

## Gazprom: a New Quality of Growth

*Speech of the Chairman of the Board of Directors of OAO Gazprom  
Alexei Miller at the annual general shareholders meeting,  
June 27, 2008, Moscow*

Esteemed shareholders, colleagues and partners!

On behalf of the Board of Directors of Open Joint-Stock Company Gazprom, and personally, I welcome you to the annual general shareholders meeting.

You have been given a lot of factual material about the activities of OAO Gazprom and its subsidiaries in 2007: the annual report, the accounting reports, the conclusion of the Audit Commission, the auditor's conclusion and other materials.

It is proposed that the shareholders meeting should approve:

- the annual report of OAO Gazprom for 2007.
- the annual accounting reports of OAO Gazprom
- distribution of profits, and the proposals of the Board of Directors about the size, schedule and form of dividend payouts for 2007.

It is also proposed that we approve the amount of remuneration of the members of the Board of Directors and the members of the Audit Commission. The amounts of the remuneration are given in the materials that were given to you.

It is proposed that the auditor for completing the obligatory annual audit of OAO Gazprom's accounting reports should confirm the winner of the open contest among audit companies: ZAO PriceWaterhouseCoopers Audit.

Esteemed shareholders!

In recent years Gazprom has been showing consistent growth in all the main indicators: production, sales, profits, investments and capitalization. What is different today is that Gazprom is showing a new quality of growth!

Let's look at how this is manifested in the main events of last year and in our current plans.

Effective growth of Gazprom's resource base is one of the most important factors of the company's future increase in capitalization. So for instance, our exploration work increased our gas reserves in 2007 to 592.1 bn cubic meters, which exceeds our production by more than 7%. Thus, for the third year in a row Gazprom has been ensuring the broad replacement of its resource base. This gives us an advantage over many other world oil and gas companies, whose average reserve replacement ratios in recent years are less than 90%.

An international audit of Gazprom's reserves is done every year. This means that our partners and investors can be confident of the high quality of Gazprom's resource base.

We plan to rise to a qualitatively new level of resource replacement by substantially increasing exploration both in the company's traditional areas of production and in new ones such as the sea shelf and in the East of our country.

In 2008-2010 our annual investments in exploration in Russia alone will increase by two-and-a-half times to almost 70 bn rubles, and on average, in the period to 2020 will amount to about 90 bn rubles per year.

Work to expand our resource base abroad and obtain licenses to explore and develop fields in various regions of the world is acquiring much greater significance. Work is already being done in Vietnam, India, Venezuela, Libya, Uzbekistan, Kyrgyzstan and Tajikistan. Negotiations are underway in Turkmenistan, Nigeria and Iran, and this list is expanding.

Esteemed shareholders!

Gazprom's joint-stock capital structure fully conforms to the company's development strategy and current industry trends. Gazprom successfully combines the advantages of transnational energy giants with the advantageous features of national state-owned companies. The unification of state and commercial approaches makes it possible to ensure long-term planning on the basis of the future gas balance on the scale of the entire country and outside of it.

Increasing global competition for ownership of crude oil and gas reserves means that companies with state participation have significant advantages in the competition for dominant positions on international markets. This new quality is manifested in access to the most attractive oil and gas projects. State support ensures Gazprom's winning position in obtaining licenses to develop new, and more importantly, strategic fields in Russia. This is codified in the current law "On Subsurface Resources" and is occurring in practice. As you know, Gazprom has obtained a number of licenses on the basis of Government decisions.

Today the most relevant investment idea in the energy sector is to invest together with the state!

Esteemed shareholders!

As is well-known, Russia for the last six years has had the fastest-growing gas production in the world. In the last few years, Gazprom's annual gas production has increased by almost 4 times more than the amount of gas we export to France.

The unusually warm winter of 2006/2007 led to reduced demand for gas, which is why we decreased production last year to 548.6 bn cubic meters.

However, unlike natural disasters, long-term growth in demand for gas is a constant factor. From January through May 2008 Gazprom Group produced 246 bn cubic meters of gas, which was 6.3 bn cubic meters more than during the same period of 2007. The production plan for the current year foresees the production of up to 563 bn cubic meters of natural gas. In other words, the increase compared with last year—14.4 bn cubic meters—will be comparable, for example, to the amount we export to Great Britain.

In 2007 Gazprom launched several large fields, which will make it possible to ensure the necessary level of the company's production for decades in advance: the Kharvutin section of the Yamburg field and the Yuzhno-Russkoye field. Bringing these fields to design capacity and increasing the capacity of the Nadym-Pur-Tazov region will provide the planned level of production to 2010.

After 2010 the company plans to expand to new strategic areas of gas production on the Yamal peninsula, the Barents Sea shelf, the Ob and Tazov bays, in Eastern Siberia and the Far East.

It is important to note that Gazprom has significantly increased its long-term gas production goals. According to our plans, in 2010 Gazprom will produce at least 570 bn cubic meters. In 2015 production will reach 610-615 bn cubic meters, and in 2020 650-670 bn cubic meters. This is significantly higher than the level that was foreseen by the Energy Strategy of the Russian Federation approved just a few years ago. This document needs to be fundamentally revised and Gazprom will actively participate in this work.

Esteemed shareholders!

When speaking of production, it is necessary speak in detail about several qualitatively new projects. The Yuzhno-Russkoye field is a joint project with the German company BASF.

We plan to bring the field to design capacity of 25 bn cubic meters gas per year in 2009. The project covers the full cycle from gas production to supply to the end consumer and is a joint business that goes beyond ordinary relations between the seller and the customer.

Another landmark project of the company is the development of the giant Shtokman field, which will be carried out jointly with the French company Total and the Norwegian company StatoilHydro.

The reserves of the field here amount to 3.8 trln cubic meters of gas and about 31m metric tons of gas condensate. The first phase of field development foresees the production of 23.7

bn cubic meters of natural gas per year, supply via a gas pipeline beginning in 2013, and liquefied natural gas in 2014.

In early 2007 Gazprom joined the Sakhalin-2 project, acquiring 50% plus one share of Sakhalin Energy, which is the operator of this project. Our partners in this project are Shell, Mitsui and Mitsubishi. The construction of Russia's first liquefied natural gas production plant, with a design capacity of 9.6m metric tons per year, will be completed in the near future. By joining the project, Gazprom has ensured for itself access to new consumers: the countries of the Asia Pacific region, as well as the American market, and has become one of the major world players on the liquefied natural gas market.

Gazprom has the world's largest gas transportation system. Thanks to centralized management, wide geographical reach and the existence of redundant transportation routes, Gazprom's gas transportation system has a substantial reserve of durability and effectively ensures uninterrupted gas supply even under peak seasonal loads. This is a guarantee of reliable fulfillment of our contract obligations to our partners and significant commercial advantages for Gazprom.

Gas transportation is one of the priorities of our investment program, especially taking into account that gas supply is a significantly more capital-intensive process than production itself. This is why investments in the construction of gas pipelines currently are a priority in the company's business plans.

The capabilities of Gazprom's gas transportation system are constantly increasing. In 2007 we launched long-distance gas pipelines and branch connections 1,156.5 km in length, as well as

four compressor stations on gas pipelines with total power of 355,000 kW.

The largest-scale projects in the near future will be the construction of a system of long-distance gas pipelines from Bovanenkovo for the transportation of gas from the fields of the Yamal peninsula and the construction of a gas pipeline for the transportation of gas from Shtokman field.

Another priority project for Gazprom is to create and expand the gas transportation system of the Far East and connect it to Russia's current UGTS. Gazprom must ensure the reliable gas supply of the Russian consumers of this Region. In the first stage, the basis of the gas transmission network of the Far East will be comprised of the Sakhalin - Komsomolsk-on-Amur - Khabarovsk - Vladivostok gas pipeline, which will make it possible to gasify the Khabarovsk and Primorye Regions as well as the Jewish Autonomous Region. In the future the company plans to connect the Chayandin oil and gas condensate field to the system.

Dear shareholders!

New quality of development of our gas transport system during recent years has been associated with the fact that we have to take into account not only technological but also political risks associated with transit countries. This concerns such facilities as the gas pipeline Sokhranovka-Oktyabrskoye, gas pipeline Tskhinvali and certainly mega projects – Nord Stream and South Stream.

Together with our partners companies BASF/Wintershall, E.ON and Gasuni Gazprom has been successfully dealing with

implementation of the projects of the gas pipeline Nord Stream. Upon completion of construction the Nord Stream will ensure direct supplies at the amount not less than 55 billion cubic meters of gas annually to a number of markets of Europe such as Germany, France, Belgium, Denmark, Great Britain and others. In case of necessity capacity of the Nord Stream may be subsequently increased.

A particularity of the scheme of implementation of the project consists in the fact that for the first time in the history of supplies from Russia gas throughout many decades will be supplied through the gas pipeline Nord Stream from a specific deposit which is one the largest in Russia – Shtockman, directly connecting the producer with the end user.

At the same time Gazprom together with another its partner, the company ENI, is successfully promoting one more project – South Stream. This gas pipeline is one more tool for ensuring energy security of Europe and stable supply of countries of the Central and Southern Europe with Russian natural gas.

Everybody perfectly remembers that only thanks to Gazprom for several times already such countries as Turkey and Greece were in the winter period fully supplied with gas at occurrence of force-majeure on other supply routes.

As regard to the South Stream agreements have already been concluded with Bulgaria, Hungary, Serbia and Greece. Gazprom has also agreed upon joining of Slovenia and Austria to the project. The sea section of the South Stream gas pipeline will connect the shore of Russia and Bulgaria, thereafter one line will be laid towards Greece, the other – towards Serbia.



We pay not less attention to development of underground storage than we pay it to transport. In 2007 Gazprom operated in the territory of Russia 25 underground gas storage facilities. The potential thereof permits to ensure during the heating period about 20% of domestic and export gas supplies and during days of sudden nip this share achieves 30%. For the purpose of improvement of flexibility and optimal loading of the system Gazprom expands underground storage capacities. The aggregate active capacity of underground gas storages amounted as of the 31<sup>st</sup> of December 2007 to 64.9 billion cubic meters.

An important role for qualitative improvement of reliability and flexibility of gas supplies to European consumers is played by our investments into creation of underground gas storage facilities in European countries. In April of the current year the Agreement for cooperation in the area of underground gas storage was signed between Gazprom and "Ferbundnetz gas AG" according to which the partners will construct a new storage facility near the city of Bernburg. Together with the company "Vingaz" Gazprom stores about 2.3 billion cubic meters of gas in the underground gas storage facility Reden in Germany. We are also developing a large gas storage facility Haidah in Austria which was introduced into operation with the active storage capacity being equal to 1.2 billion cubic meters and will be further expanded.

Dear Shareholders!

The total volume of gas sales by Gazprom amounted in 2007 to 576.4 billion cubic meters including 307 billion cubic meters in

Russia, 100.9 billion cubic meters in CIS countries and Baltia, 168.5 billion cubic meters in the countries of Far Abroad.

Dear Shareholders!

In the past year we achieved the record high currency revenues from export of commodity gas to Far Abroad – 39.5 billion dollars and in the current year, taking into account export prices for gas, revenues are forecasted within the limits of 64 billion dollars.

In 2007 Gazprom extended a number of effective contracts and concluded new long-term contracts for gas supply. Our traditional partners in Europe understand how important it is to care in advance on the matter of provision with resources and most of them will deal with Gazprom, until after 2030.

Last year Gazprom also carried out a number of short-term transactions for supply of gas to the markets of Italy and Holland.

New quality of our work in gas markets is associated with the fact that simultaneously with growth of our own extraction we more and more actively are involving into the balance of the Gazprom gas from other producers. During recent years we have successfully cooperated with Turkmenistan, Uzbekistan, Kazakhstan in connection with purchase of all gas volumes accessible for Gazprom. This allows Gazprom for optimization of logistics of supplies.

Interaction with our partners in the Middle and Central Asia gets new shapes. Taking into consideration globalization processes in the world energy industry we understand the necessity to pass to work at European prices. For the purpose of

increase of gas supplies from that region the project for construction of the Caspian Sea gas pipeline is currently being implemented.

One more successful example of cooperation with our partners in CIS is the joint venture between Gazprom and Kazakhstan – KazRosGaz. At present, KazRosGaz purchases gas at the Karachaganskoye deposit and after reprocessing at the Orenburg Gas Processing Plant directs one part of the volume to the Gazprom system and another part - to the domestic market of Kazakhstan within the framework of exchange operations. This permits to Gazprom and Kazakh partners to get additional incomes.

We have carried out negotiations for purchase of gas in Azerbaijan. Taking into account the existing gas transport infrastructure and our readiness to purchase gas at market prices we assess achievement of agreements as quite probable.

Our subsidiary in Great Britain successfully works with gas from the Northern Sea. Swap operations will be expanded for entrance to markets which are new for Gazprom. The question here is obtainment of condensed natural gas in exchange to our gas supplies to Europe and pipeline gas - in regions not associated with the gas supply system of Gazprom.

Therefore, Gazprom is becoming not the largest producer of natural gas but also a large international player in connection with transactions associated with gas purchase and sale.

Dear Shareholders!

Operation of Gazprom in the Russian market also gets a new quality. The Russian market is of priority for Gazprom. Here the Gazprom Group implements more than 50% of the sold gas. In 2007 sales in Russia amounted to 307 billion cubic meters. Gazprom is implementing a large-scale program for gasification of the country. By the end of 2007 the level of gasification in general in Russia increased up to 62% including cities - up to 67%, in rural localities - up to 44%. Economy of our country is being growing fast and for the purpose of maintenance of such growth more and more energy resources are required. Over three years - from 2005 to 2007 increase in consumption in Russia amounted to 25.5 billion cubic meters which is higher than, for example, the volume of our export supplies to Italy.

And if just recently while working in the domestic market we could have only demonstrate a high level of social responsibility of the company then now we can get real profits.

The essential governmental resolutions have been taken for achievement of equal profitability in the internal and external markets. In 2007 within the framework of this resolution OJSC Gazprom concluded medium-term contracts with industrial consumers on the basis of the price formulae.

In the domestic market the gas price shall stimulate consumers for improvement of efficiency of use thereof, facilitate formation and development of an inter-fuel competition between substituting types of fuel and establishment of an optimum relation of prices for gas, coal and fuel oil.

The results of the experiment carried out last year associated with sale of gas outside the regulated sector demonstrated readiness and possibilities of the Russian industry

to acquire gas at a new price. Electronic trades represent one of the instruments for passage to market principles of formation of price for natural gas. Already now some industrial gas consumers are ready to pay for gas a price complying with the European one. In three-four years in Russia there will be formed a market which will exceed the traditional European market twice in terms of incomes!

Dear shareholders!

A new quality of growth of Gazprom which was mentioned above is based not only upon development and transformation of the gas business but also upon intensive growth of two other important directions – oil and electrical energy industry.

Since appearance within the Group of the company Gazprom Neft we have doubled our oil reserves and tripled possibilities for extraction of liquid hydrocarbons. This is a good foundation for further development of oil business of Gazprom.

In 2007 the Gazprom Group continued development and improvement of efficiency of its oil business. Extraction of gas condensate in 2007 amounted to 11.3 million tons, oil – 34.0 million tons (including extraction by Gazprom Neft - 32.7 million tons).

The main deposit ensuring increase in extraction in 2006-2007 was the Priobskoye deposit. In 2007 only on account of execution of geological and technical activities Gazprom Neft extracted 2.3 million tons of oil.

In 2007 two new deposits were discovered: Vorgenskoye oil deposit and Yuzjno-Karasevskoye gas and condensate deposit in the Yamalo-Nenets Autonomous District as well as 18 fields.

Thus, for a very short period of time Gazprom Neft transformed from a company characterized by declining extraction volumes and reducing mineral and resource base into a company with growing extraction volumes and advanced growth of reserves. The Gazprom Group in the oil industry of Russia is today one of the most progressive companies from the technological point of view.

The strategy of development of the oil business of Gazprom provides for growth of annual oil extraction up to 100 million tons by 2020.

Capitalization of Gazprom Neft amounts now to about 38 billion dollars. Over 2 incomplete years it has increased by 63% which more than doubles rates of increase in capitalization in the industry.

Gazprom intends to continue expansion of its presence in the oil sector, both in Russia and outside.

At the beginning of 2008 the agreement was signed on conditions of acquisition of the controlling stock (51%) in the state company "Oil Industry of Serbia" (NIS). This will enable Gazprom to get capacities for oil processing in Europe. In addition to extraction of about 1 million ton of oil NIS possesses to oil processing plants with the annual capacity of about 7 million tons of oil and its own sales network.

In 2007 as a result of asset swap with the company BASF the Gazprom Group got 49% in two Libyan oil concessions belonging

to the company "Wintershall AG". Agreements on these concessions are intended until 2026. The concession includes nine deposits.

Negotiations are carried out in connection with participation of Gazprom Neft in development of oil deposits in Iran.

Diversification of assets and directions of activity of Gazprom is also exercised on account of expansion of participation in the electrical energy industry.

The electrical energy industry is getting the core business for Gazprom and enabled to ensure a considerable synergy effect. Update and increase in the efficiency ratio of generating facilities provide the possibility for release of considerable volumes of gas which are yet used in the Russian energy industry not quite efficiently. And from this point of view Gazprom is the most efficient investor in the electrical energy industry in Russia.

Acquisition by Gazprom of the controlling stock in Mosenergo provided start for implementation of the large-scale program for development and technical re-equipment of the largest heat energy company of the country. In autumn of 2007 this allowed for introduction into operation the steam and gas block which is the most up-to-date in Russia for the time being and which has capacity of 450 MW at HPP-27. And already this year a similar steam and gas unit was introduced at HPP-21. The total amount of capacities intended for introduction into operation in the current year at Mosenergo will exceed 1110 MW.

Within 2008-2009 the Gazprom Group plans to bring the share in TSK-1, OGC-2 and OGC-6 up to the controlling stock.

At present, the aggregate installed capacity of generating companies controlled by Gazprom exceeds 35,000 MW, 10,000 MW of new capacities will be introduced by 2012.

Gazprom intends to further expand its presence in the domestic energy market, participate in development of the heat market, increase efficiency of operation in the wholesale electrical energy market.

Entrance by Gazprom to the electrical energy industry will allow for more flexible use of the internal fuel balance and eliminate regional slants over coal and fuel oil thus ensuring support of economy of regions where fuel oil and coal are used as the dominating raw material for the energy industry.

However, our plans in the area of electrical energy and heat energy industry are not limited to the Russian market only. We plan to develop this direction of business not only in Russia but also abroad.

Gazprom investigates possibilities for investment into foreign electrical energy assets for the purpose of improvement of efficiency of its activity and strengthening of positions in energy markets of these countries. Success of implementation of such projects will be determined by increase in profit of Gazprom on account of additional gas sales, participation in reprocessing of gas and sale of electrical energy.

Acquisition of existing power plants as well as construction of new steam and gas power plants are possible.

Priority countries for participation of Gazprom in foreign projects in the electrical energy industry are markets characterized by the fast growing demand for electrical energy,



high level of prices as well as potential shortage of generating facilities.

Dear shareholders!

The financial policy of OJSC Gazprom is aimed at ensuring of long-term financial stability of the company. This is confirmed by leading rating agencies. Thus, in 2007 Gazprom affirmed credit ratings of the investment level from three leading world rating agencies which were assigned at the end of 2006. The credit rating of the investment level enables Gazprom to freely attract cheaper financial resources from both the Russian and international capital markets.

In 2007 consolidated revenues of the company increased by 14.4% and amounted to 2 trillion 522.4 billion rubles, net profit exceeded 490 billion rubles. High financial results enabled to increase the amount of dividends following the results of operation over 2007.

The Board of Directors recommends to pay dividends at the amount of 2.66 rubles per share which exceeds the indicator of 2006 by almost 5% and represents the maximum level of dividends throughout the history of the company.

Summarizing results it is possible to state that development of Gazprom got a new quality.

Thus, the system of gas industry control which was established in the post-Soviet economy was radically reformed on the basis of market principles and corresponds to post-industrial conditions of development.

Gazprom became coordinator of full-scale development of industry in the Eastern Siberia and in the Far East.

The existing production base is changing in accordance with new technological tendencies in the gas industry, — this is condensed natural gas and large-scale shelf projects.

Dear Shareholders!

Gazprom successfully ensures the increasing need of the world economy for energy. Over last 10 years acquisition of primary energy in the world increased by more than a fourth, at that, in China, for example, this indicator doubled. Industry is being developed in high rates, new energy facilities are being constructed, demand for oil and gas is getting bigger. As a consequence, increase in prices for energy carriers is observed and competition for access to available energy resources is strengthening.

There is no real alternative to use of hydrocarbons and there will be no such alternative during the nearest decades.

The attempt to substitute the traditional motor fuel with biological fuel led to the threat of the global food crisis. But gas as substitute of benzene and diesel, especially taking into account prices for traditional types of motor fuels, is a real alternative. Even now the cost of run of a car on the basis of benzene, for example, in Germany is higher in more than 1.7 times.

I would like to use this occasion to announce the new initiative of Gazprom. We propose to our European partners to jointly develop a project for creation of a large-scale network of

automobile gas fuelling stations in Europe with participation of Gazprom.

Dear shareholders!

Reserves of Gazprom, our experience and technological potential get a perfectly new quality. In the modern world only economy provided with energy resources is actively developing. Only combination of intellectual, financial and energy capitals will allow for achievement and maintenance of economic leadership. From among this combination only the energy capital is now in deficit. Consequently, the one owing this capital may pretend to be the leader in the world business.

The market begins to understand this, therefore, Gazprom will continue demonstrating stable growth of capitalization. Since 2000 the market capitalization of Gazprom increased in 44 times. None of the leading energy companies of the world in the modern history has demonstrated similar rates of growth. But Gazprom is still underestimated.

The structure and volumes of reserves of hydrocarbons, possibilities for increase in extraction of raw materials, variety of transport possibilities, fast development of new types of business of the Company – all this is underestimated. Gazprom will continue remaining a structure with a unified center of decision-making, unified strategy of development and possibility for creation of added value in all links of the chain from the well to the end consumer.

Such growth potential as the one of Gazprom is missing not only with our peers but in general with leaders of the world

business. Gazprom is demonstrating a new quality of growth in all areas of its activity. Our shareholders may be sure - they have made a right choice!

Thank you for your attention!