals who share the *Group's* corporate values, strategic goals and objectives. To achieve this goal, the *Group* improves motivation systems, develops and applies evaluation systems for personnel performance and efficiency, and uses global experience and best practices in HR management.

Personnel is a key source of the *Company's* long-term competitive advantage on global energy markets. Therefore, planning and coordination of the HR management system is a vital component of corporate planning.

8.2. Gazprom HR profile

As of December 31, 2011, the companies included in the Report Boundary employed 315,660 people (vs. 318,020 employees as of December 31, 2010). The average headcounts in 2010 and 2011 stood at 317,760 and 311,010 employees respectively.

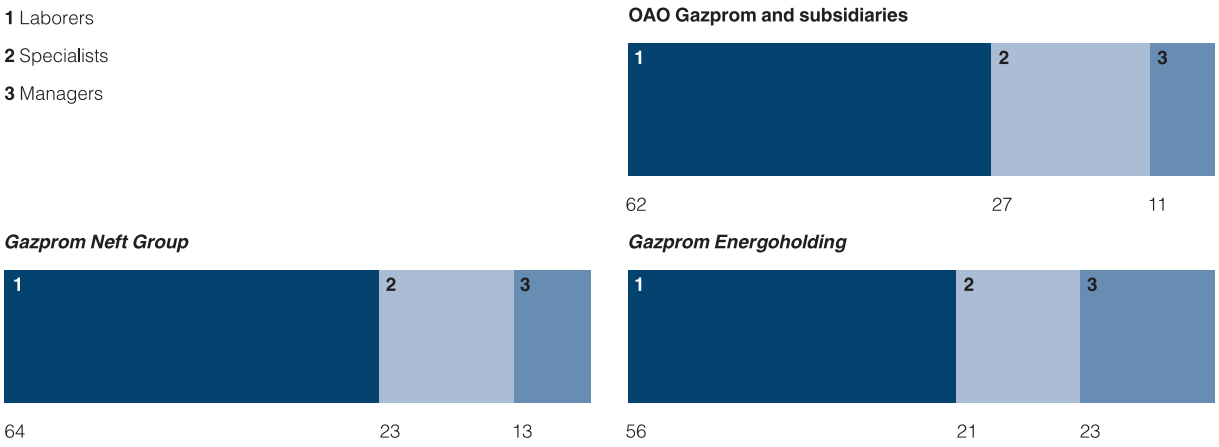
22 The HR management policy of OAO Gazprom and its subsidiaries was approved in 2006.

HR structure of the companies included in the Report Boundary, %

	As of 31.12.2010	As of 31.12.2011
OAO Gazprom and subsidiaries	72.20	73.86
Gazprom Neft Group	19.66	18.23
Gazprom Energoholding	8.14	7.91

The *Company* identifies the following employee categories: executives, specialists and laborers.

HR structure by employee category in 2011, %

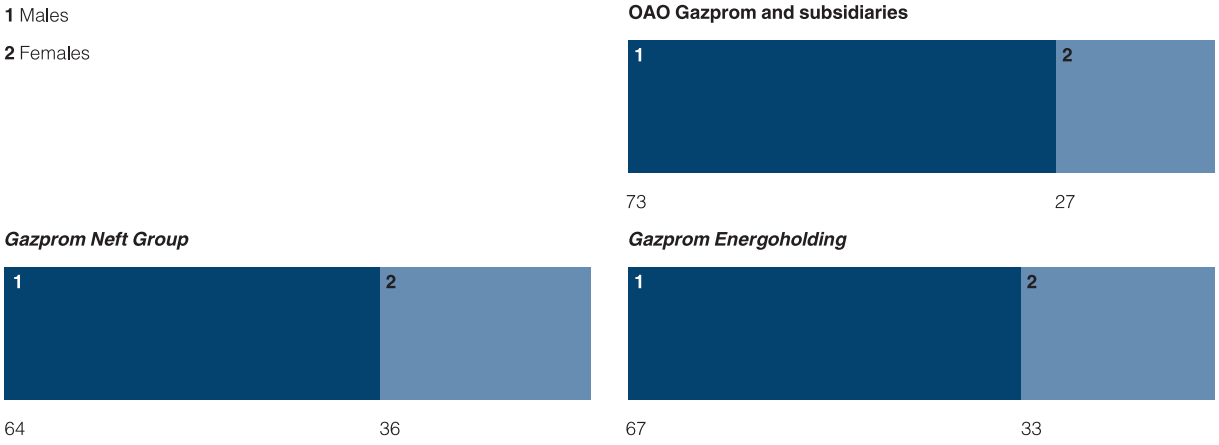


In 2011 OAO Gazprom's employee turnover rate stood at 1.3% (vs. 1.6% in 2010). The employee turnover rate at all subsidiaries did not exceed 2% in 2010–2011.

At *Gazprom* member companies, recruitment to any position at any level is guided solely by the candidate's professional skills, avoiding any form of discrimination by sex or age.

In 2011 no material changes occurred in the HR gender structure compared to 2010.

Human resources of the companies included in the Report Boundary by gender, 2011, %



To reduce the risk of a shortage of qualified personnel in the medium and long term, the *Company* develops and implements a range of measures aimed at recruiting young specialists.

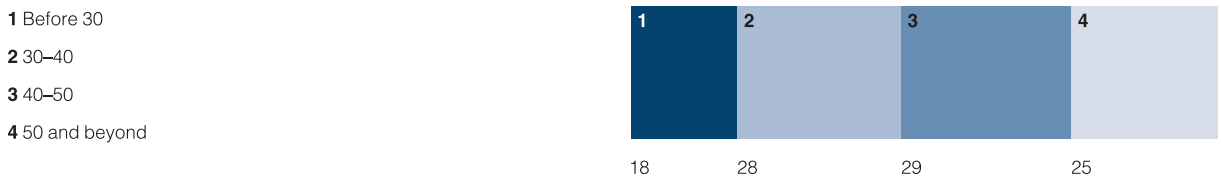
Recruiting and supporting young specialists

OAO Gazprom's Young Specialist Training School is a three-step program for post-graduate training aimed at reducing the orientation period for young specialists, promoting understanding of corporate traditions, and professional development, which also makes it possible to select talents for the Promising Manager program, special language training programs and foreign training. In 2011, 218 trainees completed the program seminars.

34 Group subsidiaries have Young Specialist Boards, the main goal of which is to involve young specialists in active participation in production and research activities.
The Boards carry out public control of observing the rights and interests of young scientists and specialists, and organize scientific seminars, research and practice conferences, and cultural events.

As of December 31, 2011, the average employee age at the companies included in the Report Boundary was 41.2 years (41.4 as of December 31, 2010).

Human resources of the companies included in the Report Boundary by age, 2011, %



In 2011, 18 companies in the gas segment used the rotation assignment system. The number of rotational personnel was 23,300 employees, including 22,200 (95.3%) people working at locations in the Far North and similar territories.

Laborers are the majority (about 75%) of rotational personnel. Over the years, rotational personnel have ben recruited from the Republic of Bashkortostan, the Udmurt Republic, the Krasnodar Territory, the Belgorod Region, the Moscow Region and other Russian territories.

The rotation system is also used by the *Gazprom Neft Group* member companies, with 1,427 rotational employees in 2011 (1,655 in 2010).

8.3. Employee motivation, development and retention

Personnel training and development

The main aim of OAO Gazprom's HR management system is to provide administration and production facilities with highly qualified personnel who are able to adapt to changing environment conditions, rising competition, the increasing complexity of equipment and technologies, and sharing OAO Gazprom strategic goals and objectives. Therefore, special attention is paid to such critical skills as openness to innovation, responsibility, ability to demonstrate a creative approach and initiative.

The task of providing companies with personnel demonstrating the required professional and individual qualities is carried out not only in the process of personnel recruitment, but also through the *Gazprom* Continuous Vocational Education and Training System (CVETS) which is based on the following principles:

- orientation to OAO Gazprom tasks and employees;
- continuous education;
- comprehensive approach;
- individual approach to employee training;
- effective education.

The CVETS system incorporates the following:

- compulsory training – the training required to develop professional skills and comply with federal and local regulations governing access to hazardous work at OAO Gazprom industrial facilities;
- target (preventive) training – the professional training, retraining and development of qualified personnel required to meet growing production requirements, improve business processes, commission new

production facilities, introduce new technologies and equipment, or facilitate an expected promotion to another position or change in the type of activity;

— periodic training – the personnel training required to maintain employee professional qualifications and obtain additional professional knowledge, skills and practice.

The CVETS system includes four non-state educational institutions (the Gazprom Corporate Institute, the Gazprom Industry Research Training and Simulation Center, the Novy Urengoy Gas Industry College and Vocational School, and the Volgograd Gas and Oil College) as well as 23 training units in gas segment subsidiary companies.

The subsidiaries' training units are licensed for training in 260 blue-collar jobs, including 139 jobs controlled by Rostekhnadzor. The training units hold annual competitions in professional skills for key blue-collar jobs.

The training provided within the Gazprom Energoholding corporate HR training and development system is based on the TGK-1 Training Center and the Mosenergo Personnel Training Center.

Professional competitions

Professional competitions in key blue-collar jobs for the OAO Gazprom Best in Profession award are held annually: odd years –competition for the Best Gazprom Welder title, even years –competition for the Best in Profession title for key blue-collar jobs.

In 2010 the Kurskoye Main Gas Pipeline Department, a branch of Gazprom Transgaz Moscow, held a professional competition for the Best Gazprom Pipelayer Operator. Preliminary round winners from 16 *Gazprom* gas transport companies participated in the competition.

In 2011 the Training Center at the Pervomayskoye Main Gas Pipeline Department, a branch of Gazprom Transgaz Moscow, held a professional competition for the Best OAO Gazprom Welder – 2011. Preliminary round winners of from Gazprom gas production and transmission companies participated in the competition.

In 2011 *Gazprom's* oil business held professional competitions among oil and gas production operators, dewatering and demineralization plant operators, and processing pumps operators.

In 2011 the electricity segment held professional competitions among CHP and HPP operations personnel at TGK-1 (over 20 plants); the Mosenergo team won second prize at the All-Russia Operations Personnel Competition.

Examples of corporate target training programs:

— two-year program for young specialists and newcomers to the gas industry aimed at orienting the employee to the industry environment, identifying his/her professional qualities, and cultivating corporate traditions. The program includes on-site training at various I member companies combined with education at the OAO Gazprom Corporate Institute, and annual certification;

— executive succession pool training carried out within a tight two-year timeframe to prepare a specialist or a manager for a higher position. In the periods between seminars or in the course of self-development, employees are tested to assess professional, business and individual qualities, identify managerial potential, and optimize and adjust the individual training program.

To adapt the existing training system for managers and specialists to changing production technologies and implement unified standards for improving business processes in all member companies, every year OAO Gazprom prepares a Corporate Schedule for Continuous Education and Professional Development of Managers and Specialists based on requests from Group companies and organizations. The schedule includes workshops and seminars devoted to managerial, environmental, financial and economic issues.

In the reporting period Group managers and specialists receive training in accordance with the established frequency and CVETS requirements for continuous professional education and retraining.

Professional education and retraining program performance

	2010		2011	
Employee categories	**Number of trainees**	**Training time, h**	**Number of trainees**	**Training time, h**
Subsidiaries				
Managers and specialists	42,400	3,300,000	47,600	3,700,000
Laborers	74,900	17,200,000	83,800	17,000,000
Gazprom Neft Group				
Managers and specialists	12,230	195,680	13,120	209,920
Laborers	7,950	318,000	7,800	312,000
Gazprom Energoholding Group				
Managers and specialists	6,650	365,130	7,236	376,510
Laborers	6,790	294,699	5,623	263,280

Gazprom International Training B.V. – an International Training Center

To ensure the high quality of training programs, in 2011 a special-purpose company called Gazprom International Training B.V. was established in the Netherlands to conduct short-term seminars and refresher courses in five main areas: equipment and technologies, communications, management, and business and professional training. Successful trainees are issued internationally recognized certificates and diplomas.

Now Gazprom EP International B.V. employees are the majority of the Training Center students. In 2011 the Center conducted training and seminars devoted to individual development and career growth, management systems and techniques, and logistics as well as technical and environmental aspects of onshore and offshore operations.

By 2014 the Gazprom International Training B.V. Training Center plans to obtain certification from the International Association of Drilling Contractors (IADC) and the Offshore Petroleum Industry Training Organization (OPITO), and become the center of advanced experience and competence for the entire *Gazprom Group*.

Group energy segment companies are successfully implementing the Business Economics and Management in the Electric Power Industry professional development program. Among other topics, the program covers "The Fundamentals of Electric Power Industry Organization"; "Industrial Technologies for Electric Power and Heat Production, CHP Equipment and Design"; "National Electric Power Grid"; "Electric Power and Capacity Markets"; and "Industrial Technologies for Electric Power and Heat Production. Best Practices in Technical Management."

Within the framework of the Management School corporate program, *Gazprom Energoholding* provides training for managers, succession pool nominees, and promising employees. The Program is aimed at mastering the technologies and tools that unlock the potential for professional and individual growth.

OAO Gazprom is an active participant in the European Business Congress (EBC) Committee Human Resources, Education and Science, which helps develop international cooperation in human resources management and exchange experience with leading European energy companies that are EBC members. In 2010–2011, over 850 managers and specialists from *Gazprom* participated in 86 joint programs with such foreign oil and gas companies as E.On Ruhrgas, Wintershall Holding GmbH, Gasunie, GDF SUEZ, and DNV.

Anniversary of Cooperation between OAO Gazprom and Wintershall Holding GmbH

On June 10, 2011, OAO Gazprom's HR Department held a conference dedicated to the 20th anniversary of cooperation between Gazprom and Wintershall Holding GmbH in the area of personnel training and development. Gazprom managers and specialists, as well as Wintershall Holding GmbH representatives attended the conference.

In 1990 a partnership agreement in the gas business was signed between OAO Gazprom and Wintershall Holding GmbH, and in 1991 negotiations began to explore opportunities for joint events in the area of personnel training. To increase the effectiveness of cooperation, in 1994 the companies set up the Personnel Development Committee.

A total of nearly 5,300 employees passed through the joint training programs over the years of partnership between OAO Gazprom and Wintershall Holding GmbH.

In 2010–2011, more than 100 representatives from KOGAS, GDF SUEZ, E.On Ruhrgas, Wintershall Holding GmbH and other foreign companies undertook on-site training and participated in pilot programs at *Group* production facilities.

The *Company* is widening and improving the formats for continuous cooperation with institutions of higher education, which is a long-standing tradition. Group companies provide assistance to institutions of higher education in developing curricula, creating laboratory and training facilities, organizing student on-site training and involving managers and leading specialists in the teaching process.

Specialists with higher education in the professions that interest *Gazprom* are trained by more than 50 educational institutions. To ensure better integration of education, science and production, Group companies support certain academic departments at institutions of higher education.

Academic departments supported by *Gazprom*

Institution	Company	Department
Gubkin Russian State University of Oil and Gas	Gazprom Promgaz	Energy Saving Economics
	Gazprom VNIIGAZ	Gas Technologies and UGS
	Gazprom Neft	Hydrocarbon Systems
	NIIgazeconomika	Economics and Management in Oil and Gas Complex
	Gazprom VNIIGAZ	Designing and operating trunk oil and gas pipelines
State University of Management	Gazprom VNIIGAZ	Oil & gas fields development and operation and subsurface hydromechanics
Ukhta State Technical University	Gazprom VNIIGAZ	Geophysical methods, geoinformational technologies and systems
	Gazprom VNIIGAZ	Oil & gas geology

Apart from supporting academic departments, *Gazprom* experts are involved in teaching as well. For example, in 2010–2011 more than 60 *Gazprom* employees were invited to teach at 14 Russian institutions of higher education including the Gubkin Russian State University of Oil and Gas, Lomonosov Moscow State University, the Bauman Moscow State Technical University, the Mendeleyev University of Chemical Technology of Russia, the Moscow Engineering and Physics Institute, and the Moscow Power Engineering Institute.

In 2011 higher professional training agreements concluded with OAO Gazprom and its subsidiaries covered 1,337 students, including 895 students trained under individual contracts.

In accordance with the Gazprom Regulation on Individual Scholarships, the 25 most talented and promising full-time students from Russian institutions of higher professional training receive annual individual scholarships. The Company also offers a wide range of options for student on-site training. In 2010–2011, more than 14,300 students from institutions of higher and secondary professional education undertook on-site training at *Gazprom* production facilities.

Workforce Motivation

Recruiting and retaining qualified personnel through competitive compensation and non-financial rewards are principal objectives of OAO Gazprom HR management.

In accordance with the Standard Payroll Provision for OAO Gazprom Employees and the Standard Payroll Provision for OAO Gazprom Employees Engaged in Developing Offshore Oil and Gas Fields, Group companies apply a time-rate-bonus remuneration system based on a Principal Unified Rate Schedule, and a time-rate individual remuneration system based on Official Salary Plans.

Current compensation plans include:

- official salaries and wage rates based on qualifications and professional skills;
- recurring performance-based bonus;
- benefits and allowances based on labor conditions and volume of work;
- non-recurring bonus (for commissioning industrial or construction facilities, introducing equipment, energy resource conservation, discovering new hydrocarbon deposits, etc.);
- year-end bonus;
- holiday allowance.

In 2010–2011, with a view to improving corporate statistics, OAO Gazprom introduced standard corporate statistical reporting form No 161-gaz, HR Cost Performance. The new form will make it possible to consolidate and analyze HR costs borne by OAO Gazprom and its subsidiaries.

To ensure competitiveness on the labor market, *Gazprom* performs a regular comparison of the compensation range offered by its subsidiaries with that of oil segment companies, and with average compensation in its regions of operation. The 2011 analysis based on the Ernst & Young compensation review proved that the compensation range offered by OAO Gazprom subsidiaries and organizations is comparable to the market.

In 2011, the *Company* conducted 41 reviews of payroll costs on the income and expense sides of member company budgets, including newly commissioned facilities. On the basis of the reviews, organizations determine a reasonable compensation level tied to the labor market situation in the region of operation.

In 2011 average monthly compensation growth y-o-y resulted from a 7.9% indexation of base pay and wage rates that took effect as of January 1, 2011.

In accordance with orders from the Russian President and Government, in 2011 *Gazprom* senior management compensation was tied to achieving cost savings targets in the area of procuring material and technical resources, works and services (related to current and investment activities) for OAO Gazprom and its subsidiaries that are acquired on a competitive basis. For this purpose, the Company prepared a proposal to add a new indicator called "cost savings in procuring goods (works, services)" to the Annual Bonus System's list of corporate key performance indicators, to be approved by the Gazprom Board of Directors in 2012.

Financial incentives for OAO Gazprom senior executives are based on such incentive programs as the Annual Bonus System and the OAO Gazprom Equity Award Program. In December 2011 the Program completed its three-year cycle with the share price rising from RUB 113.5 to RUB 178.2.

To motivate employees, *Gazprom* applies the staff moral incentive system. In 2011 *Gazprom* employees were awarded 36 state decorations, 1,065 awards from the Energy Ministry of the Russian Federation, 1,651 awards from OAO *Gazprom* (OAO Gazprom's Highest Distinction For Special Achievements, OAO Gazprom Honorary Employee, OAO Gazprom Veteran, the OAO Gazprom Certificate of Merit, OAO Gazprom Acknowledgment, and the OAO Gazprom Acknowledgment Letter).

8.4. Social policy

OAO Gazprom's social policy is one of the most effective tools in personnel management and ensuring social security.

At OAO Gazprom and its subsidiaries, employer/employee relationships are built on social partnership principles that ensure an optimal balance of the parties' interests with a view to effectively achieving *Company* objectives through fulfillment of the parties' responsibilities.

Legal regulation of social and labor relations in the *Gazprom Group* is based on labor laws, the Oil and Gas Companies and Construction of Oil and Gas Facilities Industry Agreement for 2011–2013, the Russian Electric Power Industry Tariff Agreement for 2009–2011, the General Collective Agreement of Gazprom and its Subsidiaries for 2010–2012, and collective agreements and other local regulations at *Gazprom* subsidiary companies and organizations.

The interests of more than 270,000 employees are represented by the Gazprom Interregional Trade Union that forms part of the Russian Oil, Gas and Construction Trade Union.

Successful implementation of the social partnership principle allows the *Company* to avoid conflicts between employees and employers that could lead to strikes, lay-offs, and employment disputes.

The General Collective Agreement is an essential component of social partnership at core business subsidiaries. At the end of 2011, 29 companies involved in the core business of gas production, transmission, processing, storage and sales participated in this agreement.

The Gazprom General Collective Agreement is concluded for a three-year period and is aimed at:

- increasing operational efficiency for OAO Gazprom and its subsidiaries;
- strengthening the responsibility of social partnership parties for operating results;
- creating unified approaches to protecting employee interests in the area of remuneration, employment, occupational safety, benefits, guarantees and compensation;
- providing employees with higher benefits, guarantees and compensation compared to current legislation, other regulatory legal acts, and the industry agreement.

The main components of *Gazprom* social policy include:

- social support of various staff categories through direct social payments;
- housing for employees and pensioners through mortgage lending;
- health care services for employees and pensioners including voluntary health insurance;
- non-state pensions.

Social payments are the most important component of the social policy. The principal target employee groups for social payments include:

- young employees;
- members of large or needy families;
- working women and others with family obligations;
- employees that work in the Far North or similar locations.

OAO Gazprom subsidiaries may adjust the list of payments to meet the requirements of their production conditions or territorial locations.

At subsidiaries participating in the General Collective Agreement, social payments are 10% of total payroll. Social payments are also subject to indexing in the order established by OAO Gazprom.

Surveys conducted by OAO Gazprom proved the relevance and great demand for social benefits, guarantees and compensation granted in accordance with the General Collective Agreement.

Resolving housing issues is another important part of OAO Gazprom's social policy. The number of employees and pensioners covered by housing allowances in 2011 more than doubled compared to average annual coverage in previous periods (2009-2010). The reason for the increase is that OAO Gazprom and its subsidiaries adopted a new housing policy mechanism that includes bank mortgage loans and mortgage subsidies for certain employee categories provided by the employer.

Current OAO Gazprom housing policy makes it possible to staff operating and newly commissioned production facilities with qualified specialists, as well as to use housing benefits to ensure effective HR management.

Legal and local regulations for OAO Gazprom and its subsidiaries also provide for a series of measures aimed at improving health and preventing disease in employees, their family members and pensioners. For example, if prescribed by health care practitioners, employees are offered health resort and rehabilitation treatment provided under direct agreements with medical institutions or through voluntary medical insurance. Medical services are provided primarily on the basis of health care facilities and medical institutions owned by *Company* subsidiaries or through third-party medical institutions contracted by the employer or insurer.

An essential component of the social policy is the corporate pension plan designed to motivate employees for a long and effective professional career and ensure social protection upon retirement.

Non-state pension benefit plans are governed by the Unified Non-state Pension Plan Concept for OAO Gazprom, its subsidiary companies and organizations. Non-state pension benefits are based on a defined benefit plan signed between NPF GAZFUND and OAO Gazprom subsidiaries, and are paid in perpetuity.

The principal terms of the corporate retirement plan include:

- employee right to subscribe to NPF GAZFUND benefit plans entitling the employee to retirement benefits subject to at least five-year employment as required by local regulations of OAO Gazprom member organizations;
- reliance of non-state retirement benefits on length of employment with Gazprom organizations;
- single approach to employee rights to non-state retirement plans and calculating benefit amounst;
- minimum guaranteed non-state retirement benefits.

In 2011 OAO Gazprom subsidiaries involved in gas production, transmission and underground storage transferred approximately 6.4bn rubles in pension payments to NPF GAZFUND. As of December 31, 2011, total subscribers to NPF GAZFUND from *Gazprom* employees exceeded 127,000 persons, of which 76,400 were receiving non-state benefits.

OAO Gazprom holds regular mass sporting events among employees and their family members. In its regions of operation, *Gazprom* conducts summer and winter Spartakiada Games in which both employees and their children who attend sports programs at *Gazprom* subsidiaries take part.

In 2011 the Summer Spartakiada Games were held: in August the Spartakiada for adults in Saransk (the Republic of Mordovia) took place and was attended by 30 OAO Gazprom subsidiaries. In September, Spartakiada for children was conducted in Anapa, with participation of 20 teams from OAO Gazprom subsidiaries.

OAO Gazprom mass sporting events ensure the physical and moral development of employees and their family members, and promote a healthy lifestyle.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9. Occupational Health and Safety

9.1. Occupational health and safety management

Gazprom occupational health and safety policy covers OAO Gazprom and all of its subsidiary companies and organizations. It establishes common objectives, principles, and obligations in the area of occupational health and safety (OHS). The policy regulates *Company* responsibility for creating safe working conditions and occupational safety, and establishes an absolute priority of human life and health over production performance in every type of business.

The main objectives of OAO Gazprom's OHS policy are to create safe working conditions, protect human life and health, and ensure operational reliability of hazardous facilities.

OAO Gazprom key OHS obligations include:

- continuous reduction in accident, injury and occupational disease rates;
- top-priority implementation of measures designed to prevent negative impact of production on *Company* personnel and households;
- continuous improvement of knowledge and competencies in the sphere of occupational health and safety;
- compliance with OAO Gazprom OHS standards and norms by suppliers and contractors engaged at *Company* facilities;
- personnel involvement in active participation in OHS activities; creating the environment, including motivation tools, in which every Group employee is aware of his/her responsibility for his/her own and others' safety.

Measures to achieve these objectives make it possible to increase employee occupational safety and reduce accident, occupational emergency and incident rates.

To provide for implementation of the OHS policy, OAO Gazprom introduced a Uniform Occupational Health and Safety Management System and the Regulation on Occupational Safety Control at Gazprom Hazardous Facilities. The project to improve Uniform OHS Management System to comply with the international standard OHSAS 18001:2007 (occupational health and safety management system) is nearing completion.

Overall management of OHS activities at OAO Gazprom is the responsibility of a Deputy Chairman of the Management Committee. OHS activities at *Gazprom* member organizations are coordinated by a special-purpose company, Gazprom Gazobezopasnost, which fulfills the functions of OAO Gazprom's emergency rescue service and is included in the list of federal instant readiness forces of the State Uniform Emergency Control System. The company responsibilities include both planning and carrying out work to prevent injuries, fires and accidents at Gazprom facilities, and carrying out work to prevent and eliminate gas, oil and water inflows, emissions, uncontrolled gas and oil well leaks including continental shelf fields, carrying out hazardous gas explosion work, and personnel training for OAO Gazprom and its subsidiaries.

Prevention control and prompt response to emergencies at gas and gas condensate production facilities is the responsibility of five paramilitary units from Gazprom Gazobezopasnost located in the Astrakhan, Orenburg and Moscow Regions, the Yamalo-Nenets Autonomous District, and the Komi Republic.

The *Gazprom Neft Group* has introduced an integrated management system that covers both environmental safety and OHS issues. *Gazprom Neft* activities are based on the corporate Environmental Protection and OHS Policy and coordinated by the Corporate Center of the OHS Department. In addition, the *Gazprom Neft Group* created the Environmental Protection and OHS Board. To assess OHS results, the *Gazprom Neft Group* developed and has successfully implemented an Integral Indicator based on fire, transport and environment safety performance in addition to accident and injury rates.

At *Gazprom Energoholding*, OHS management is based on Russian legislation and relevant regulations. Compliance responsibility lies with generating company CEOs, while chief engineers of companies and power stations coordinate OHS activities.

A number of *Group* companies introduced integrated management systems that comply with international standards of quality management (ISO 9001), environmental management (ISO 14001), and occupational health and safety management (OHSAS 18001).

The Gazprom Interregional Trade Union and its units cooperate with business units of *Gazprom* and its subsidiaries responsible for OHS compliance control with the aim of improving working conditions and enhancing OHS activities. Results of OHS cooperation are also reflected in the obligations regulated by collective agreements.

Gazprom Group companies created standby commissions for OHS and fire safety administrative and production control that include trade union representatives. These commissions conduct OHS inspections, review expected overhaul, reconstruction, or technical upgrades to hazardous facilities, emergency response action

plans, and other OHS issues, and consider matters related to employee liability for non-compliance with OHS requirements or awards for safe and accident-free performance.

The high level of occupational health and safety at *Gazprom* facilities is ensured by the production control system.

The main production control tasks include:

- enforcing OHS standards;
- analyzing OHS conditions, including relevant expert reviews;
- developing measures designed to improve OHS, prevent damage to people, property and environment;
- controlling OHS compliance;
- coordinating accident prevention at hazardous facilities and ensuring emergency preparedness and response;
- ensuring timely performance of relevant tests, certification of technical devices used at hazardous industrial facilities, repairs and tests of measuring devices;
- managing technological discipline.

To ensure coverage for possible damage to human life, health or property, and environmental damage, the *Group* companies maintain liability insurance for construction and operation of hazardous industrial facilities.

9.2. Emergency preparedness

OAO Gazprom pays special attention to developing effective approaches to safe operation. All *Group* companies develop emergency response plans (including elimination of accidental oil spills by oil producers) for various scenarios that include joint action of personnel and rapid response forces. To ensure high emergency preparedness, regular on-site exercises are held that include full-scale training in life-saving, accident localization and response, and integrated emergency exercises involving various services; employees undergo OHS training and certification. Based on emergency exercise results, response personnel performance is evaluated and measures are taken to improve emergency preparedness, if required.

In 2010, 238 managers and specialists from OAO Gazprom departments and administrations attended OHS training. In 2011, 197,500 employees of OAO Gazprom and its subsidiaries undertook training and certification in labor safety and 76,300 employees in occupational safety.

Fire response at the Yamsoveyskoye field in 2010

It took only four days to eliminate the emergency. This is a very high indicator for this class of fire.

October 28, 17:05: the Gazprom Gazobezopasnost control service received a fire alarm signal from well No 114 at the Yamsoveyskoye oil and gas condensate field operated by Gazprom Dobycha Nadym.

21:00: Gazprom Gazobezopasnost emergency response team arrived on site from Novy Urengoy. A management team was set up to eliminate gas blowout, and the well mouth was examined. The examination showed that conventional means would not eliminate the emergency. The decision was made to use special proprietary equipment (PPP-200 powder fire extinguisher). Measures were taken to protect nearby operating gas wells from the fire.

October 29, 00:00: Elimination of gas blowout started.

13:00: The second response group and special equipment arrived to eliminate the gas blowout. The PPP-200 powder fire extinguisher helped isolate the fire.

October 30, 12:05: Well-coordinated action by the Gazprom Gazobezopasnost response group and special equipment made it possible to put out the fire. Replacement of damaged technical devices at the well head equipment started.

October 31, 20:30: The gas blowout was eliminated. New well head equipment was installed.

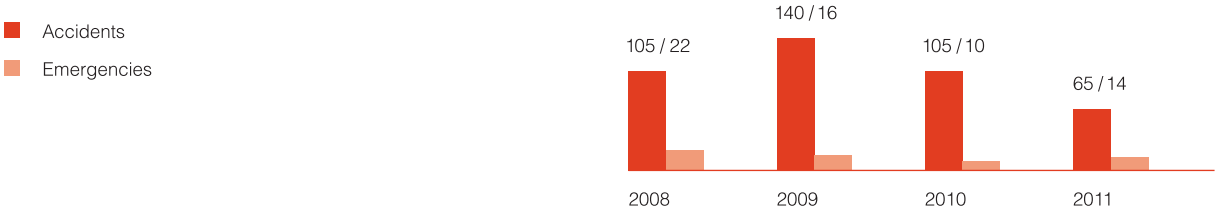
23:30 Emergency well No 114 was killed, well head was hermetically sealed.

OHS efforts by OAO Gazprom and its subsidiaries resulted in considerable reduction in the number of occupational incidents and emergencies.

In 2011 the number of incidents at OAO Gazprom hazardous facilities dropped 38% vs. 2008, and the number of emergencies declined by 36%. Most emergencies occurred at gas transmission facilities. One accident happened at production facilities and another one at processing facilities in 2010; in 2011 there were no accidents

in these sectors. The main share of incidents have been at transport facilities, though in 2011 the figure dropped 25% vs. 2010. In 2011 the incident rate in all gas segment operations also declined compared to 2010. In 2011, a total of 85% of all incidents and emergencies were in transport facilities, 9% – processing sector, and 4% – production sector.

Incidents and emergencies at OAO Gazprom hazardous facilities, 2008—2011



In the reporting period, two emergencies at *Gazprom Neft Group* companies led to severe consequences.

- On May 27, 2010, at Gazpromneft-ONPZ a backfire unsealed a furnace pipe coil, resulting in self-ignition of the coil product from heated furnace components. The incident damaged the furnace chamber and injured the operator, who suffered a closed bone fracture. Total loss from the accident reached dozens of millions of rubles. The accident was caused by human error when the facility was launched after an emergency power cut-off.
- On December 27, 2011 at Gazpromneft Omsk, as 300 liters of gasoline were pumped into the tank of a vehicle and the operation was nearly over an explosion occurred, followed by fire that killed a metrology room employee. Loss from the accident amounted to 110mn rubles. The accident was caused by a failure to comply with hazardous work rules.

At *Gazprom Energoholding*, the total number of events classified as emergencies is considerably higher than in the oil and gas sector[23].

In 2010–2011 the following emergencies leading to severe consequences occurred at *Gazprom Energoholding*.

- On November 9, 2010 a steam pipeline rupture occurred at Petrozavodskaya CHP, TGK-1. The temperature at the Petrozavodsk heat supply system was lowered from 88 °C to 45 °C (at an ambient temperature of -8 °C). The steam pipeline rupture killed the shift foreman of the boiler-and-turbine unit, who died from burns.
- On July 7, 2011 at Troitskaya GRES, OGK-2, a fire broke out in the boiler-and-turbine unit No 2, which damaged leading-in cable lines and the main control unit (MCU) equipment of generating units 4 and 5. The fire escalated destroying leading-in cable lines and MCU equipment of generating units 4 and 5. Economic damage reached nearly 560mn rubles.

Incidents and emergencies

	Incidents		Emergencies	
Companies	**2010**	**2011**	**2010**	**2011**
Production, transport, processing and UGS subsidiaries	105	65	10	14
Gazprom Neft Group	4,321	3,414	3	2
Gazprom Energoholding	0	0	749	761

23 In accordance with the Rules for Investigating Accidents in the Electric Power Industry approved by Resolution of the Russian Government of 28.10.2009 No 846, an accident at hazardous electric power facilities is characterized as a technological disturbance that led to destruction or damage of the facility and/or technical devices (equipment), an uncontrolled explosion and/or hazardous emissions, a deviation from the established technological mode, full or partial limitation of electrical energy (capacity) consumption arising or the risk of emergency condition arising for the energy system. Before 2009, the majority of the above mentioned events were classified as incidents.

9.3. Coordinating supplier and contractor operations

To ensure OHS compliance at OAO Gazprom and *Gazprom Neft Group* facilities, all suppliers and contractors are required to comply with OAO Gazprom corporate policies and standards. Procedures for cooperation with suppliers and contractors are aimed at achieving the following objectives:

- communicating occupational safety requirements to suppliers of materials and services; control of the offered services and materials compliance with the safety requirements;
- communicating hazards, work safety rules, emergency response plans to contractors;
- checking availability of required licenses and permits, testing contractor personnel training;
- providing regulatory documents, approving work permits, including OHS requirements in contractor agreements;
- coordinating contractor interaction among themselves and with business units of OAO Gazprom and the *Group* companies;
- OHS compliance control.

If a contractor fails to comply with OHS rules, endangering human life or health, or carries out work that may lead to an accident or cause environmental damage, OAO Gazprom authorized representatives must suspend the work until such violations are eliminated.

In 2010–2011 the *Gazprom Neft Group* implemented the corporate standard Contractor Management Procedures and Organization of Interaction in Occupational and Environmental Safety, Labor and Civil Protection, approved in 2010. Implementing the standard requires a regular dialogue with business partners with a view to developing practical managerial decisions aimed at raising occupational and environmental safety of contractor work. Potential contractor evaluation starts at the selection stage. Questionnaires and information are requested that make it possible to identify the company's current environmental protection and OHS activity, reveal risks for further cooperation, and use this stage to sort out 'unreliable', in terms of occupational safety, contractors. Qualified contractors, selected by tender, are required to conclude an agreement regulating occupational and environmental safety, labor and civil protection activity. The agreement provides for a detailed description of the safety rights and obligations for the entire period of work or services, and determines interaction procedures for this period. Upon termination of the agreement, the customer comprehensively evaluates contractor activities in occupational safety, making it possible to grade the contractor and use these results for future selection.

9.4. Reducing the accident rate at pipeline transport facilities

Enhancing the reliability of the oil and gas transportation system is an essential component of the *Group's* occupational safety. To ensure occupational safety, OAO Gazprom subsidiaries implement programs and measures related to gas transmission structures and facilities (linear parts of main gas pipelines, compressor stations etc.). They include comprehensive reconstruction programs for such gas transmission facilities and structures as linear portions of pipelines, gas compressor units (GCU) and gas distribution stations (GDS), insulated coating repairs as well as regional programs to enhance gas pipeline reliability and preventive maintenance programs.

Program to rebuild and upgrade gas transmission facilities

In 2011 the OAO Gazprom Management Committee approved the Comprehensive Program for Reconstructing and Upgrading Gas Transmission Facilities for 2011–2015 with a view to:

- reduce energy consumption and increase energy efficiency through the introduction of modern gas compressor equipment;
- reduce nitrogen and carbon oxide emissions through modernizing combusters and equipping compressor departments with low-emission gas turbine units;
- reduce process gas losses during transportation through constructing, reconstructing and upgrading measurement units in transport facilities.

Key features, reconstruction and repairs of the *Gazprom Group* gas transport assets in Russia in 2009—2011

	2009	2010	2011
Length of oil trunk pipelines and outlets, thousand km	160.4	161.7	164.7
Linear compressor stations, units	215	216	217
GCU	3,675	3,654	3,669
Diagnostic study of gas pipelines, thousand km			
including			
pigging	17.7	21.9	21.7
corrosion diagnostics	17.0	28.1	26.1
Gas pipelines overhaul, km	2,383.7	2,427.3	2,436.6
including insulated coating repairs of main gas pipelines	1,980.6	1,819.5	1,805.8
Gas pipeline reconstruction, km	551	380	432
GDS overhaul, units	285	247	272
GDS reconstruction, units	6	5	2
GCU replacement and upgrading, units	18	14	14
Technical failures at main gas pipeline linear part	14	7	12

OAO Gazprom is also continuously involved in eliminating violations of pipeline exclusion zones and minimum clearance zones. New technical and technological solutions are developed, as well as more reliable equipment and materials, and regulatory documents. Timely identification, analysis, grading and elimination of defects make it possible to ensure the required level of reliability and safety of the GTS.

Possible accidents at gas pipelines pose considerable risks for household safety. Therefore, to ensure safety at transport facilities, gas transmission companies continuously inform local households through mass media about the progress and types of work carried out at the near-by facilities. In addition, companies notify local governments and enterprise managers whose service lines are laid in the same technological corridor or intersect with gas pipelines of the scheduled pipeline maintenance.

Companies maintain 24-hour emergency control centers and take measures to ensure gas distribution management in emergency situations. To enhance prompt response to emergencies and, consequently, increase the safety and reliability of gas supplies, the *Company* is now involved in ensuring telemetry support for pressure reduction units, gas pipeline electrochemical protection facilities, and shut-off valves for gas distribution pipelines. In total at the end of the reporting period, telemetry devices were installed at more than 4,600 pressure reduction units and 6,600 electrochemical protection facilities.

The *Gazprom Neft Group* pays great attention to reducing the frequency of pipeline ruptures and preventing associated spills of oil and oil products. Considerable reduction in oil spills during the reporting period resulted from overhauls, anti-corrosion coating and inhibition of pipeline systems within the scope of the Raising Pipeline Reliability program. The high preparedness level of response systems and teams also contributed to reducing spill volumes, which ensured eliminating ruptures and oil spills in the shortest time possible.

Spilled oil and oil products, bbl

Companies	2010	2011
Subsidiaries	24	58
Gazprom Neft Group	646	425

9.5. Ensuring safety of shelf operations

In view of the extreme complexity and severe working conditions of shelf operations, environmental pollution risks and down-time, the *Group* oil and gas producers involved in offshore operations take special measures to prevent accidents.

For the entire period of shelf field development, companies prepare and implement:

- Emergency prevention and response plan;
- Accident elimination plan;
- Emergency elimination plan;
- Emergency oil spill prevention and response plan;
- Field survival plan.

To provide for high emergency preparedness, offshore oil and gas field development includes the Survival and Safety System (SSS) aimed at:

- personnel evacuation from the emergency site;
- search and rescue of people floating in individual or collective survival equipment, on ice floes or drifting ice blocks;
- assisting in fire fighting, water pumping, tugging, heaving off operations and associated diving;
- containing and eliminating local oil spills;
- first-aid treatment of emergency victims and their transportation to the nearest medical institution by sea and/or air;
- survival preparedness of management bodies, rescue team members and vessels.

To ensure training in emergency response skills, regular comprehensive exercises are held in oil spill elimination, fire fighting at offshore infrastructure facilities, personnel evacuation in case of emergency, and first-aid treatment for those injured.

Offshore facilities design employs the strictest domestic and international regulations in the area of occupational and technological safety, making it possible to ensure safe operation of facilities. For example, the offshore rig at the Shtokmanovskoye field was designed based on the rules of the Russian Registry of Shipping, American Bureau of Shipping, API, DNV, and other international rig safety rules, norms and standards.

Well construction (including offshore wells) includes special measures to prevent well blowouts that include:

- 24-hour (at offshore facilities and fields with high hydrogen sulfide content) engineering and technical support for the well construction process to prevent gas, oil and water inflows, open blowouts, or other accidents by regular well-kill service;
- ensuring continuous preparedness of response teams and emergency reserve stock for open blowouts;
- control of and participation in the most hazardous works and technological operations by Gazprom Gazobezopasnost;
- personnel training in responding to gas, oil and water inflows during construction and operation of onshore and offshore wells for OAO Gazprom drilling and production companies.

Technological safety solutions are based on global best practices (BRP) in designing and operating these kinds of facilities. For example, the offshore rig at the Shtokmanovskoye field was designed based on international practices in developing and analyzing the effectiveness of crash barriers. The barrier composition was based on the NORSOK S-001 standard and expanded to adjust to special technical features of the Shtokmanovskaya platform (availability of condensate storage facilities, arctic operation conditions, etc).

Global practice shows that construction, operation and repairs of oil and gas wells are always associated with the risk of losing control of the well, and even well-organized technological processes cannot rule out major disasters (including open blowouts), which still do occur.

Based on global experience in killing offshore open blowouts (Petrobras MFDR near the Brazilian shore in 2003, Deepwater Horizon MFDR in the Gulf of Mexico in 2010, Elgin MFDR in the North Sea in 2012, etc), Gazprom Gazobezopasnost prepared proposals to ensure safe offshore operations, including the underwater well head equipment maintenance system.

The construction and operation of underwater well heads must use special underwater equipment. Safe operation ofunderwater anti-blowout equipment is ensured primarily byan underwater remote control vehicle capable of fulfilling minimum essential repairs, maintaining the guideline tensioner system, visual control of the state of underwater anti-blowout equipment, control of the general well-head situation, etc.

Underwater remote control vehicles, along with the Polyarnaya Zvezda underwater anti-blowout equipment, are used at offshore facilities near Sakhalin Island.

9.6. Labor protection

Gazprom Group strives to achieve OHS policy objectives, reducing the injury rate and protecting human life and health. The advanced approach to OHS management, corporate standards and programs introduced over the last ten years has made it possible to considerably reduce fatalities and general injury rates in *Gazprom's* gas business. While in 2000–2001 annual casualties totaled approximately 400 employees, including more than 30 fatalities, before the beginning of the reporting period these indicators dropped by more than 50%, and the frequency rate (the number of casualties per 1000 employees) fell by 2.4 times. Compared to 2008–2009, the number of accidents during the reporting period dropped by 25–30%. Nevertheless, in 2011 the injury rate rose slightly vs. 2010.

Unfortunately, the human factor remains the main cause of accidents. In total, the share of incidents arising from various violations recently reached approximately 75%. The main causes of accidents in 2010–2011 include:

- violation of labor and production discipline;
- ignoring personal protection measures;
- unsatisfactory production processes;
- traffic offences.

In 2010 accidents in *Gazprom Neft Group* resulted in 57 casualties including 3 fatalities. In 2011 there were 60 casualties and 2 fatalities. Compared to 2008, the lost-time injury rate and fatality rate declined.

At *Gazprom Energoholding* the injury rate in 2010–2011 rose, unfortunately. Higher injuries and fatalities were due to an accident at Surgutskaya GRES-1, a branch of OGK-2 branch, that occurred on June 28, 2011. Before commissioning the gas control unit after repairs, an uncontrolled gas discharge occurred from the gas pipeline through a plug flange connector, and the steam-and-gas mixture exploded. The accident resulted in 12 injuries of varying severity and 4 fatalities. *Gazprom Energoholding* companies keep records of injuries that involve their own personnel and contractor employees; in 2010 there were 15 injuries, and 8 in 2011.

All accidents are thoroughly investigated. The investigation makes it possible to identify key causes of accidents and develop the measures required to eliminate them. Timely implementation of such measures provides for a lower number of recurring incidents. Efficient staff communication is critically important in achieving an effective reduction in the accident rate. For this purpose, the *Gazprom Neft Group* issues special leaflets describing accidents that are distributed among employees. The leaflets include both factual information and bright visual images that focus on the lessons that should be learned from the incident.

In 2011 OAO Gazprom completed workplace certification that covered 94% of total locations and 96% of workplaces in the companies involved in core operations. The share of workplaces that comply with occupational health and safety requirements covered 63% of the total job locations. Workplaces that have non-removable hazardous factors account for 30% of total workplace with harmful labor conditions. The certification resulted in setting compensation for harmful and/or hazardous working conditions, and developing actions plas to improve the health and labor environment.

To reduce the harmful impact of job locations, *Gazprom Group* member companies introduce corporate rules and standards that govern providing employees with personal protective equipment. The protective clothing complies with domestic and European safety requirements.

Occupational injuries

Companies	2010	2011
Gas production, transmission, processing and UGS subsidiaries		
total injured	87	89
including fatalities	8	14
Gazprom Neft Group		
total injured	57	60
including fatalities	3	2
Gazprom Energoholding		
total injured	14	18
including fatalities	3	4
Total across the companies included in the Report Boundary		
total injured	155	166
including fatalities	14	20
Total at *Gazprom Group* member companies		
total injured	231	226
including fatalities	19	21

* Excluding *Gazprom* Administration.

Trade Union Involvement in Labor Protection

Technical Labor Inspection by Gazprom Interregional Trade Union controls compliance with labor laws and other labor protection regulations by employers and their representatives. Public control is carried out in accordance with the Russian Labor Code, the OAO Gazprom Unified Occupational Health and Safety Management System, and Regulations on Technical Labor Inspection issued by Russia's Neftegazstroyprofsoyuz. Continuous work is carried out to improve labor conditions, forms and techniques of OHS management.

During the reporting period, 12 full-time technical labor inspectors from the industry trade union and 5,613 labor protection agents were involved in the OHS control.

Representatives of the trade unions included in the Gazprom Interregional Trade Union participated in commissions of various levels responsible for supervising labor conditions. In 2010 and 2011, 2,584 OHS inspection reviews were held at OAO Gazprom enterprises, including 34 joint inspections with the Federal Labor and Employment Service, and 69 joint inspections with other territorial government supervision agencies. Labor protection agents conducted 1,431 inspections at enterprises. 886 recommendations and 25 orders to suspend work because of direct threat to human life and health were issued. 412 officers were held liable for violating laws and other labor protection regulations. Based on inspection results, measures were taken to eliminate violations of rules and standards that could potentially lead to injuries and accidents. 758 inspections were held to check employer performance of labor protection obligations envisaged by collective agreements.

10. Innovation Activity

10.1. R&D Priority Profile

Promoting innovation and increasing technological efficiency are among OAO Gazprom's priority areas of activity. Sustainable development of the oil and gas sector is a OAO Gazprom strategic objective. For this purpose, the *Group* invests considerable funds in research and development (R&D) and actively implements innovative technologies in its day-to-day operations, resulting in considerable economic effect.

Gazprom Group innovation activity follows the open innovation model, which provides for active partnership with external innovation developers including:

- corporate and external research and development institutions;
- institutions of higher education involved in joint research and personnel training;
- various Russian companies in related industries;
- international energy companies involved in developing joint solutions to key issues in the area of innovation and new technologies;
- small and medium innovative businesses.

In accordance with a Russian Presidential Order of February 4, 2010, No Pr-22, the *Company* decided to develop and adopt the Innovative Development Program. In June 2011, OAO Gazprom approved the Innovative Development Program to 2020, which sets innovative development targets for this period. Gazprom's priority is to create new technologies in order to reduce product costs, save energy resources, improve product performance, and increase operating efficiency and environmental friendliness. Based on innovative performance, the Group identifies key technology areas for R&D investments:

- exploration of hydrocarbon fields including development of unconventional resources;
- resource development in permafrost regions;
- hydrocarbon resource development on the continental shelf;
- hydrocarbon production at existing fields;
- increasing the main gas transport efficiency, diversifying gas supply schemes;
- increasing gas storage efficiency;
- gas conversion and petrochemical industry;
- gas sales and processing.

To ensure management and control of R&D financing and performance, assessment of OAO Gazprom technological leadership, and the effectiveness of the corporate innovation management system, the *Company* developed key performance indicators (KPI).

Corporate innovation management system performance

Indicator	Description
KPI_1	Share of R&D costs in revenues
KPI_2	Reducing project operating expenses due to innovative technologies
KPI_3	Reducing specific fuel and energy consumption for own technological needs and losses
KPI_4	Reducing carbon intensity of greenhouse gas emissions in CO_2-equivalent
KPI_5	Injury frequency rate
KPI_6	Growth in patents and licenses
KPI_7	Increases in labor efficiency

To evaluate KPI achievement, the Program set targets based on comparative analysis of similar KPIs at leading global companies. The Program is expected to improve technological efficiency of the entire *Group*, increase energy efficiency and environmental friendliness, and bring the *Group* KPIs closer to leading global companies.

10.2. Prospective innovative technologies and projects

In previous years *Gazprom Group* innovative development programs were aimed at researching *Gazprom* technology priorities. For example, an effective system of gas field automation was developed based on minimal manning technologies. Work was carried out to create technologies and equipment for infrastructure development of hydrocarbon fields in permafrost regions and on the continental shelf. A special system for managing technical condition and integrity of linear part of the main gas pipelines included in the UGSS was further improved.

Gazprom devotes great attention to developing and implementing advanced Russian innovative technologies and Russian-made equipment. For example, in 2010–2011 together with Rusnano, *Gazprom* continued active cooperation with Russian small and medium businesses involved in developing innovative technologies. In 2011, in cooperation with Rusnano, *Gazprom* approved the Demand Boosting Program for innovative products including nano technologies. The main goal of the Program is to select promising innovations that *Gazprom* may be interested in to ensure further manufacturing and introduction of these products in various *Group* projects.

In recent years, *Gazprom* has endeavored to develop Russian gas liquefaction technologies to minimize dependence on foreign suppliers, and create opportunities for Russian-made equipment supplies to LNG plants.

Gazprom is developing a technological foundation for producing, storing, transmitting and using gas in hydrated form, conducts research on utilizing the energy of gas turbine unit effluent gases with the help of Stirling machines and turbine generators, coordinates target R&D in the area of hydrogen energy, conducts research to ensure rational and economically feasible growth in using various renewable energy sources, and carries out continuous work to introduce self-sustained power plants at its linear and remote facilities.

Remote Marine Geological Exploration

Conventional exploration techniques, primarily identifying and preparing sites for exploratory drilling based on 2D and 3D-seismic surveys, often give negative results – too many seismic structures are taken out of drilling due to dry holes.

Earth remote sensing (ERS) techniques make it possible to improve the quality of evaluating new site prospects, including offshore sites, considerably and discover hydrocarbon fields. These techniques are based on satellite observations and measurement of gravity and magnetic fields. Integrated use of this data makes it possible to considerably increase the reliability of information on hydrocarbon presence and ensure highly efficient exploration of vast territories.

Currently the integrated processing and interpretation of the ERS data is based on methodology developed by Gazprom VNIIGAZ, operating in a pilot mode.

Introducing remote geological exploration in standard geological surveys will bring a 50% reduction in search costs and 10% lower exploration costs. Lower costs result mainly from the lower number of dry holes.

Producing new generation bitumen

Gazprom Neft was among the top three bitumen producers in Russia in 2010 and climbed to the top in 2011, investing more than 1bn rubles in upgrading the production of this material widely used for road construction.

Commencing production of modified bitumen (polymer-bitumen cohesive (PBC) and bitumen emulsions) allowed *Gazprom Neft* to reach a new level of production quality. Bitumen materials produced by the upgraded equipment comply with international quality standards. Introducing modified bitumen technologies in the road construction industry results in both a considerably higher lifecycle or the road surface and significant savings of government funds allocated for road repairs and maintenance, which is a valuable input into Russian infrastructure development. To provide the public road system with high-quality construction materials, the company plans to further modernize conventional bitumen production facilities and create new capacity to produce modified bitumen.

Gas Pipeline Control Automation

To create an automated control system for the Nizhnevartovskiy GPP – Parabel – Kuzbass main pipeline, Gazprom Transgaz Tomsk performed a comprehensive reconstruction of gas-compressor stations that included installation of new generation electrically-driven GCUs with magnetic suspension and smooth start. The automated control system envisages integration of industrial facilities' telemechanics and automation systems that can be controlled remotely from the central control room, which ultimately makes it possible to save up to 30% of electric power and

almost completely eliminate the need for lubricants. These stations are also based on unmanned operation technologies, which makes them the most hi-tech facilities within the *Gazprom* system.

International Sci-Tech Cooperation

2010 saw the 20th anniversary of *Gazprom's* cooperation with Wintershall, a wholly owned subsidiary of Germany's BASF. Wintershall proved a reliable *Gazprom Group* partner in developing the hard-to-reach Achimov deposits at the Urengoyskoye field, and was among key participants in the Nord Stream pipeline construction project.

In 2011 *Gazprom* was involved in scientific and technical cooperation with 11 leading foreign energy companies. For example, based on *Gazprom* technologies and in cooperation with Verbundnetz Gas AG, an ejector unit was constructed and commissioned at Bernburg UGS, Germany. *Gazprom* and Gasunie developed an information analysis system that provides for effective interaction between European control centers in the gas market trading environment. The system was approved by the UN ECE Gas Center.

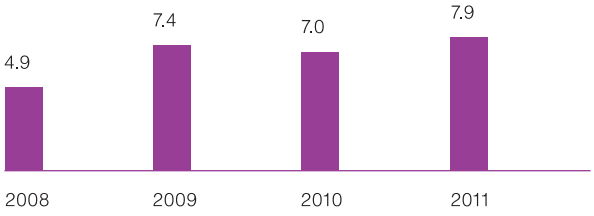
In the Asian-Pacific Region, scientific and technical cooperation with the Korea Gas Corporation (KOGAS), China National Petroleum Corporation (CNPC), the Japanese Agency of Natural Resources and Energy under the Ministry of Economy, Trade and Industry is actively developing. Areas of cooperation embrace the entire technological chain from well to consumer. The areas of the largest mutual interest include:

- occupational safety of oil and gas facilities, including onshore and offshore facilities above the Arctic Circle;
- environmental protection, energy saving and energy efficiency;
- advanced methods and means of dispatcher control;
- harmonization of national rules and standards for the gas industry;
- gas transmission and underground storage.

10.3. R&D performance in 2010—2011

Gazprom is the R&D leader among Russian energy companies and is among the top ten global energy companies. In 2011 *Gazprom* invested approximately 7.9bn rubles[25] in R&D, up 11% compared to 2010 (7bn rubles).

Investments in R&D, RUB bn (ex VAT)*

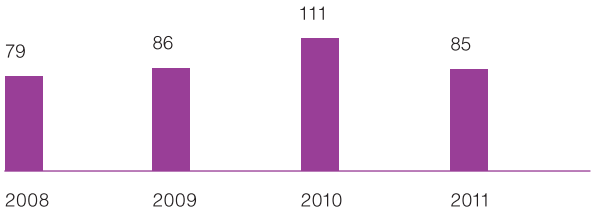


* Data on *Gazprom Group* companies included in the Report Boundary. To provide for comparability, 2008–2009 indicators are presented to reflect new composition of companies.

In the reporting period, the *Company* endeavored to improve the standardization system. In 2011, 136 documents were prepared and approved, including 80 documents that relate to innovative products, technologies and services.

In addition, *Gazprom* continued improving the intellectual property management system. As of December 31, 2011, the number of *Gazprom*-owned patents reached 1,608. In 2010, 174 patented technologies were used in the production process (including 144 by the companies included in the Report Boundary), and 213 (including 179 used by the companies included in the Report Boundary) in 2011.

Patents obtained by *Gazprom* in 2008—2011*



* Data refer to the *Gazprom Group* companies included in the Report Boundary. For the companies included in the Annual Report Boundary, these indicators look as follows: In 2010–2011 *Gazprom Group* companies obtained 315 patents: 170 patents in 2010, and 145 patents in 2011.

In 2010–2011 in addition to R&D, *Gazprom* actively developed innovative venture activities. Together with Gazprombank, the *Company* is completing the formation of a venture innovative technologies fund that is expected to invest a total of 24bn rubles in promising innovation projects in 2012-2021. To increase the effectiveness of innovations management, the Group is building cooperation with various development institutions including the Skolkovo Foundation.

A more detailed description of *Gazprom* research and development performance is available in the Innovation Activity section of the *Company* annual reports for 2010 and 2011.


АМАЗОН
MARINE
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11. Social and Economic Development in the Regions

11.1. Promoting social and economic development in the regions

OAO Gazprom activities are of strategic importance for Russia's economic development and affect the interests of large numbers of people. *Group* enterprises are located in most Russian constituents and significantly affect their social and economic development. The main objective of the OAO Gazprom regional policy is to develop strategic partnership with the regions of operations based on a systemic approach that takes into account the *Group's* long-term sustainability priorities.

Every year, *Gazprom Group* actively participates in projects aimed at creating new jobs, supporting the needy and low-income households, military men, and veterans and invalids from World War II. *Group* companies also implement social support programs for indigenous minorities, making investments in constructing industrial and social infrastructure facilities in Russian regions.

Gazprom is among the largest taxpayers in Russia. *Group* tax payments to regional budgets grow every year, compensation payments to regions are made on time, and the scope of charitable and sponsor activities regularly expands. In 2010 *Gazprom Group* tax payments to budgets of all levels reached 731.3bn rubles, rising to 967.2bn rubles in 2011, of which almost 40% was paid to regional and local budgets.

Regional development is greatly influenced by *Gazprom's* investment policy based on the principle of timely achievement of national tasks and objectives determined by the Russian Energy Strategy to 2030.

A strategic area of *Group* activities is the development of new gas production areas: the Yamal peninsula, the Arctic shelf, Eastern Siberia and the Far East.

Gazprom is implementing a program of hydrocarbon development on the Russian shelf to 2030, which will make it possible to not only create new gas production centers on the shelf of the Arctic and Far East seas, but also to provide for the infrastructure development of the Northern Sea Route. The Eastern Gas Program implemented by the *Gazprom Group* will create five gas production centers: Sakhalinskiy, Yakutskiy, Irkutskiy, Krasnoyarskiy, and Kamchatskiy.

Gazprom's large-scale investment activities and building and commissioning of new production facilities contribute to advancing industrial production and technologies, improving personnel professional development and retraining, and expanding regional labor markets. The average annual headcount in industrial production required to complete *Gazprom's* aggregate commercial orders to 2030 is estimated to exceed 350,000 people.

Developing the energy industry and enhancing energy efficiency in the regions is among *Gazprom's* priorities. The Group is the largest domestic owner of power generation assets and invests considerable funds in creating new generating facilities. In September 2011, *Gazprom* completed a program of construction and upgrading of a total of nearly 3 GW in new capacity that began in 2007. Before the end of 2012, the commissioning of about 1 GW of the rated capacity is expected.

Gazprom Group, along with Russian regions, is involved in successful expansion of the NGV market. In 2011 *Gazprom's* network of CNG filling stations included 207 units located in 53 Russian regions.

Group support for local suppliers contributes to the development of industry, trade and science in the regions of operation. For example, companies registered in the Yamalo-Nenets Autonomous District are actively engaged by Gazprom enterprises in performing work, services and product deliveries.

Eastern Gas Program

A Russian Government Order of July 16, 2002 No 975-r appointed *Gazprom* a coordinator for implementing the Government Program designed to create a single system of gas production, transmission and supply in Eastern Siberia and the Far East, including exports to China and other APR countries (Eastern Gas Program). Despite considerable natural gas resources, the average gas supply rate in Eastern Siberia and the Far East does not exceed 7% (vs. 63.1% of the average Russian rate).

The Eastern Gas Program is a tool for coordinating the efforts of all stakeholders – federal and regional governments, mineral resources developers, domestic and foreign business partners – in resolving nation-wide problems of gas industry development in Eastern Siberia and the Far East.

Gas production centers will be established in the Russian East (the Krasnoyarsk Territory, the Irkutsk Region, the Republic of Sakha (Yakutia), the Sakhalin Region, and the Kamchatka Territory). The Program provides for simultaneous development of gas processing and gas chemical plants including helium and LNG facilities along with creating gas production centers and a single gas transmission system.

The Sakhalin – Khabarovsk – Vladivostok gas transmission system required for gas delivery to the Primorye Territory and to develop a gas supply system in the Khabarovsk Territory and the Sakhalin Region is among the top priorities of the Eastern Gas Program. Gas supply to Vladivostok commenced in September 2011 following the commissioning of the start-up GTS facility.

In accordance with the order of priority established by the Eastern Gas Program, commercial gas production in Eastern Siberia and the Far East started on offshore fields on Sakhalin Island, which are the most prepared for operation (Sakhalin-1 and Sakhalin-2 projects).

With the growth of pipeline gas and LNG supplies for export and to the Far East, Sakhalin-3 deposits, prospective offshore fields on Sakhalin Island, and the Yakutskiy gas production center facilities will be commissioned along with construction of the Yakutia – Khabarovsk – Vladivostok gas transmission system, gas processing and helium plants, and a gas chemical facility in Belogorsk.

Gas from the Irkutskiy gas production center will be supplied to the expanded regional gas distribution network and used for processing purposes.

In recent years, *Gazprom* has consistently pursued an import substitution policy, expanding procurement from domestic manufacturers. As a result, the share of domestic materials and equipment in total procurement volume has increased progressively to reach 94.4% at the end of 2011.

ChelPipe and *Gazprom*: mutually beneficial cooperation

Support for domestic manufacturers is an essential component of the *Group's* strategy, which is demonstrated by expanding purchases of locally produced materials. Special attention is paid to cooperation with Russian pipe producers. The *Group* is the largest buyer of large diameter pipe produced by the Chelyabinsk Pipe-Rolling Plant, a leading domestic pipe manufacturer. To provide for further cooperation with ChelPipe, the *Group* set up a special task force responsible for identifying and satisfying future needs of the *Gazprom Group*.

The *Group* greatly influences the oil sector of the Russian economy. *Gazprom Neft Group* member companies operate in 24 Russian regions. *Gazprom Neft Group's* main production companies are located in Siberia, while the largest oil refining facilities are located in the Omsk Region, the Yaroslavl Region, and Moscow. A filling station network extends through almost all of Russia's regions.

Therefore, owing to large scale and diversification of operations, *Gazprom* possesses a comprehensive set of tools and mechanisms to influence social and economic development in the regions:

- creating and developing social and economic infrastructure;
- supporting indigenous minorities;
- implementing sports development programs;
- preserving and developing cultural and historic heritage.

11.2. Regional gas distribution network development

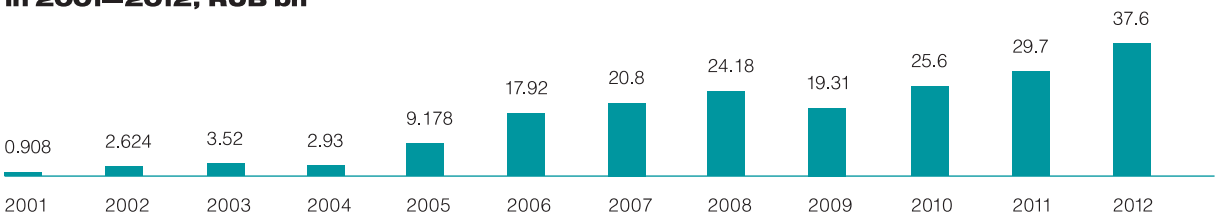
Gazprom's involvement in developing gas distribution networks in Russian regions is one of the largest and most socially important areas of *Group* activity. The Concept of *Gazprom* Involvement in Gasification of Russian Regions is the basis for developing specific programs, organizational measures and regulations that govern OAO Gazprom's engagement in developing the gas distribution network. The Concept determines the main areas of *Group* activities in the sphere of gasification and gas use, and mechanisms for implementing gasification projects based on applicable Russian laws. The Concept is designed to streamline the interaction between the *Group* and regional administrations, and coordinate the effort to achieve maximum effective resource utilization.

Since 2001, together with the supreme government institutions of Russian constituents, *Gazprom* has developed, approved and endorsed a General Schemes of Gas Supply and Gasification. Apart from the General Schemes of Gas Supply and Gasification, gas distribution network expansion programs are being implemented on the basis of time-schedules for synchronized implementation of gasification programs, which contain a list of work and deadlines to be performed by both OAO Gazprom and regional authorities. These time schedules are designed to ensure that consumers are connected to gas supply immediately after *Gazprom* completes the construction of community gas pipe lines.

In 2011 the OAO Gazprom Board of Directors instructed the Management Committee to update, together with federal and regional authorities, the Gasification Program of Russian Constituents to 2015 and further to 2020 in respect of 69 Russian constituents, with a view to ensuring considerably higher growth rates of natural gas supplies to households, industry and agriculture. Gazprom Mezhregiongaz was instructed to act as a program investor, coordinator and administrator.

In accordance with the instruction, in 2011 *Gazprom* invested over 29bn rubles in expanding gas supplies to Russian regions, a 16% rise vs. 2010. In 2012 the Program funding increased considerably, reaching over 37.6bn rubles.

Investments in gas distribution network expansion to Russian regions in 2001—2012, RUB bn



Apart from higher growth rates, the range of objectives of the Gasification Program also expanded considerably in 2011. The autonomous gas supply option is now considered for certain constituents (the Buryat Republic, Tyva, Khakassia and Altay).

Autonomous gas supply

Autonomous gas supply is a gas supply system that uses alternative energy sources including LNG, CNG, and liquefied petroleum gas (LPG), instead of the main pipeline gas.

The Buryat Republic is a pilot project for autonomous gas supply. Currently natural gas is not supplied to the region while LPG supplies account for approximately 14.8%. To ensure gas supply to remote areas of the Republic, the Plan of Gas Supply and Gasification of the Buryat Republic for 2010–2013 was adopted in 2010.

The first gas facilities to be commissioned will be a gas-filling station in Ulan-Ude with acapacity of 8,000 tonnes of LPG and nine boiler facilities located in Ivolginsk, Sotnikovo, Tarbagatay, Sharalday, Mukhorshibir and Dolga. The government of the Buryat Republic is responsible for creating favorable economic conditions for gasification projects and preparing end users for gas acceptance.

Total OAO Gazprom investments in the Russian Regional Gasification Program in 2005–2011 exceeded 146bn rubles, making it possible to commission 1,292 community gas pipelines and ensure gas supply to 2,524 communities. To reduce the time required to deliver gas to end users, investment projects are being developed and implemented based on integrated technological complexes, such as gas pipeline branches, gas distribution stations and community pipelines.

Gazprom Gasification Program performance

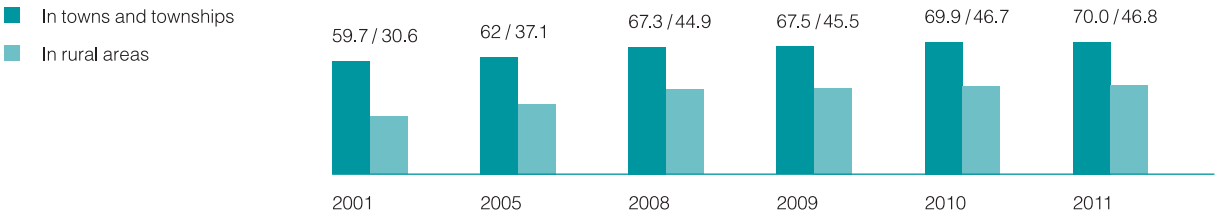
Indicator	2010	2011
Gas supply facilities	156	244
including in accordance with time-schedules	120	221
completed ahead of schedule	18	23
gas supply facilities built beyond schedule	18	
Total length of gas supply facilities, km	2,100	2,500
Apartments & households connected to gas distribution network	47.3	74
Financing of Gasification Program, RUB bn	25.6	29.7
Natural gas supply rate, %	63.1	63.2
in urban areas	69.9	70.0
in rural areas	46.7	46.8

* Based on requests from administrations and consumer preparedness for gas acceptance in 2010–2011, construction will be completed ahead of schedule.
** Additional gas supply facilities are constructed in the course of eliminating wildfires in eight Russian regions.
*** Including performance of Russian constituent obligations.

The *Group* is implementing a rational approach to developing gasification schemes for Russian regions, which allows for comprehensive consideration of local geographic and demographic profiles, and specific features of regional fuel balances. The regions for gasification are identified based on the following factors:

- level of gas distribution network development in the region;
- regional administration's capability to share the costs of gas distribution network expansion;
- overdue payments for current gas supplies;
- absence of overconsumption not agreed with *Gazprom*.

Level of Russian household gas supply coverage, 2001—2011, %



Implementing the Gasification Program, *Gazprom* is financing construction of community gas pipelines (gas delivery to communities), while regional authorities are responsible for constructing street networks and preparing end users for gas acceptance. Therefore, building an effective dialogue with municipal and regional authorities is of critical importance.

Group companies constantly monitor payments for gas supplied. At the end of 2011, the household payment rate dropped to 92% (vs. 96.1% in 2010). This reduction was caused by subnormal temperatures in November and December 2011 in certain Russian regions, which resulted in extra charges. North-Western regions demonstrated a record high 99% of household gas payments. The lowest payment rate of 68% comes from North Caucasian regions.

The *Group* identifies socially important consumer categories: households, utilities and government-financed organizations. In 2011, gas consumption by these categories increased by 88.8bn m^3, mainly due higher gas supply to households. In 2011 the payment rate by socially important consumer categories dropped to 93.8% (down 1.2% vs. 2010). In 2011, the general payment rate of utilities remained at the 2010 level of 95%.

Priority areas in the sphere of gas distribution network expansion in Russian regions

Goals	Tasks and objectives
Further expansion of gas distribution networks in Russian regions	Reaching maximum economically feasible level of gas supply to Russian regions Satisfying consumer demand for gas Raising living standards, especially in rural areas Raising economic potential of Russian regions
Improving cooperation between Gazprom and governments of Russian regions	Simultaneous creation of the pipeline–consumer complex Immediate loading of new facilities upon commissioning
Gas distribution network expansion and gas supply to the Russian Far East and Southern regions	Implementing federal programs for constructing gas supply facilities required for Vladivostok 2012 Summit, APEC Forum, and Sochi 2014 Winter Olympic Games.

11.3. Supporting indigenous minorities

Timely identification of needs and problems of local communities and indigenous minorities is an essential condition for *Gazprom's* development in the regions of operation. Expanding, down-sizing or decommissioning production facilities may result in considerable environmental and social impact on households in the regions of operation.

Supporting indigenous minorities is a key component of *Gazprom's* operation in the regions. Cooperation with local communities allows the *Group* to identify the pattern and degree of influence on indigenous minorities, which helps better understand potential environmental and social impact.

All *Gazprom* companies are obliged to secure the interests and rights of indigenous minorities to their traditional way of life. The most essential impact on indigenous minorities comes from the *Gazprom Neft Group*, Sakhalin Energy and gas companies that operate in the Yamalo-Nenets Autonomous District.

In accordance with the Russian Land Code, infrastructure development of oil, gas and condensate fields must be based on the free informed consent of local indigenous minorities.

To preserve the traditional life style of the Nenets that lead a nomadic existence, Gazprom Dobycha Nadym established Yamal, a successfully operating task force. It includes representatives from the Company, the YNAD Administration, the Administration of the Yamal District, and public organizations of indigenous minorities of the North. The task force is aimed at building and maintaining a constructive dialogue between industrial enterprises and indigenous minorities of the North, resolving the issues arising in the course of cooperation, and shaping unbiased public opinion about *Gazprom* and Gazprom Dobycha Nadym operations. Based on the discussion results, the task force is preparing action plans to resolve current problems.

Gazprom companies traditionally invest in socially important development programs for indigenous minorities in the North. To compensate for damage in the Purovsky District by Gazprom Dobycha Noyabrsk, the company provides charitable financial aid for socially important projects implemented by the Purovsky District Administration. Revival of national territories, and the preservation and development of traditional life style of indigenous minorities is a key direction in the company's social policy. Under Cooperation Agreements with municipalities, the company provides financial support for the Yety-Yal bloodline clan tribes and the Dyanki-Koy and Pyako-Purovskaya communities.

Gazprom Dobycha Urengoy takes comprehensive measures to protect the human environment and traditional life style of indigenous minorities of the North. Under Cooperation Agreements with the Administrations of the Purovsk, Nadym and Krasnoselkupsk Districts, the company actively participates in the social and economic development of local peoples. While developing its licensed areas, Gazprom Dobycha Urengoy ensures efficient utilization of raw materials and physical and energy resources, prevents environment pollution, enhances environmental safety, and carefully preserves conditions for developing traditional agriculture and household activities of the local population. In exchange for the agricultural lands alienated during the period of constructing industrial and infrastructure facilities, Gazprom Dobycha Urengoy compensates for losses incurred including lost opportunities. In 2010, the Company paid more than 9mn rubles for temporary alienation of deer pastures belonging to the Purovsky farm and ZAO Nydinskoye.

To compensate for the environmental and fauna damage during construction and operation of the Varandey shift camp and a power transmission line in 2011-2017, Gazprom Neft Shelf and the Kolkhoz Erv service-production complex signed an agreement for 1.7bn rubles. The company is creating jobs for the local population. For example, DSMU-Gazstroy, a general contractor for the storage terminal construction at Varandey, hired 20 local employees.

Gazprom also seeks to resolve current problems of indigenous minorities of the North that live in the Sakhalin Region in a timely fashion. In the course of discussing the first Sakhalin Indigenous Minorities Support Plan and preparing the second Sakhalin Indigenous Minorities Support Plan for 2011–2015, the Company held two rounds of consultations with stakeholders. Following the conference, prospects for further cooperation in implementing the second Support Plan held in November 2010, the Chairman of the Regional Council of Authorized Representatives of Sakhalin Indigenous Minorities signed a declaration of consent with the second Support Plan and a new trilateral agreement regarding its implementation.

In 2011 the Support Plan was discussed in two rounds of consultations and presented at a round table attended by the World Bank and International Finance Corporation. Sakhalin Energy's experience in trilateral cooperation to implement the Support Plan was recognized as best world practice by the 10th annual session of the UN Permanent Forum on Indigenous Issues in May 2011.

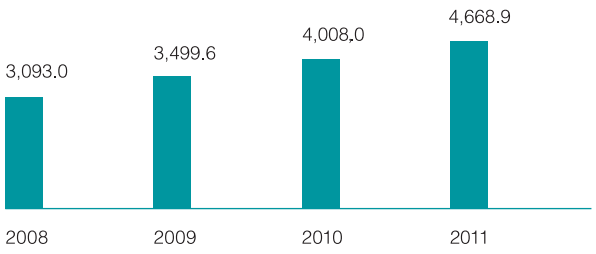
11.4. Social and charitable programs

OAO Gazprom traditionally participates actively in projects aimed at reviving national values and supporting cultural traditions. *Gazprom* sponsorship and charitable activities are designed to support sports, culture, education, science and other areas of social life.

Annually *Gazprom Group* member companies allocate considerable financial resources for charitable and sponsorship support. Financial aid is mainly provided for:

- non-profit & public organizations;
- support for ex-military, ex-law enforcement officers, and veterans;
- constructing and upgrading educational, cultural, sports, healthcare and other facilities belonging to third-party organizations;
- religious organizations;
- federal and local government agencies;
- support for national communities.

Charitable aid by companies included in the Report Boundary in 2008—2011, RUB mn



In 2011 cooperation with sports federations continued. OAO Gazprom is the general sponsor of the All-Russia Federation of Rhythmic-Sportive Gymnastics, the Russian Biathlon Union, the Football Union of Russia, the All-Russia Kayak-Canoe Federation, and the Zenit Football Club. The Company sponsored the All-Russia Volleyball Federation, the Russian Chess Federation, and the International Judo Federation. Since 2011, *Gazprom* has financed horseracing competitions.

OAO Gazprom sponsors the annual Saint Petersburg Open tennis tournament. Gazprom Transgaz Tomsk sponsored the international biathlon championship at Petropavlovsk-Kamchatsky. Owing to Gazprom Transgaz Kazan's support, the President of the Russian Federation Cup race was held in Kazan. Gazprom Invest Vostok built a modern biathlon complex in Kamchatka that hosts the International Biathlon Competitions for the Gazprom Cup in memory of V. Fatyanov.

OAO Gazprom implements projects aimed at supporting domestic education, including joint projects with the Gubkin Russian State University of Oil and Gas, Higher Management School under the Saint-Petersburg State University and other institutions of higher education.

Gazprom annually supports public cultural development projects and sponsors exhibitions and concerts. In 2010 *Gazprom* supported the Masterpieces amid Masterpieces concerts held in the Tretyakov Gallery, the Holy Russia exhibition in the Louvre, and concerts in the Small Hall of the Tchaikovsky Moscow State Conservatory.

At the end of 2011, *Gazprom* supported the successful Blue Horseman exhibition held at the Pushkin State Museum of Fine Arts; the 1st International Forum Arts and Reality, concerts by the Russian National Philharmonic Orchestra conducted by Vladimir Spivakov and the Moiseev State Academic Folk Dance Ensemble in Saint Petersburg; and the Russian Seasons 21st Century ballet festival tours across Russian cities and abroad.

Gazprom Group member companies take active part in preserving the cultural and historical legacy of Russian cities. In September 2010, a monument to the 1000th anniversary of Yaroslavl was unveiled in the historic area of the city. Refurbishment of the Chinese Palace at Oranienbaum is among the largest projects of the Group. In November 2010, Gazprom Transgaz Saint Petersburg, the project operator, was awarded the Honorary Diploma For Museum Support of the Museum Olympus prize established by the Cultural Committee and Interdepartmental Museum Council for contribution in museum and museology development in St. Petersburg.

Support for the Russian Orthodox Church is provided in the form of constructing the Life-Giving Trinity Church in Petropavlovsk-Kamchatsky, restoring the New Jerusalem (Voskresensk) Patriarchal Monastery and the Church of St. Kharlampy in Irkutsk, and installing an iconostasis in the Assumption Cathedral in Astana (Kazakhstan).

The Gazprom for Children program

The *Gazprom* for Children program is a key social project aimed at creating conditions for harmonious spiritual and physical development of children and teenagers through involvement in sports, amateur art teams and clubs.

38 OAOGazprom subsidiaries, and 50 member companies of Gazprom Mezhregiongaz are engaged in a program that covers 72 Russian regions. The Program implemented by *Gazprom* includes:

- constructing and reconstructing sports centers and multi-purpose outdoor sports grounds;
- recruiting and supporting coaches and instructors, purchasing equipment for youth sports clubs and amateur art teams;
- organizing festivals and sports competitions throughout the country.

The Program began in 2006. By mid-2012, 714 sports facilities were constructed or reconstructed, including health complexes, stadiums, football pitches, swimming pools, playgrounds, and recreation centers, which make physical culture and sports available daily for more than 90,000 people. Other 101 sports facilities are under construction. Overall, Gazprom invested 17.8bn rubles in the Gazprom for Children program.

Gazprom Transgaz Stavropol alone erected 47 sports facilities for children in the North Caucasian republics, which lead the country in population growth. The multifunctional sports center in Bugulma built by Gazprom Transgaz Kazan and opened in 2010 in the presence of the Gazprom Management Committee Chairman Alexey Miller and the President of the Republic of Tatarstan Rustam Minnikhanov, is among the major facilities constructed in the course of implementing the Program.

Aid for orphanages is an important area of *Gazprom Group* charitable activities. For example, Gazprom Invest Zapad actively participates in the life of the Tikhvin orphanage (Leningrad Region), and Yamalgazinvest renders assistance to specialized orphanage No 11 for t disabled orphans and children without parental support. 15 children's vocational training institutions in the Astrakhan Region are under the patronage of Gazprom Dobycha Astrakhan.

Support for the national cultures of numerous peoples from the Russian regions is an important aspect of *Gazprom's* social and charitable activities. With the aim of promoting folk arts, *Gazprom* holds the regular Fakel corporate festival that brings together amateur teams from Company subsidiaries and partner businesses. In 2007, the Festival achieved international status: its laureates together with CNPC Arts Festival participants give successful performances and tours. In May 2011, Gelendzhik hosted the final Fakel Festival attended by representatives from *Gazprom*, CNPC and GDF Suez (France).

With the purpose of preparing for the 2014 Olympic Games, Gazprom is implementing the Gazprom-2014 Program that envisages construction and operation of sports, infrastructure and energy facilities in Sochi.

The *Group* is participating in the construction of a combined Biathlon and Ski Complex located on the Psekhako Ridge, not far from Krasnaya Polyana. To ensure a comfortable environment for competitors in cross-country skiing and biathlon, alongside the combined complex OAO Gazprom is building a village for athletes and improving the infrastructure of the *Gazprom* mountain tourist center to accommodate numerous guests.

The Dzhubga – Lazarevskoye – Sochi gas pipeline, *Gazprom's* main Olympic-related infrastructure project, is unique, with 90% of the pipeline laid along the Black Sea floor at depths of up to 80 m. To minimize

the environmental impact resulting from the composite local geological and seismic structure, special technical specifications for the project were developed and approved.

Launching the Dzhubga – Lazarevskoye – Sochi pipeline in June 2011 made it possible to improve the situation regarding gas supplies to Black Sea communities and, in particular, resolve the problem of gas delivery to the Tuapse area where the gas supply rate did not exceed 5%. The Adler CHP is designed to ensure the supply of electricity and heat for the Olympic facilities and will be the main industrial user of the gas pipeline.

12. GRI Table

This Report uses the indicators recommended by the G3.1 GRI Sustainability Reporting Guidelines. The Report also contains certain indicators recommended by GRI Oil and Gas Sector Supplement and Electric Utilities Sector Supplement (marked OG and EU, respectively).

GRI Indicator	Description	Disclosure	Comments
Strategy and Profile			
1. Strategy and Analysis			
1.1.	Statement from the most senior decision-maker of the reporting organization about the relevance of sustainability to the organization and its strategy	Section 1, p. 4–5	
1.2.	Description of key impacts, risks, and opportunities	Section 4.4, p. 36–37	
2. Organizational Profile			
2.1.	Name of the organization	Section 3.1, p.12	
2.2.	Primary brands, products, and/or services	Section 3.1, p.13–15	
2.3.	Operational structure of the organization	Section 3.1, p. 12	
2.4.	Location of organization's headquarters		Moscow, Russian Federation
2.5.	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	Section 3.2, p. 15–17 Section 3.3, p. 17–18	
2.6.	Nature of ownership and legal form	Section 4.3, p. 32–34	
2.7.	Markets served	Section 3, p. 11–21	
2.8.	Scale of the organization	Section 3, p. 11–21 Section 5.1, p. 40–41 Section 5.2, p41–47	
2.9.	Significant changes during the reporting period regarding size, structure, or ownership	Section 3.1, p. 12–14	
2.10.	Awards received in the reporting period	Section 4.2, p. 30	
EU1	Installed capacity, broken down by primary energy source and by regulatory regime	Section 5.2, p. 41–47	
EU2	Net energy output broken down by primary energy source and by regulatory regime	Section 5.2, p. 46	Partially disclosed
3. Report Parameters			
3.1.	Reporting period (e.g., fiscal/calendar year) for information provided	Section 2.1, p. 8	
3.2.	Date of most recent previous report (if any)	Section 2.1, p. 8	
3.3.	Reporting cycle	Section 2.1, p. 8	
3.4.	Contact point for questions regarding the report or its contents	Section 14, p. 124	
3.5.	Process for defining report content	Section 2.1, p. 8	
3.6.	Boundary of the report	Section 2.2, p. 8–9	
3.7.	Limitations on the scope or boundary of the report	Section 2.2, p. 8–9	

GRI Indicator	Description	Disclosure	Comments
3.8.	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations	Section 2.2, p. 8–9	
3.9.	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report	Section 2.1, p. 8	
3.10.	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement		Following the expansion of the Report Boundary, for the purposes of comparability certain indicators for 2008–2009 are provided in relation to the *Gazprom Group*.
3.11.	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	Section 2.2, p. 8–9	
3.12.	Table identifying the location of the Standard Disclosures in the report	Section 12, p. 114–121	
3.13.	Policy and current practice with regard to seeking external assurance for the report	Section 2.1, p. 8	
4. Governance, Commitments, and Engagement			
4.1.	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight	Section 4.3, p. 32–36	
4.2.	Indicate whether the Chair of the highest governance body is also an executive officer		No
4.3.	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	Section 4.3, p. 33	As of December 31, 2011, independent directors were T.A. Kulibayev and V.A. Musin.
4.4.	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Section 4.3, p. 32–36	
4.5.	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance)	Section 4.3, p. 32–36 Section 8.3, p.82–86	
4.6.	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Section 4.3, p. 32–36	
4.7.	Process for determining qualifications and expertise of the members of the highest governance body for determining the organization's strategy on economic, ecological and social issues (sustainability)		Qualifications and expertise are determined on the basis of professional experience of nominees to the Board of Directors. The Company does not use any specific criteria to identify qualifications in the field of ecological or social issues.
4.8.	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	Section 4.3, p. 32–36	
4.9.	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles	Section 4.3, p. 32–36	

GRI Indicator	Description	Disclosure	Comments
4.10.	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	Section 4.1, p. 24–27	
4.11.	Explanation of whether and how the precautionary approach or principle is addressed by the organization	Section 6.1, p. 56–57	
4.12.	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	Section 4.2, p. 27–31 Section 6.3, p. 58–60	
4.13.	Memberships in associations (such as industry associations) and/or national/international advocacy organizations	Section 4.2, p. 27–31	
4.14.	List of stakeholder groups engaged by the organization	Section 4.2, p. 27–31	
4.15.	Basis for identification and selection of stakeholders with whom to engage	Section 4.2, p. 27–31	
4.16.	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Section 4.2, p. 27–31	
4.17.	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	Section 4.2, p. 27–31 Section 4.3, p. 32–36	
Management Approach			
DMA EC	Management Approach to Economic Aspects	Section 5.3, p. 47–53	
EU6	Management approach to ensure short and long-term electricity availability andreliability.	Section 5.2, p. 41–47 Section 5.3, p. 47–53	Partially disclosed
EU8	Research and development activity and expenditure aimed at providing reliable electricity and promoting sustainable development	Section 10.1, p. 100 Section 10.3, p.102–103	
DMA EN	Management Approach to Environmental Aspects	Section 6.1, p. 56–57	
DMA LA	Management Approach to Labor Aspects	Section 8.1, p. 80	
EU14	Programs and processes to ensure the availability of a skilled workforce	Section 8.3, p. 82–86	
EU16	Policies and requirements regarding health and safety of employees and employees of contractors and subcontractors	Section 9.1, p. 90–91 Section 9.3, p. 93	
DMA HR	Management Approach to Human Rights Aspects	Section 8.1, p. 80	
DMA SO	Management Approach to Society Aspects	Section 4.2, p. 27–31 Section 11.1, p. 106–107 Section 11.3, p. 110–111	
DMA PR	Management Approach to Product Responsibility Aspects	Section 6.1, p. 56–57	
Economic Performance Indicators			
Aspect: Economic Performance			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	Section 5.3, p. 47	
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	Section 6.3, p. 58–60	

GRI Indicator	Description	Disclosure	Comments
EC3	Coverage of the organization's defined benefit plan obligations	Section 8.3, p. 82–86	Partially disclosed
Aspect: Market Presence			
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	Section 8.3, p. 82–86 Section 8.4, p. 86–87	Partially disclosed
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	Section 11.1, p. 106–107	Partially disclosed
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	Section 11.1, p. 106–107	Partially disclosed
Aspect: Indirect Economic Impacts			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Section 11.3, p. 110–111 Section 11.4, p. 111–113	
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Section 11.1, p. 106–107	
OG1	Volume and type of estimated proved reserves and production	Section 5.2, p. 41–47	
EU10	Planned capacity against projected electricity demand over the long term, broken down by energy source and regulatory regime	Section 5.2, p. 41–47	Partially disclosed
EU11	Average generation efficiency of thermal plants by energy source and by regulatory regime	Section 5.2, p. 41–47	
Environmental Performance Indicators			
Aspect: Energy			
EN3	Direct energy consumption by primary energy source	Section 7.1, p. 70	Partially disclosed
EN4	Indirect energy consumption by primary energy source	Section 7.1, p. 70	Partially disclosed
OG2	Total amount invested in renewable energy	Section 7.2, p. 73–76	Partially disclosed
OG3	Total amount of renewable energy generated by source		The Group uses renewable energy sources, such as solar modules, wind generator and thermoelectric converter, to ensure energy supply for gas well telemechanics at Yamburgskoye GCF. Energy is produced in minor volumes.
EN5	Energy saved due to conservation and efficiency improvements	Section 7.1, p. 72	
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives	Section 7.2, p. 73–76	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Section 7.1, p. 70–72	
Aspect: Water			
EN8	Total water withdrawal by source	Section 6.5, p. 62	
EN10	Percentage and total volume of water recycled and reused	Section 6.5, p. 62	Partially disclosed

GRI Indicator	Description	Disclosure	Comments
Aspect: Biodiversity			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Section 6.6, p. 65–67	Partially disclosed
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Section 6.6, p.65–67	Partially disclosed
EN13	Habitats protected or restored	Section 6.6, p.65–67	Partially disclosed
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	Section 6.4, p.60–61 Section 6.6, p.65–67	
OG4	Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored	Section 6.6, p.65–67	Partially disclosed
Aspect: Emission, Effluents, and Waste			
EN16	Total direct and indirect greenhouse gas emissions by weight	Section 6.3, p.60	Partially disclosed
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Section 6.3, p.58–60 Section 7.1, p. 70–72	Partially disclosed
EN20	NOx, SOx, and other significant air emissions by type and weight	Section 6.5, p. 63	
EN21	Total water discharge by quality and destination	Section 6.5, p. 63–65	
EN22	Total weight of waste by type and disposal method	Section 6.5, p. 63–65	
EN23	Total number and volume of significant spills	Section 9.4, p. 93–94	Partially disclosed
OG6	Volume of flared and vented hydrocarbon	Section 7.2, p. 73–76	
OG7	Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal	Section 6.5, p. 63–65	Partially disclosed
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and percentage of transported waste shipped internationally		The *Gazprom Group* member companies do not import or export hazardous waste. For waste disposal, see EN22.
Aspect: Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	Section 6.4, p. 660–61	
Aspect: Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	Section 6.5, p. 62–65	
Aspect: Overall			
EN30	Total environmental protection expenditures and investments by type	Section 6.4, p. 60–61	

GRI Indicator	Description	Disclosure	Comments
Labor Practices and Decent Work Performance Indicators			
Aspect: Employment			
LA1	Total workforce by employment type, employment contract, and region	Section 8.2, p. 81–82	Partially disclosed
LA2	Total number of employees and employee turnover by age group, gender, and region	Section 8.2, p. 81	Partially disclosed
EU18	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training	Section 9.3, p. 93	All contractor employees that are engaged at hazardous industrial facilities undergo occupational health and safety training.
LA3	Benefits provided to full-time employees that are not provided to temporary or part time employees, by significant locations of operation	Section 8.3, p. 82–86 Section 8.4, p. 86–87	
Aspect: Labor/Management Relations			
LA4	Percentage of employees covered by collective bargaining agreements		Collective bargaining agreements cover 84% of employees of the *Gazprom Group* member companies included in the Report Boundary.
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements		The *Group* fully complies with all legal requirements to notice periods regaring operational changes.
Aspect: Occupational Health and Safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	Section 9.1, p. 90–91	Trade unions that exist at nearly all companies of the Group represent employees on joint occupational health and safety committees See also LA4.
LA 7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region	Section 9.6, p. 97	Partially disclosed
LA9	Health and safety topics covered in formal agreements with trade unions	Section 9.1, p. 90–91	
Aspect: Training and Education			
LA10	Average hours of training per year per employee by employee category	Section 8.3, p. 84	Partially disclosed
Aspect: Diversity and Equal Opportunity			
LA13	Composition of governance bodies and breakdown of employees according to gender, age group, minority group membership, and other indicators of diversity	Section 4.3, p. 33	
LA14	Ratio of basic salary and remuneration of women to men by employee category		Basic salaries of men and women are equal.

GRI Indicator	Description	Disclosure	Comments
Human Rights Performance Indicators			
Aspect: Investment and Procurement Practices			
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening		The *Group* does not perform this kind of screening of investment agreements.
HR2	Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken		The *Group* does not perform this kind of screening of suppliers and contractors.
Aspect: Non-discrimination			
HR4	Total number of incidents of discrimination and corrective actions taken		No incidents of discrimination were revealed in the reporting period.
Aspect: Child Labor			
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor		The *Group* does not use child labor.
Aspect: Forced and Compulsory Labor			
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor		The *Gazprom Group* does not use forced or compulsory labor.
Aspect: Indigenous Rights			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	Section 11.3, p. 110–111	No incidents of violations involving rights of indigenous people were identified.
OG9	Operations where indigenous communities are affected by activities and where specific engagement strategies are in place	Section 11.3, p. 110–111	
Society Performance Indicators			
Aspect: Local Communities			
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	Section 11, p. 105–113	
S09	Operations with significant potential or actual negative impacts on local communities.	Section 11.1, p. 106–107 Section 11.3, p. 110–11	
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities	Section 11.1, p. 106–107 Section 11.3, p. 110–111	
OG10	Number and description of significant disputes with local communities and indigenous peoples	Section 11.3, p. 110–111	
Aspect: Corruption			
SO2	Percentage and total number of business units analyzed for risks related to corruption		The *Group* did not undertake this analysis in the reporting period.

GRI Indicator	Description	Disclosure	Comments
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures		Though this training did take place in the reporting period, this indicator is not calculated.
SO4	Actions taken in response to incidents of corruption		No incidents of corruption were identified in the reporting period.
Aspect: Public Policy			
SO5	Public policy positions and participation in public policy development and lobbying	Section 4.2, p. 27–31	
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country		The *Group* does not provide financial support for political parties.
Aspect: Anti-competitive Behavior			
SO7	Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes		See SO8.
Aspect: Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations	Section 5.2, p. 41–47 Section 6.1, p. 56–57	No significant fines for non-compliance were imposed in the gas sector. The information about certain less significant penalties is provided in sections 5.2 and 6.1. OAO Gazprom neft was charged a penalty of RUB 979mn for overpricing kerosene and fuel oil in the period of 2010 – early 2011, and creating discrimination on the fuel market. In view of voluntary remedy by OAO Gazprom Neft, the penalty was charged at a minimum possible rate of 1.1% of OAO Gazprom Neft revenue from fuel oil and kerosene sales. No FAS order was issued. See also EN28.
OG12	Operations where involuntary resettlement took place, the number of households resettled in each and how their livelihoods were affected in the process		No incidents of resettlement were identified in the reporting period.
OG13	Number of process safety events, by business activity	Section 9.2, p.91–92	Partially disclosed
Product Responsibility Performance Indicators			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	Section 6.1, p. 56–57	Customer health and safety issues are considered in designing industrial facilities and within the scope of production control process.
Aspect: Customer Privacy			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data		No complaints of this kind were received in the reporting period.
Aspect: Compliance			
OG14	Volume of biofuels produced and sold meeting sustainability criteria	Section 7.2, p. 73–76	Partially disclosed, See OG2.

13. Glossary of Terms and Abbreviations

APG	Associated Petroleum Gas
APR	Asia-Pacific Region
CIS	The Commonwealth of Independent States
CNG	Compressed Natural Gas
Company	OAO Gazprom
CRMS	Comprehensive Risk Management System
CSA	Capacity Supply Agreement
CVETS	OAO Gazprom Continuous Vocational Education and Training System
EIA	Environmental Impact Assessment
EMS	Environmental Management System
FPR	Fuel and Power Resources
FSU states	Former USSR Republics excluding Russia
Gazprom zenergoholding	OOO Gazprom energoholding and its consolidated companies (OAO Mosenergo, OAO TGC-1, and OAO WGC-2)
Gazprom neft Group, Gazrpom neft	OAO Gazprom neft and its subsidiaries
Gazprom, Gazprom Group, Group	A group of companies that consists of OAO Gazprom (parent company) and its subsidiaries
GCF	Gas Condensate Field
GCS	Gas Compressor Station
GCU	Gas Compressor Unit
GDS	Gas Distribution System
GPP	Gas Processing Plant
GTS	Gas Transmission System
IFRS	International Financial Reporting Standards
IRMS	Integrated Risk Management System
KPI	Key Performance Indicator

LNG	Liquefied Natural Gas
LP	Linear parts of main gas pipeline
LPG	Liquefied Petroleum Gas
MET	Mineral Extraction Tax
OHS	Occupational Health and Safety
OIRFP	Offshore Ice-Resistant Fixed Platform
R&D	Research & Development
RUB	Russian Ruble
Russia, RF	The Russian Federation
Russian FTS	Federal Tariff Service of the Russian Federation
SPT	Strategic Performance Target
t c.e.	tonne of coal equivalent (0.7 of tonne of oil equivalent)
UGS	Underground Gas Storage facility
UGSS	Unified Gas Supply System
VAT	Vaue Added Tax

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